Annual Report and Accounts 2008

Sage is one of the leading global suppliers of business management software and services to small and medium-sized enterprises ("SMEs").

Operating in 26 countries worldwide, we help our customers manage their businesses more efficiently through the provision of locally tailored products and quality customer support.

Key performance indicators ("KPIs")

Adjusted EPS growth**

+3%

2007: +13%

EBITA† margin

23%

2007: 24%*

Organic revenue growth
Excluding Sage Healthcare Division

+6%*

2007: +7%*

Cash generation from operations

114%

2007: 112%

Renewal rates on maintenance and support contracts

81%

2007: 81%

For more information about this year's KPIs go to page **28**

Go online to access The Sage Group plc 2008 Annual Report and for PDF downloads.

www.investors.sage.com

www.sage.com

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www.investors.sage.com

Financial highlights

Revenue

£1,295.0m

+7%*

(2007: £1,214.1m*)

Adjusted pre-tax profit**

£273.4m

+3%

(2007: £265.1m)

Total dividend

7.21p

+3%

(2007: 7.00p)

EBITA†

£299.8m

+1%*

(2007: £297.0m*)

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

** Pre-tax profit and earnings per share figures stated prior to amortisation of intangible fixed assets and after neutralisation of foreign exchange movements.

For a five year comparison of these financial highlights go to page **06**

For a five year comparison of the total dividend go to page **02**

"Our large and international customer base, the flexibility of our business model and our consistently strong cash flows position us favourably to manage the current market conditions."

To see Tony's biography please go to page **44**

Total dividend

7.21p

+3%

	pence
2008	**7.21**
2007	7.00
2006	3.59
2005	2.88
2004	2.33

"The UK and North America recorded respectable growth, and our businesses in Mainland Europe and Rest of World reported another year of strong growth."

Dear Shareholder

This has been a challenging year with volatile and difficult market conditions. After a resilient performance in the first half of the year, the Group saw softening customer demand in the second half, most notably in software and software-related services.

Despite these market conditions, the Group reported a solid performance for the year. The UK and North America recorded respectable growth, and our businesses in Mainland Europe and Rest of World reported another year of strong growth.

Subscription revenues, including combined software/support contracts, performed strongly in all our markets, driving growth in established markets such as the UK, France, South Africa and Australia, as well as in our newer markets of Poland, Spain, China and Malaysia. Software and software-related services reported modest growth, affected by both the macro-economic conditions and the trend for customers increasingly to purchase combined software/support contracts.

Financial strength

The Group remains highly cash generative and our balance sheet is strong. In addition, we have committed facilities of £850m, of which £750m is committed until 2011. In these market conditions, this positions the Group very well. This financial year saw major movements in foreign exchange rates and a major weakening of Sterling which continued after the year end. More than 70% of the Group's profits are earned outside the UK and recent exchange rate trends will have a favourable effect on our reported earnings going forward.

Dividend

The Board is strongly committed to enhancing shareholder value. We believe that our consistently strong cash flows, robust balance sheet and recurring revenue streams provide a sustainable 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, we are increasing the full year dividend by 3% to 7.21p per share (2007: 7.00p per share), with a proposed final dividend of 4.78p per share (2007: 5.73p per share, following the rebasing of our dividend policy which was reflected in our final dividend in the second half of the prior year).

Management changes

David Clayton joined the Board on 1 October 2007 as Group Strategy and Mergers and Acquisitions Director. On 1 November 2007, Ian Mason, Chief Executive of Electrocomponents plc, joined the Board as a non-executive director. Mark Rolfe, formerly Finance Director of Gallaher Group plc, joined the Board on 1 December 2007 and became chair of the Audit Committee on 1 April 2008.

We were also very pleased to welcome Sue Swenson to the Group as CEO, North America. Sue joined us in March 2008 and brings a formidable record of achievements to our North American business.

People

We now employ over 14,500 people (2007: 13,900), and our employees are at the heart of our strategy continuously to improve our customers' experience. As markets become more challenging over the coming year, we rely on our employees to enhance our competitive advantage in all our markets. Our loyal, dedicated and customer-focused employees have greatly contributed to our results in this challenging year, and we thank them for their continuing efforts.

Outlook

We will continue to strive to create value for our shareholders by focusing on tight cost control, improved operational efficiency and leveraging our strong geographic market positions. It is uncertain as to how long these difficult market conditions will continue and, therefore, we remain cautious in our outlook. However, our large and international customer base, the flexibility of our business model and our consistently strong cash flows position us favourably to manage the current market conditions.

Tony Hobson
Chairman

Awards

Sage prides itself on providing high quality software and customer support tailored to a customer's country and industry. We constantly strive to provide outstanding customer service and this year we have won many awards in recognition of this.

UK & Ireland

Business Software Supplier of the Year at Computing Magazine's Awards for Excellence 2008.

Payroll Software Provider of the Year for medium to large companies at the Irish Payroll Association awards.

Payroll Software Provider of the Year at Pay Magazine's annual Pay Awards.

Mainland Europe

Customer Service Golden Laurel and the Golden BIT award for **Best HR Software** in Poland.

Preferred Vendor 2008 award from Channel Partner Magazine and **ERP System of the Year** from the Centre of Enterprise Research in Germany.

Golden Customer Relation Centre award in Spain.

North America

Product of the Year award for *ACT!* by Sage 2008 from Communication Solutions magazine.

Product of the Year award for *Sage SalesLogix* v7.2 at the SearchCRM.com awards.

SMB Software Suites Channel Champion at CRN Channel Champion Awards.

Gold and silver medals for **Best Contact Centre Agent** and **Best Contact Centre**, respectively, at the World Contact Centre Awards.

Rest of World

Best Customer Service Award in the Business Process Enabling South Africa Awards.

For further details on our awards please visit **www.sage.com/ourbusiness/newsroom**

Global presence

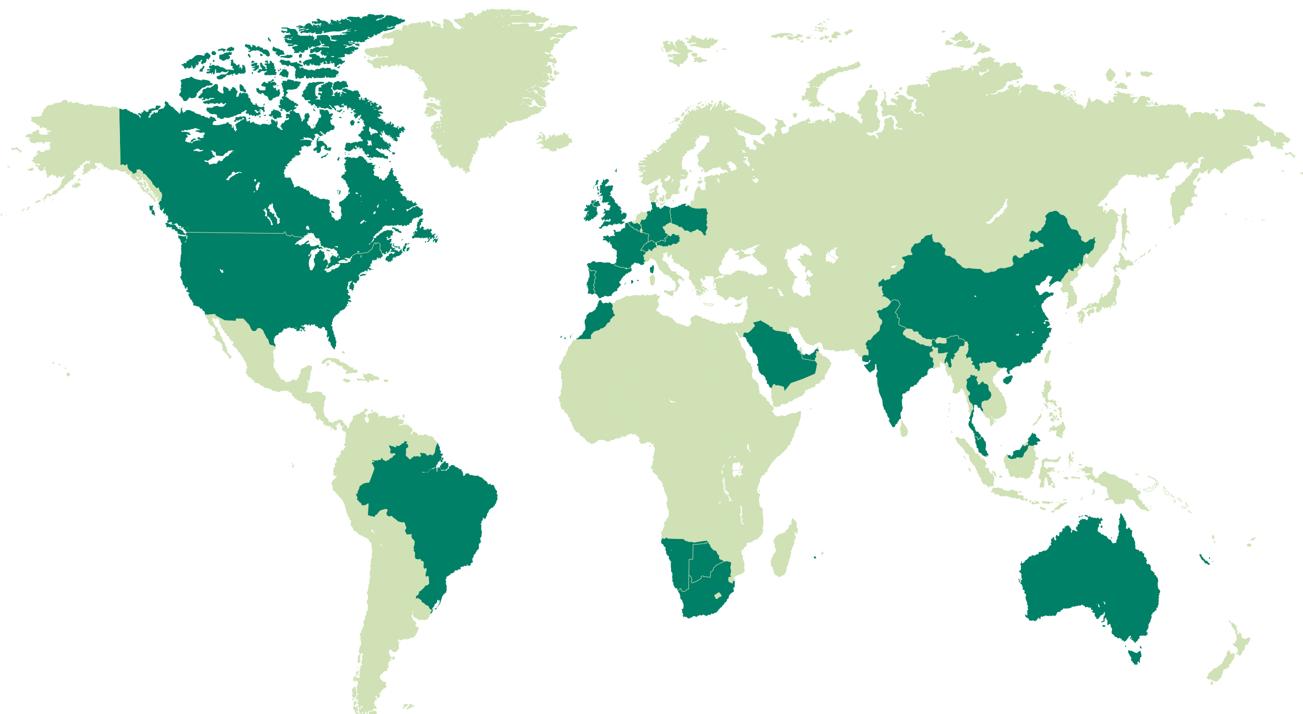
Sage is a global company with 5.8 million customers, over 14,500 employees and more than 25 years' experience working with small and medium-sized businesses. We have direct operations in 26 countries and a presence in many more countries through our indirect network of 30,000 business partners and 40,000 accountancy practices. Despite our global reach, we have built our success on understanding and meeting the needs of customers in their local markets.

We are the third largest provider of business management solutions in the world with a 7% market share[1]. Software and software-related services revenues account for 39% of our total revenues. Subscription revenues account for 61% of our total revenues and include recurring revenues arising from combined software/support contracts, maintenance and support, hosted products and other recurring services revenues.

To capitalise on our local expertise we operate through a decentralised business structure whereby each country has substantial autonomy in terms of local business strategy.

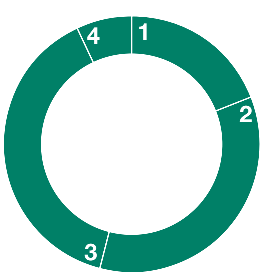
Our local management teams report into the CEO of their region – UK & Ireland, Mainland Europe, North America and Rest of World.

For more information about our regional businesses and our business structure please go to page **17**



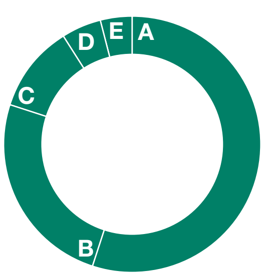
Direct presence

Revenue by region



		%
1	UK & Ireland	19
2	Mainland Europe	35
3	North America	39
4	Rest of World	7
	Total	**100**

Revenue by sector



		%
A	Accounting	55
B	Industry-specific	25
C	HR and payroll	11
D	Customer Relationship Management ("CRM")	5
E	Payment processing	4
	Total	**100**

[1] Source: Gartner, August 2007, Worldwide ERP licence and maintenance revenue by vendor.

Corporate responsibility

Sage is committed to acting as a responsible corporate citizen. We have chosen to focus our corporate responsibility efforts on four areas that are meaningful to our organisation's strategy and where we believe we can make a difference. These are: our people; the environment; supporting industry; and working with our local communities and charities. We aim to achieve best practice in the local context of every country in which we operate with standards established by local legislation applying as a minimum. We also aim to share best practice across the Group so that we implement continuous improvement.

For more information on our corporate responsibility please go to page **24**

Our strengths

Brand leadership
We have built our business around our market-leading brands which are widely recognised and trusted in their local markets. Combined with the global Sage brand, our local brands give us a key point of competitive differentiation.

For more information on our brand leadership please go to page **12**

Customer experience
We set ourselves apart through the superior experience we deliver to customers. We help them run their businesses more efficiently through the provision of high quality software, services and support. This has enabled us to build a large, loyal and diverse customer base. Many of our customers have support contracts through which we provide not only advice on how to get the most from their software but also guidance on business critical topics.

For more information on our customer experience please go to page **18**

Business structure
Our decentralised business means Sage has an unrivalled understanding of local customer needs, provides a choice of locally developed and locally supported solutions and the agility to respond quickly to changes in local market conditions.

For more information on our business structure please go to page **16**

Distribution channels
Sage has strong routes to market, including retail stores, web retailers, direct from Sage or indirect through our worldwide network of over 40,000 accountants and 30,000 business partners who provide additional support, implementation, customisation and specialist sector knowledge.

For more information on our distribution channels please go to page **20**

Our regional businesses

UK & Ireland

Including: United Kingdom and Republic of Ireland.

Sectors:
- Accounting
- Industry-specific
- HR and payroll
- CRM
- Payment processing

Revenue

£245.7m

+10%

	£m
2008	245.7
2007	224.1

EBITA†

£88.5m

EBITA† margin 36%

	£m
2008	88.5
2007	82.6

For more information on the UK & Ireland region please go to page **30**

Mainland Europe

Including: Austria, Belgium, France (including subsidiaries in Brazil and Morocco), Germany, Poland, Portugal, Spain and Switzerland.

Sectors:
- Accounting
- Industry-specific
- HR and payroll
- CRM

Revenue

£457.3m

+15%*

	£m
2008	457.3
2007	395.9*

EBITA†

£100.2m

EBITA† margin 22%

	£m
2008	100.2
2007	91.5*

For more information on the Mainland Europe region please go to page **32**

North America

Including: Canada and United States.

Sectors:
- Accounting
- Industry-specific
- HR and payroll
- CRM
- Payment processing

Revenue

£500.9m

-3%*

	£m
2008	500.9
2007	515.6*

EBITA†

£87.7m

EBITA† margin 18%

	£m
2008	87.7
2007	102.2*

For more information on the North America region please go to page **34**

Rest of World

Including: Australia, Bahrain, Botswana, China, Dubai, India, Malaysia, Namibia, Saudi Arabia, South Africa, Singapore and Thailand.

Sectors:
- Accounting
- Industry-specific
- HR and payroll
- CRM

Revenue

£91.1m

+16%*

	£m
2008	91.1
2007	78.5*

EBITA†

£23.4m

EBITA† margin 26%

	£m
2008	23.4
2007	20.7*

For more information on the Rest of World region please go to page **36**

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

"The continued growth in subscription revenues underpins our overall growth and compensated for the more challenging market conditions we experienced in software and software-related services."

"Innovation is at the heart of our strategy. We continue to adapt and evolve our products and services offering to meet the changing needs of our 5.8 million customers."

To see Paul's biography please go to page **44**

Revenue

£1,295.0m

+7%*

£m	
2008	1,295.0
2007	1,157.6
2006	935.6
2005	759.6
2004	687.6

Adjusted pre-tax profit^

£273.4m

+3%*

£m	
2008	273.4
2007	251.3
2006	234.7
2005	196.4
2004	181.1

EBITA†

£299.8m

+1%*

£m	
2008	299.8
2007	283.2
2006	249.3
2005	202.1
2004	185.6

Note: Figures included in the graphs above for 2004 are reported under UK GAAP and the results of all comparative years have not been retranslated to current year exchange rates.

Overview of Group results

This has been a challenging year with volatile market conditions in two of our key geographic regions. After a good performance in the first half of the year, the Group saw softening customer demand in the UK and North America, although Mainland Europe and Rest of World continued to perform strongly. This resulted in organic revenue growth excluding Sage Healthcare Division for the Group of 6%* (3%* organic revenue growth overall).

Subscription revenues, representing the 61% of our revenues which are recurring in nature, grew by 10%* and were less affected by market conditions in the UK and North America. The continued growth in subscription revenues compensated for the more challenging market conditions we experienced in software and software-related services. Combined software/support contracts, the largest component of subscription revenues, represented 39% of our total revenues and grew by 14%* over the year. This demonstrates the resilience of our business model, with our customers continuing to use our products and services to increase their operational efficiency in difficult markets. Software and software-related services revenues grew by 2%*, reflecting the market slowdown in North America and the UK, beginning in the second half of the year.

Product and service strategy

Innovation is at the heart of our strategy. We continue to adapt and evolve our products and services offering to meet the changing needs of our 5.8 million customers, with an increasing range of customer support contracts, as well as tiered subscription offerings tailored to the varying requirements of our customer base. Our integrated product suites, launched last year, have been well received by our customers and business partners and are beginning to contribute to organic growth. Software as a Service ("SaaS") and hosted products such as *Sage 50 Accounts Professional Online, SageCRM.com, Sage Accpac ERP* and *Billing Boss* continue to show strong demand, although they remain a modest contributor to Group revenues overall.

Over the year we successfully extended our support offerings with *Sage Accountants' Club Priority Link* in the UK, *Contrat Platine* for *Ciel!* customers in France and the *Premier* and *Avanzado* support contracts in Spain. Customer support continues to drive growth in Spain, South Africa, Poland and Portugal, while our newer markets in China, India, Malaysia and Singapore successfully leveraged their existing solutions, adapting best practice solutions from our more established regions. The growth in customer demand for quality support confirms that customers want to improve their business performance through the innovative and well-designed products and services that Sage offers.

We are also seeing a growing trend for larger companies in the SME sector to extend their businesses beyond their home territories. Our mid-market customers increasingly need solutions that are robust enough to cope with multiple government legislation, multiple currencies and multiple languages, yet can offer rapid integration and local customisation. Our international products such as CRM (*ACT!, SalesLogix, SageCRM*), *Sage ERP X3* and *Sage Accpac ERP* broaden our portfolio of localised solutions and are growing well in our emerging markets, helping us expand into new territories. We anticipate that the trends in the SME sector will increasingly facilitate the development of new products and services aimed at the emerging international SME sector that will complement our current portfolio of locally focused solutions. With our long experience with SMEs, we understand these emerging challenges and are developing solutions that meet the international demands of medium-sized companies, yet still offer the flexibility and localisation that is our competitive advantage.

Subscription revenue

£785.7m

+10%*

	£m
2008	785.7
2007	714.3*

Software and software-related services revenue

£509.3m

+2%*

	£m
2008	509.3
2007	499.8*

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

^ Pre-tax profit stated prior to amortisation of intangible fixed assets.

Acquisition strategy

Relative to previous years, this has been a quiet year for acquisitions. We continue to evaluate a number of opportunities in both new and existing markets, although in many cases vendor price expectations have not as yet adjusted to current market conditions. During the year, we completed three principal acquisitions, for an enterprise value of £51.2m. KCS, a leading supplier of HR and payroll services in the UK, was completed in October 2007 for an enterprise value of £20.2m. Tekton, a supplier of construction solutions for UK mid-market companies, was completed in March 2008 for an enterprise value of £19.8m. Eurowin, acquired in July 2008 for an enterprise value of £11.2m, strengthened our market position at the entry-level in Spain. These acquisitions were all strategic investments in broadening our product offering.

We remain committed to our acquisition strategy of expanding our product and service offering to SMEs in both new and existing territories. As we expand the scope of our businesses worldwide, we are increasingly focused on leveraging our scale and exploiting global synergies between our businesses. Our strong balance sheet and cash conversion put us in an advantageous position to pursue opportunities when asset prices fall. However, our acquisition methodology remains robust and highly disciplined in determining valuation parameters.

Distribution strength

Our distribution strength remains one of our key competitive advantages, with over 30,000 business partners and 40,000 accountancy practices recommending and marketing Sage products worldwide. The role of our business partners in promoting our products and services and providing local expertise continues to evolve as customers demand increasing levels of tailored products and specialised services. Our business partners are a key component in building and maintaining on-going relationships with our customers.

Customer base

Over the year, we added 341,000 new customers (37,000 resulting from acquisitions made this year). New customers are an important component in our long-term growth strategy as customers tend to remain loyal to their original software supplier as they grow, purchasing upgrades and additional products and driving future organic revenue growth.

North America management team

This has been a transitional year for our North American business and a period of organisational change. In March 2008, we appointed Sue Swenson as President and CEO to lead our North American business. She was joined in June 2008 by Marc Loupé as Chief Financial Officer of North America. Lindy Benton, who brings extensive experience in healthcare industry management, joined in September 2008 as Chief Operating Officer of Sage Healthcare Division. Greg Hammermaster joined in November 2008, after the end of the financial year, as President of Sage Payment Solutions Division. Greg has long-term experience of the payments industry. The new executive management team is focusing on driving operational improvements and earnings growth.

Environment

We are aware of the current debate around climate change, and our corporate policy is to minimise our carbon footprint where possible. This year, our focus has been on developing a globally consistent template for measuring our carbon emissions and waste generation across our businesses in all our major locations as an initial step in our strategy to reduce our long-term impact on the global environment. We encourage our employees to think and act in an environmentally positive manner to help us realise this strategy.

Outlook

The strength and flexibility of our business model has helped us achieve solid results in difficult market conditions. As markets weakened in the UK and North America, we were rapidly able to adapt to the changing markets and proactively refocus our businesses in these regions. Our businesses in Mainland Europe and Rest of World recorded strong results through a combination of favourable market conditions and good commercial execution.

We anticipate that the broader economic climate will remain uncertain for the near future. However, our business model, together with consistently strong cash flows, robust balance sheet and high level of recurring revenue streams, provides a solid foundation for our operations. Our large and geographically diverse customer base of over 5 million customers also provides many opportunities to meet future demand for business critical solutions designed to help SMEs run their businesses more efficiently in difficult market conditions.

Whilst we are still early in our new financial year, growth in subscription revenues has continued to offset weakness in software revenues. Although we remain cautious in our outlook, we expect demand for our customer support to continue, which combined with tight cost control and our strong geographic market positions, will allow us to weather these turbulent times.

Paul Walker
Chief Executive

Corporate strategy

While we are locally focused in serving our customers, we work together as one organisation towards one future. Our strategy sets out a clear vision supported by a set of goals towards which all of our operating companies around the world are working.

Our vision is to be the most admired and respected software provider in the world. Our business will grow as we help our customers manage their businesses more efficiently. Our products will be easy to install, customise and maintain. The services and support provided by our people and our partners will help to take the complexity out of managing business processes. Our business model and the way in which we operate will make it easy to deal with Sage.

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	• Leading market positions enhanced in several key markets 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	• Contract renewal rates maintained at 81%
• Have the most trusted brands	• Invest in a strong brand identity consistent with our corporate values	• Global brand development project to identify and apply Sage's core corporate values across our businesses
• Have the most satisfied and active customers in our industry	• Focus on product innovation • Focus on value-added services • Fulfilment of the changing needs of our customers	• Migration revenue increased by 9% • Combined software/support contract revenue increased by 14% • New integrated product suites well received
• Experience superior organic revenue growth versus our peer group	• Anticipate market developments and develop products and services to meet changing customer needs	• Subscription revenue grew by 10% driven by combined software/support contracts
• Be recognised as one of the most admired employers	• Build organisational leadership to drive business performance	• Continued investment in talent management, succession planning, people development and HR processes

“Our principles of Simplicity, Trust, Integrity, Innovation and Agility drive everything we do – how we think, how we plan, how we make decisions.”

What we do, who we are, how we work

Sage provides a choice of high quality business software, services and support to small and medium-sized businesses. Whilst our heritage is in the small business market and most of our customers employ less than 500 employees, we also have the experience and expertise to meet the needs of specific industries and larger organisations.

The majority of our products and services are developed, sold and supported locally to meet local customer needs and comply with local legislation and regulations. This ensures our products and services are relevant to our customers and makes it easier for them to manage their business processes. Whether it is our financial software enabling better cash flow management, our CRM software helping to build profitable customer relationships or our HR and payroll offerings being used to improve employee performance and ensure legislative compliance, our software and services equip our customers to run their businesses more effectively and manage the challenges of today's business environment.

What makes Sage different is our people, our dedication to doing the right thing by the customer and our commitment to support them to the very best of our ability.

At Sage we nurture a unique culture and regardless of where we are in the world, our people are guided by five key principles of simplicity, trust, integrity, innovation and agility. These attributes will enable us to serve all our customers well and continue to deliver our success. Our corporate principles underpin everything we do – how we think, how we plan and how we make decisions.

- Whether it is software which is easy to use or support that is easy to access, **simplicity** is a key driver in our business.
- Our customers place important, confidential information in our hands so it is imperative they fully **trust** us to deliver.
- Whether providing reliable, high quality products or giving advice on business critical topics, **integrity** is critical to us when building long-term customer relationships.
- We need to think ahead, to anticipate our customers' needs and be creative in how we develop our software and services, continually **innovating** to improve the customer experience we deliver.
- We have to be responsive to customer needs and market changes and ensure we are **agile** enough to adapt our products and services to meet these demands.

Simplicity **Trust** **Integrity** **Innovation** **Agility**

Marketplace overview

Brand leadership

Sage is one of the leading global suppliers of business management software and services for SMEs. We are the third largest provider of business management solutions in the world with a 7% market share[1].

We have built our market-leading position around our decentralised business model, the customer experience we provide, the strength of our distribution channels and our local brands. These brands, such as *Ciel!* in France, *Contaplus (SP)* in Spain, *Sage 50* in the UK, *Softline Pastel* in South Africa or *Simply* in Canada, are widely recognised and trusted in their local markets.

Above and beyond the strength of our local brands, Sage is an internationally recognised brand in its own right. The Sage brand is much more than our logo. It represents our energy and commitment to doing what's right for our customers, going the extra mile and exceeding expectations. To capitalise on our brand position we have made a substantial investment in a global initiative to leverage the strengths of the Sage brand more consistently and effectively alongside those of our local brands. This combination of our global and local brands provides us with a key point of differentiation.

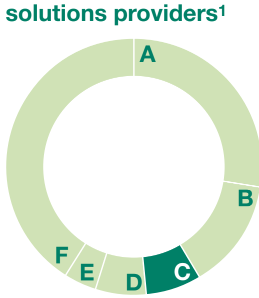
Products and services

We provide a choice of high quality products and services which are relevant to our customers, use the most appropriate technology and deployment methods and are supported by local experts. The mix of products and services we deliver in each of our regions is tailored according to the needs of our customers in that market. These products and services are broadly classified into the following groups:

- Accounting
- Financial forecasting
- Job costing
- Business intelligence
- Taxation and other products for accountants
- Business stationery
- Development platforms
- E-business
- Enterprise Resource Planning ("ERP")
- Payroll
- Human Resources
- CRM
- Payment processing

Market leading brands

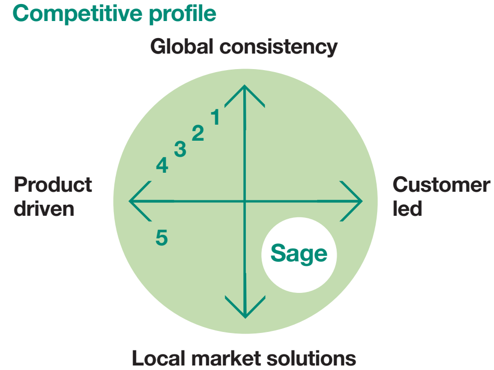
Business management solutions providers[1]



		%
A	SAP	27.5
B	Oracle	13.9
C	**Sage**	**7.0**
D	Infor	6.4
E	Microsoft	4.1
F	Others	41.1

[1] Source: Gartner, August 2007, Worldwide ERP licence and maintenance revenue by vendor.

Competitive profile



Key

1 SAP	**4** Salesforce.com
2 Oracle	**5** Intuit
3 Microsoft	

In addition to this broad range of solutions, we also recognise that businesses in different industries have specialised needs. Consistent with our approach of staying close to our customers and delivering relevant solutions, many of our operating companies have, alongside our worldwide community of software developers, developed solutions for specific industries.

In regions where the market for business software is more established, such as in the UK & Ireland, Mainland Europe and North America, much of our growth is driven by the demand for value-added support as well as integrated suites of software. These suites integrate front and back office business processes and simplify workflow across an entire company. We have also developed tiered levels of support contracts to meet differing customer needs. These include software/support contracts which combine software, annual upgrades, support and services such as electronic back-up, access to training resources and compliance services.

In emerging markets, such as Africa and Asia, growth is driven by demand for support contracts, payroll solutions, upgrades and migrations, as well as our international 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	•	•	•	•

Technology developments

Technology continues to move at a fast pace, with the growth of SaaS as well as the emerging influence of web 2.0 technologies. These developments present exciting opportunities to enhance further the value we provide to customers, particularly in the areas of collaboration, integration and mobility. We take a pragmatic, impartial approach, harnessing the most appropriate technologies for the benefits they can bring to our customers.

Whilst the market for SaaS is growing, we anticipate that adoption will be gradual and will vary widely between markets. We believe that customers will gradually incorporate new technologies into their existing solutions and adopt a "hybrid" approach to their business software and services. Our focus is on making the integration process easier for our customers, integrating desktop software with supplementary business services delivered as SaaS applications. As a Group, we continue to introduce SaaS applications where appropriate for our customers. These include *Billing Boss*, a SaaS invoicing service in Canada, *Sage 50 Accounts Professional Online* software integrated with online payment processing services in the UK and *Sage Douane Delta*, a SaaS application which enables French customers to file their tax returns online.

In CRM, we are creating new interoperability among our CRM solutions, *ACT!*, *SageCRM* and *SalesLogix*. We are incorporating open web standards to enable integration between the front and back office. Our CRM strategy also embraces SaaS capabilities and web 2.0 technologies which will provide users, such as mobile salespeople, with an interactive experience from a wide range of devices. Whether mobile, on-demand or on-premise, our CRM solutions will provide sales teams with a more complete picture of their customers and enabling them to work more efficiently.

International solutions

We are seeing growing demand from existing and potential customers who increasingly operate internationally and need a solution that works in all of their locations. These solutions must be robust enough to cope with multiple government legislation, currencies and languages yet be flexible, lean and offer local customisation. As a global business with extensive experience of working with growing SMEs, we understand these challenges and have developed ERP and CRM solutions that meet the demands international businesses generate. The provision of these international solutions demonstrates our commitment to offer our customers a choice of high quality, relevant, flexible and scalable solutions which meet their evolving needs.

Cross company collaboration

Even though we take a predominantly local approach we also place a great emphasis on collaboration across our businesses. We work to leverage our accumulated knowledge, innovation, technologies and resources which enables us to continually improve the products and services we deliver to our customers. This collaboration is on-going and this year has included:

- Sharing innovation around our premium support models. For example, the *Sage Accountants' Club Priority Link* in the UK, which provides priority access and dedicated account management for its customers, benefited from collaboration with our French and Spanish businesses, which also have experience of offering premium support contracts.
- The introduction of *Sage ERP X3*, acquired through our French business in 2005, into the product portfolios of our German and South African businesses.
- The roll-out of our global CRM strategy and its interoperability platform across multiple geographies.
- The leveraging of the knowledge gained by our UK business, when they developed the *Sage 50* and *Sage 200* suites, by our North American business to launch the *Sage Accpac ERP* and *Sage MAS Extended Enterprise Suites*.

Sage Douane Delta

Sage Douane Delta, is a SaaS application developed by Sage in France to assist customers with online filing of their tax returns. It has processed one million returns since its launch in March 2007. The application enables import/export businesses in France to ease their transactions with French Customs (Douanes Françaises) by giving them the ability to complete their Customs returns online without generating further paperwork or having to invest in sizeable IT infrastructure. Customers are billed per transaction, with no licence or maintenance fee, making *Sage Doaune Delta* a cost effective solution.

"We take a pragmatic, impartial approach, harnessing the most appropriate technologies for the benefits they can bring to our customers."

Entrepreneurship in action

An example of the benefits of our decentralised business structure was demonstrated in Spain, where new financial legislation aimed at improving the standard of accounting procedures within SMEs came into effect on 1 January 2008.

More than 98% of businesses in Spain are SMEs, therefore, the legislation affected a large majority of the country's business population and Sage customers. Research showed that 75% of employers were not aware of the effects of this legislation on their businesses. Consequently Sage Spain, along with other key SME technology providers, conducted a road show across the country designed to help Spanish SMEs understand more about how the new legislation impacts their businesses.

More than 31,000 people attended the road shows in 40 cities to find out, not only about the legislation, but also how using software can improve their business processes and help run their business more effectively.

Business structure

We have built our success on understanding and meeting the needs of customers in their local markets. To capitalise on our local expertise we operate through a decentralised business structure whereby each country has substantial autonomy in terms of local business strategy and operational activities such as sales, marketing, support and research and development.

Our decentralised business model provides local focus alongside our global scale. This approach has a number of benefits, including:

- An excellent understanding and accumulated knowledge of local business environments and customer needs;
- The provision of local support which provides added value for our customers, helps them run their businesses more effectively and provides us with valuable feedback to develop and improve our products and services;
- The ability to offer a choice of relevant, flexible and scalable solutions, including those for specific industries, incorporating local fiscal, legal and regulatory requirements;
- The agility to respond quickly to local market changes;
- A global scale and collaborative culture which enables us to leverage and share knowledge, innovation, technologies and resources across the Group;
- Devolved accountability and decision-making which maintains an environment in which entrepreneurship is encouraged; and
- Experience of working with growing SMEs across many regions which means we understand the challenges faced by larger businesses and can develop solutions to meet their needs.

Our local management teams report into the CEO of their region – UK & Ireland, Mainland Europe, North America and Rest of World. The Executive Committee oversees the management of all Sage operations and comprises the regional CEOs and other senior leaders from across the Group.

The Executive Committee is responsible for the development and implementation of strategy, operational plans, policies, procedures and budgets; the monitoring of operating and financial performance; the assessment and control of risk; the prioritisation and allocation of resources and the monitoring of competitive forces in each area of operation. It is supported by a Group team which plays a key role in facilitating collaboration and the leveraging of knowledge, innovation, technologies and resources across the business.

Executive Committee

Customer experience

We differentiate ourselves through the superior experience we deliver to our customers. Customers and their needs and expectations lead our strategy. We aim to provide our customers with an outstanding experience at every level and in all their dealings with Sage. Understanding their needs and the provision of specific and relevant solutions are two key factors in providing a positive customer experience. Building secure customer relationships for the long-term is absolutely essential for us to provide this outstanding experience.

We develop these relationships by providing customers not only with support and advice on how to get the most out of their software to enable better business performance but also with guidance on business critical topics. Many of our customers have limited sources of advice and, very often, limited IT support. As such, we believe we are not just a software supplier but a partner in our customers' businesses, helping them to manage their businesses more effectively.

Our partnerships are built on the on-going dialogue we have with our customers, the provision of high quality support and advice and the loyalty and trust that results from it. We have 1.7 million support contracts with average renewal rates of over 80%. Our emphasis on support is reinforced by the resources we put behind it. More than 40% of our people work in technical support, customer service or customer training roles and we receive over 36,000 calls a day from customers working in all sizes and types of business.

We will continue to provide support locally because we believe that outstanding service has to be provided by highly trained individuals who understand their customers, their products, the local legislation and other local market issues that affect them. By supporting, connecting and building relationships with our customers in this way, we aim to deliver an extraordinary experience which is unmatched in our industry.

"Our emphasis on support is reinforced by the resources we put behind it. Across the business as a whole, more than 40% of our people work in technical support, customer service or customer training roles."


GROUND BEEF
VARIETY MEATS

"Our distribution channels include retail stores, web retailers, direct from Sage, or indirect through our worldwide network of over 40,000 accountants and 30,000 business partners and resellers."

Distribution channels

Sage has strong routes to market which are tailored to match customer needs. Our distribution channels include retail stores, web retailers, direct from Sage or indirect through our worldwide network of over 40,000 accountants and 30,000 business partners and resellers. We constantly seek innovative ways to reach our customers and, as a result, have also developed partnerships with leading banks to package our software and services as part of their wider offerings to SMEs.

Although retail sales account for a small part of our total revenues, it is an important component in acquiring new customers. As these new businesses grow, they upgrade and extend their software solutions, leading to future revenue streams.

Many of our products and services are sold direct by our telesales teams through new customer contact and customer enquiry follow-up, especially at the entry-level where product implementation is relatively straightforward. For our larger mid-market customers who require a greater degree of customisation, our business partners play a valuable role in our sales process.

Our business partners are very much an extension of the Sage ecosystem and provide additional local expertise, implementation, training and support as well as customisation and specialist sector knowledge. Our leading position in the small business market also provides our partners with a strong source of leads and migration opportunities.

Sage's network of accountants and small business advisors also play an important role as recommenders and resellers of Sage products.

This diversity of distribution channels is one of our key business strengths, reflecting our understanding of the SME marketplace.

Sage Asia's annual business partner conference.

Acquisition strategy

Acquisitions have always been an important component in our growth strategy and are an effective method of entering new geographic markets through an established customer base and proven product distribution. We have successfully entered many new geographic territories over time, including North America in 1991, Mainland Europe in 1992, South Africa and Australia in 2004 and the Far East in 2006.

In markets where we have established businesses, we look for acquisitions that add new products and services to our portfolio that we can offer our customers. This includes industry-specific solutions such as our acquisitions of Timberline in North America and Tekton in the UK which offered solutions for construction companies and XRT in Europe which complemented our existing solution in treasury management. The acquisition of Verus (Sage Payment Solutions Division) in the US and Protx in the UK brought us new capability in payment processing to offer SMEs as they increasingly sell to remote customers through the internet and telesales. We also use acquisitions to enter new industry segments, such as healthcare, which we entered in 2006 with Emdeon (Sage Healthcare Division).

We integrate new acquisitions into our corporate structure at a local level under the supervision of our regional management teams. This allows us to preserve local market expertise, whilst overlaying the synergies of a larger global company. Early on, we apply the Sage business model by developing effective migration strategies from entry-level solutions to mid-market and industry-specific solutions and from legacy systems to more efficient, integrated solutions.

An important step in improving margins and driving revenue growth in new acquisitions is to develop the Sage customer support concept which offers high quality business support to our customers. We also share best practice from around our global businesses which we apply as appropriate, such as combined software/support contracts, which are growing well in most of our markets.

Acquisitions will remain an important part of our corporate strategy, particularly in the newer economies of China, India, Eastern Europe and South America where large numbers of SMEs are beginning to automate their business processes. Our acquisition valuation model is financially robust, based on conservative assumptions and a discounted cash flow model. We remain committed to financial prudence in our acquisitions. Over the past year, this has led to a decline in the number of acquisitions we have completed, as asset prices have remained inflated. We remain active in evaluating potential acquisitions and are well placed to benefit from future opportunities when asset prices approach realistic valuations.

The common denominator linking all our acquisitions is our focus on the SME market, where our corporate expertise lies.

Softline (South Africa), acquired in 2004 opens new offices in Johannesburg in 2008.

Significant acquisition history*

Year	Company	Industry specialism	Country	Value
2007	XRT	Treasury	France	£53m
2006	Emdeon	Healthcare vertical	US	£315m
	Verus	Payment processing	US	£174m
	Adonix	Accounting: Mid-market	France	£98m
	Elit	Transport and food distribution vertical	France	£31m
	UBS	Accounting: Entry-level (new territory)	Malaysia	£12m
2005	Logic Control	Accounting: Mid-market	Spain	£56m
	Symfonia	Accounting: Entry-level (new territory)	Poland	£10m
2004	Softline	Accounting: Entry-level (new territory)	South Africa	£53m
		Payroll, Accountants vertical (new territory)	Australia	
	Grupo SP	Accounting: Entry-level (new territory)	Spain	£55m
	ACCPAC	Accounting, CRM: Mid-market	US & Canada	£76m
2003	Timberline	Construction vertical	US	£54m
2001	Interact	CRM	US	£227m
2000	Best	Fixed Asset, Payroll, HR	US	£270m
1999	Peachtree	Accounting: Entry-level	US	£88m
	Tetra	Accounting: Mid-market	UK	£81m
	Sesam	Accounting: Mid-market (new territory)	Switzerland	£11m
1998	State of the Art	Accounting: Mid-market	US	£131m
1997	KHK	Accounting: Mid-market (new territory)	Germany	£46m
1994/1995	Saari & Sybel	Accounting: Mid-market, becoming Sage France	France	£46m
1992	Ciel	Accounting: Entry-level (new territory)	France	£5m
1991	DacEasy	Accounting: Entry-level (new territory)	US	£15m

* Acquisitions of a value more than £25m (other than the entry into a new territory).

Corporate responsibility ("CR")

Sage is committed to acting as a responsible corporate citizen. We take a pragmatic approach to CR which enables us to focus our commitment on areas that are the most relevant to Sage, our people and where we believe we can make a difference.

We aim to measure our progress and whilst any standards established by local legislation will apply as a minimum, we intend to achieve best practice in the local context of every country in which we operate and to share this across the Group for continuous improvement. Our approach also builds in flexibility for our businesses to enable them to focus on the areas of strategic importance to them locally.

This is the basis for a new policy which we have embedded throughout the business during the financial year. The policy has four areas of focus – our people, the environment, supporting industry and working with our local communities and charities.

People

Our strategic goal is to be an admired employer. This means that people will want to join Sage as a place of choice, achievement and opportunity, and one where they can be genuinely successful and fulfilled in their careers. People who work with us will recognise that the environment we create maximises their potential and is a place where innovation and creativity can flourish. All of our operating companies are working towards these aims.

We continue to adopt a consultative approach with our employees through many means including focus groups, employee committees and employee surveys. This work is locally-led to ensure it is meaningful and relevant to our people.

In terms of furthering our people agenda, this year we have encouraged our businesses to focus on talent, equity and engagement. Targets for improvement are set locally and approved at Group level.

Sage UK employees travelled to Tanzania to help renovate a nursery and build playground facilities for children in the village of Mahida.

Talent
As talent is critical to the future growth and success of Sage, we have worked at a global level to introduce new processes to identify and nurture emerging talent during the year. This process includes a review of talent at both a regional and a global level as well as succession planning for senior roles.

Equity
Diversity and fairness has always been a part of the way Sage does business. This year we introduced a global "code of ethics" into the business as part of our compliance framework. This sets out the standards which all operating companies are expected to meet regarding diversity and fairness amongst other things and communicates to employees our stance. Our operating companies have been working on embedding this into their businesses.

Engagement
One of our strategic goals is to be an employer of choice. Many of our operating companies chose to focus on employee engagement levels and how to improve employee satisfaction and thus improve the customer experience and ultimately business performance.

Leaders who inspire an extraordinary customer experience
Sage aspires to be the most admired and respected business software and services provider in the world and we have to deliver this in an environment of increasing customer expectations and strong competition. As we continue to shape our strategy and look to our future needs, the time is right to focus on leadership in Sage and define the leadership qualities we need to be successful in the future.
Over the course of 2008 a team of global leaders has developed an aspirational leadership standard against which all of our current leaders and emerging talent will be benchmarked. The new standard sets out our vision for what successful leadership will be in Sage and defines the behavioural and cultural attributes we need and expect. Roll-out and integration at a local level has begun and will continue into 2009 with the launch of a global educational programme for senior leaders.

Environment

Sage is an office-based organisation and as such our environmental impacts are less than those of some industries. Our role in automating business processes helps organisations reduce their environmental impacts for example through reduced use of paper. An example of this is shown in commercial context on page 15, *Sage Douane Delta*, a tool for electronic filing of tax returns. Our businesses are reducing the inclusion of paper documentation with software and maximising electronic downloads.

We are introducing carbon emissions reporting and waste measurement across our businesses. Our goal is to reduce our impacts. However, first we must understand what these are. This year we have put in place a process to begin measuring the carbon impact of our major offices. Our aim has been to:

- Understand better our impact in terms of carbon emissions and waste;
- Create a benchmark set of data for our business;
- Require operating companies to begin measurement;
- Build awareness inside the organisation of environmental impact; and
- Identify opportunities for reduction and cost-savings.

Data

Data collection took place over a six month period in order to get a benchmark set of data. We have based our calculations on UK Defra conversion factors or local government published carbon conversion factors where these were available within that country.

The data collected was for a six month period. From 1 August 2008 we will collect on an annual cycle.

Operating company	Total carbon emissions from energy (tonnes)
UK & Ireland	2,965
France	3,771
Spain	866
Germany	621
Poland	99
North America	5,433
South Africa	1,270
China	12

Wholly owned or wholly leased buildings for which energy data is available.

Energy awareness

Our operating companies are encouraged to seek ways to minimise impact through employee education and awareness. This year one of the principal means of doing this was through Sage Day, our annual event which enables our employees to spend time connecting with one another and with their local community in meaningful ways. Our theme this year was “being green” and our offices took part in a variety of local activities to educate and enthuse people about making changes at work and at home.

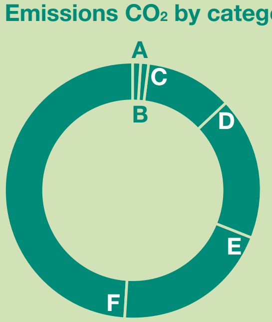
UK carbon footprint

Reflecting our focus on better understanding our impact in terms of carbon and waste, during 2008 our UK business undertook a carbon footprint estimation exercise. This included emissions produced as a result of:

- Energy consumption (gas and electricity);
- Air conditioning use;
- Business travel (including hotel stays and fleet vehicles);
- Commuting; and
- Waste.

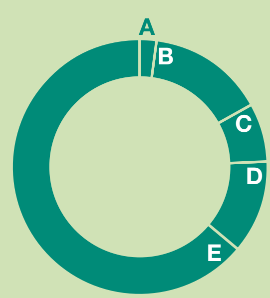
The exercise included all five main office locations in the UK. he overall footprint for the UK business for the 12 months from April 2007 to March 2008 was 9,874 tonnes of CO_2. The sources of CO_2 were broken down as follows:

Emissions CO_2 by category



		%
A	Air conditioning	1
B	Waste	1
C	Gas	11
D	Business travel	18
E	Commuting	20
F	Electricity	49
	Total	**100**

Waste in tonnes to landfill



		tonnes
A	London, Protx	4.5
B	Winnersh	31.5
C	Manchester	15.8
D	Newcastle, Benton Park	25.1
E	Newcastle, North Park	136.2
	Total	**213.1**

Supporting industry

Our role in supporting commerce and industry is easy to underestimate. With products and services that enable businesses to manage their processes, what we do every day enables businesses to make decisions, grow and operate more effectively. Our goal is to be a partner with our customers, delivering an outstanding experience which enables them to achieve their business ambitions. This can be evidenced through our programmes to improve the customer experience and encourage entrepreneurship and start-ups. Operating companies can take a proactive stance and develop their approach according to what is relevant in their local markets and supports the Sage brand.

Examples of Sage getting closer to its customers and supporting entrepreneurs:

- Creation of an online *ACT!* community enabling customers to collaborate with each other and with Sage helping them get the most from their software;
- A joint working initiative with the Portuguese government to make it easier for Sage customers to submit accurate tax returns and decrease tax avoidance;
- Work to reduce software piracy in Spain;
- Support of the development of the not-for-profit sector in North America through an association with TechSoup, an organisation which provides free business software to eligible charitable entities;
- Sage in South Africa (Softline) co-sponsored with a major radio station an awards programme for small start-ups and entrepreneurs which enables customers to nominate SMEs for high quality customer service;
- Sage Switzerland sponsored start-up initiatives;
- Sage in North America launched a "family owned and operated support programme" which offers free software to family owned and operated businesses that may be struggling in the current volatile economic climate.

Community and charity

Our people have a long history of actively supporting a wide range of charities and community organisations that are most meaningful to them. Activities like fundraising, sponsorship and volunteering are very common in Sage offices around the globe. These are entirely locally-led with each business setting its own direction on community and charity activity. As a result, the support we give is extremely diverse and manifests itself in numerous ways many of which cannot be valued in monetary terms.

In addition to these efforts, Sage donated £285,000 to charitable causes (2007: £220,000) in the year.

Examples of community and charity work we do are featured in each of our regional reviews on pages **30** to **37**

As part of the Sage Day celebrations in Portugal, children of Sage employees came to the office to take part in the community activities.

"Our role in supporting commerce and industry is easy to underestimate. With products and services that enable businesses to manage their processes, what we do every day enables businesses to make decisions, grow and operate more effectively."

KPIs

As summarised on page 9, 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.

In selecting these KPIs, we have incorporated our strategic goals set out on page 9.

Consistent and sustainable earnings growth, organic revenue growth and strong cash generation from our businesses are KPIs. 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 9 million calls a year, or over 36,000 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 KPI 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 2008 we again achieved this high rate of customer renewal.

Adjusted EPS growth

+3%

	pence
2008	**14.44**
2007	14.07
2006	12.36
2005	10.53

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. All figures provided above are restated to reflect the neutralisation of foreign exchange movements.

EBITA margin

23%

	%
2008	**23**
2007	24
2006	26
2005	27

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.

Organic revenue growth
Excluding Sage Healthcare Division

+6%

	%
2008	**6**
2007	7
2006	7
2005	6

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.

Cash generation from operations

114%

	%
2008	**114**
2007	112
2006	107
2005	119

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.

Renewal rate on maintenance and support contracts

81%

	%
2008	**81**
2007	81
2006	80
2005	78

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.

"The UK business delivered solid revenue growth for the year. Total revenues grew by 10% overall to £245.7m (2007: £224.1m) with organic revenue growth of 3% for the year. *Sage 50*, our flagship UK product, grew by 8%, despite a difficult market. Our fully integrated product suite solutions, *Sage 200* and *Sage 1000*, launched last year, continue to be well received by our customers and business partners alike."

UK & Ireland

Including: United Kingdom and Republic of Ireland
CEO: Paul Stobart

Performance

Revenue

£245.7m

+10%

£m	
2008	**245.7**
2007	224.1

EBITA†

£88.5m

EBITA† margin 36%

£m	
2008	**88.5**
2007	82.6

Customers

772,000

+31,000

'000	
2008	**772**
2007	741

Contracts

363,000

'000	
2008	**363**
2007	363

Subscription revenue

£160.5m

+13%

£m	
2008	**160.5**
2007	142.3

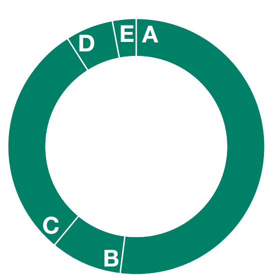
Software and software-related services revenue

£85.2m

+4%

£m	
2008	**85.2**
2007	81.8

Revenue by sector



		%
A	Accounting	52
B	Industry-specific	9
C	HR and payroll	30
D	CRM	6
E	Payment processing	3
	Total	**100**

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

Regional results

Total UK & Ireland revenues grew by 10% to £245.7m (2007: £224.1m). Organic revenue growth was 3% for the year, as the deteriorating macroeconomic environment in the second half of the year affected growth in software and software-related services. *Sage 50*, our flagship UK product, grew by 8%, driven by our combined software/support contract, *SageCover Extra*. Our fully integrated product suite solutions, *Sage 200* and *Sage 1000*, launched last year, continue to be well received by our customers and business partners alike. *Sage 200* performed strongly over the year, although *Sage 1000,* in the upper mid-market, was more affected by the challenging market conditions. *Protx*, the payment services solution, also performed strongly. HR and payroll reported modest growth in the absence of legislative stimulus.

The EBITA† margin decreased to 36% (2007: 37%), due to the dilutive effects of acquisitions.

Acquisitions

Two acquisitions were made in the UK over the year. KCS, a leading supplier of HR and payroll services in the UK, was completed in October 2007 for an enterprise value of £20.2m. KCS extended our payroll offering into the mid-market and complemented our prior year acquisition in this area, Snowdrop. The acquisition of Tekton, a leading supplier to mid-market construction companies, was completed in March 2008 for an enterprise value of £19.8m. Tekton complements our existing construction solution, *Sage 50 CIS*, which targets smaller construction companies. Both acquisitions are important strategic steps in broadening our UK product offering.

Marketplace

The UK & Ireland are our original markets where Sage was founded in 1981. We have, over time, established a strong market position to become one of the leading suppliers of software solutions in the UK and the Sage brand enjoys high customer awareness.

We sell over two thirds of our products and services direct to our customers through our own telesales and direct marketing teams. We also have a strong distribution network of business partners who resell our products and services, along with banks and accountancy practices recommending our products and services, to mid-market customers. Our business partners offer additional services such as integration, training and specialist industry knowledge, helping us build a long-term relationship with our customers. Our customer support model also fosters strong customer loyalty, which is one of our key competitive advantages.

Our business

Over the past year, we added 31,000 new customers in the UK & Ireland, an increase of 4% over the prior year. *Sage 50* remains the market leading product since its launch in 1986, and it remains our UK & Ireland business's most popular product. Over the years, we have expanded our product offering to include CRM, HR and payroll, business intelligence, payment solutions and industry-specific solutions for construction, manufacturing and retail industries. Our product offering has also extended into solutions for start-up businesses, such as *TAS* and *Instant*, and solutions for larger enterprise customers, including *Sage 200* and *Sage 1000*.

Our product development has more recently been focused on helping our customers run their businesses more efficiently through easier integration and implementation of new product modules. *Sage 200* and *Sage 1000*, launched in spring 2007, are the UK & Ireland's first fully integrated product suites, offering financial accounting, CRM, payroll and business intelligence all in one package. Customers can choose which modules they wish to integrate, allowing them a fully customised solution with minimal integration obstacles. This year we have also launched tailored solutions for specific business functions, such as financial controller and human resources, which include specialist modules. These packaged solutions have proven to be very popular with our customers.

We continue to innovate our products and improve the quality of our customers' experience. Combined software/support contracts, which offer customers an update to their software each year as part of their support contract, remain one of our most popular packages. Demand for high quality support continues to grow, and we have extended and broadened our range of support offerings from basic support to new services, such as HR and payroll and *Sage Accountants' Club Priority Link*, a combined software/support contract designed for multi-seat professional practices.

We also offer various tiers of support for each product so that customers can select the level of support they need. Our objective is to offer our customers an exceptional customer experience and to become a true partner in running their businesses more efficiently.

Sage in the community

Our people in Sage's Newcastle office donated their time and energy by volunteering for Sport Relief, a UK wide initiative to raise money for charity through encouraging people to participate in sport.

Part of the North Park headquarters became a charity call centre for the evening of the 14 March 2008 and over 100 volunteers from Sage gave up their time to receive telephone donations from members of the public on behalf of Sport Relief. Sport Relief took place over the whole weekend, starting with a live televised entertainment show on the Friday night and culminating in a series of charity runs across the country on the Sunday.

"Our businesses in Mainland Europe had a good year. Total revenues grew by 15%* overall to £457.3m (2007: £395.9m*) with strong organic revenue growth of 9%*. France reported 7%* organic revenue growth for the full year. Germany, as forecast, recovered in the second half of the year and Spain recorded another year of excellent organic revenue growth of 25%*, with growth across most of its product range, stimulated by changes in accounting legislation. Poland enjoyed strong organic revenue growth of 18%* driven by its mid-market solutions and the continued extension of customer support."

Mainland Europe

Including: Austria, Belgium, France (including subsidiaries in Brazil and Morocco), Germany, Poland, Portugal, Spain and Switzerland.
CEO: Guy Berruyer

Performance

Revenue

£457.3m

+15%*

	£m
2008	457.3
2007	395.9*

EBITA†

£100.2m

EBITA† margin 22%

	£m
2008	100.2
2007	91.5*

Customers

1,629,000

+127,000

	'000
2008	1,629
2007	1,502

Contracts

628,000

+59,000

	'000
2008	628
2007	569

Subscription revenue

£237.5m

+19%*

	£m
2008	237.5
2007	198.7*

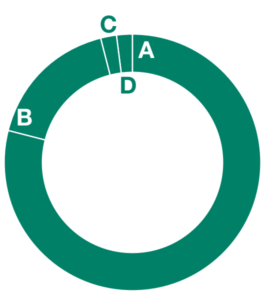
Software and software-related services revenue

£219.8m

+12%*

	£m
2008	219.8
2007	197.2*

Revenue by sector



		%
A	Accounting	79
B	Industry-specific	17
C	HR and payroll	2
D	CRM	2
	Total	**100**

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

Regional results

Our businesses in Mainland Europe experienced strong growth throughout the year. Total revenues in Mainland Europe grew by 15%* overall to £457.3m (2007: £395.9m*) with strong organic revenue growth of 9%*. France reported 7%* organic revenue growth for the full year. Excellent performances from our entry-level business, *Ciel!* and mid-market solutions contributed to France's strong growth. Germany, as forecast, recovered in the second half of the year, although a muted performance in Switzerland held back combined organic revenue growth in Germany/Switzerland to 1%*. *Office Line*, CRM and mid-market solutions all performed well. Spain recorded another year of excellent organic revenue growth of 25%*, with growth across most of its product range, stimulated by changes in accounting legislation. Poland enjoyed strong organic revenue growth of 18%* driven by its mid-market solutions and the continued extension of customer support.

The EBITA† margin reduced to 22% (2007: 23%*), primarily as a result of restructuring charges associated with our French logistics business and the integration of a lower margin Swiss acquisition completed in the prior year.

Acquisitions

In Spain this year we acquired Eurowin for an enterprise value of £11.2m. Eurowin supplies software to Spanish small businesses through a dedicated partner channel. The acquisition extends our leading market position at the entry-level and adds to our business partner distribution network in Spain.

Marketplace

We entered the European market in 1992 and are now one of the leading suppliers of business software to SMEs in Mainland Europe. In France, our *Ciel!* brand is a well-established market leader at the entry-level. *Sage 100* and industry-specific solutions for manufacturing, services and financial institutions also lead their respective markets in France for medium and larger enterprises. Our French business has also been a fast-growing division supplying Sage products and services to French-speaking African countries where small businesses are rapidly automating their business processes.

In Germany, we enjoy a strong position with our entry-level and mid-market solutions, *Office Line* as well as *Baürer* and *Sage ERP X3* supplying the upper mid-market.

Spain has enjoyed rapid growth and established a market-leading position through application of the Sage business model, including customer support and migration strategies from SP products at the entry-level to *Logic Class* in the mid-market.

Poland, Portugal and Belgium are smaller markets which also enjoyed good growth as SMEs automate their business processes.

In Mainland Europe, direct sales to our customers account for 71% of our revenues. Retail sales, primarily at the entry-level, account for 1% of total sales. Business partners, who provide installation and integration of our mid-market solutions, account for 28% of sales.

Our business

Our businesses in Mainland Europe cover a wide range of markets, from established SME markets in Germany and France to the dynamic newer markets of Spain, Poland and Portugal where SMEs are rapidly using technology to enhance business efficiency. All have grown steadily through the application of the Sage business model to our various markets, including strong migration strategies, good distribution coverage and extension of our customer support concept. We continue to develop our customer support model in all our markets in Mainland Europe, adding new tiers of support and added features. As in the UK, customer demand for high quality customer support remains strong and is driving growth across our markets. Over the year, we added 127,000 new customers in Mainland Europe (37,000 through acquisitions), an increase of 8%.

We are also expanding our portfolio of products and services into newer areas such as CRM, HR and payroll and customer support. We have also developed industry-specific solutions in treasury management, distribution and logistics in France and Spain and international products in France, Spain and Germany and for SMEs working across national borders but still demanding the local customisation and flexibility of traditional Sage solutions.

Sage in the community

At Sage France the team invited customers to participate in a survey about their business and for each completed survey Sage made a donation to Ashoka, a charity which supports social entrepreneurship. More than 5,000 surveys were completed generating in excess of 50,000 euros for the charity. Sage's donation will be used to help the organisation "Signes de Sens", a social enterprise which works on awareness of inclusiveness for the hard-of-hearing/non-hearing in France. Signes de Sens is also a Sage customer, so Sage offered them an updated version of their software along with support and strategic advice to aid business planning.

"This has been a transitional year for our North American business and a period of organisational change. In March 2008 we appointed Sue Swenson as President and CEO to lead our North American business. Over the year she has assembled a strong and experienced executive management team and is focusing on driving operational improvements and earnings growth."

North America

Including: Canada and United States.
CEO: Sue Swenson

Performance

Revenue

£500.9m

-3%* £m

2008	500.9
2007	515.6*

EBITA†

£87.7m

EBITA† margin 18% £m

2008	87.7
2007	102.2*

Customers

2,995,000

+124,000 '000

2008	2,995
2007	2,871

Contracts

601,000

+3,000 '000

2008	601
2007	598

Subscription revenue

£351.3m

+3%* £m

2008	351.3
2007	342.3*

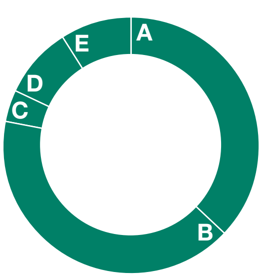
Software and software-related services revenue

£149.6m

-14%* £m

2008	149.6
2007	173.3*

Revenue by sector



		%
A	Accounting	37
B	Industry-specific	41
C	HR and payroll	4
D	CRM	9
E	Payment processing	9
	Total	**100**

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

Regional results

This has been a transitional year for our North American business and a period of organisational change. In March 2008, we appointed Sue Swenson as President and CEO to lead our North American business. She was joined in June 2008 by Marc Loupé as Chief Financial Officer of North America. Lindy Benton, who brings extensive experience in healthcare industry management, joined in September 2008 as Chief Operating Officer of Sage Healthcare Division. Greg Hammermaster joined in November 2008, after the end of the financial year, as President of Sage Payment Solutions Division. Greg has long-term experience of the payments industry. The new executive management team is focusing on driving operational improvements and earnings growth.

Excluding Sage Healthcare Division, total revenues in North America grew by 1%* to £361.8m (2007: £358.9m*), which also represented organic revenue growth of 1%*. Including Sage Healthcare Division organic revenues contracted by 3%*. The Business Management Division ("BMD") reported flat revenues for the year, as did its key products, *Peachtree* and the *MAS* range. *Simply*, the market leader in Canada recorded good growth, as did specialist solutions such as *FAS* and the accountants' club. Organic revenue growth in the Industry & Specialised Solutions Division ("ISSD") was 3%*. *Sage Timberline Office/Master Builder* reported modest growth despite challenging conditions in the US construction industry. Non Profit Solutions continued to show good growth. Sage Payment Solutions Division ("PSD") grew by 5%* for the full year, reflecting the slowing US economy and turmoil in the credit markets towards the end of the year.

Revenues at Sage Healthcare Division contracted 11%*, as, over the course of the year, management concentrated on improving operational efficiency within the business and increasing margins, after a significant restructuring of the business. Good progress is being made in stabilising the support operations and network services.

Similar to the UK, our North American business experienced an economic slowdown as the year progressed. This affected the second half performance of PSD, whilst BMD and ISSD both saw softening late in the second half of the year.

The EBITA† margin decreased, in line with our guidance last year, to 18% (2007: 20%*) as a result of investment made in our support operations in BMD.

Marketplace

North America is our largest business with over 70% of our solutions sold direct to our customers, 2% of revenues through retail and 28% through our large network of business partners. We entered the American market in 1991, and over time have established a strong market position in both the United States and Canada. We are the market leader in Canada with our *Simply* brand, and in the United States, our *Peachtree* brand is the second largest brand at the entry-level. Our mid-market products, *MAS 90/200/500* and *Accpac* products are amongst some of the most popular solutions for companies requiring deeper functionality and customisation to manage their business processes. North America has always been our largest market for CRM solutions. We have three CRM solutions in our product portfolio, *ACT!*, *SageCRM* and *SalesLogix*, which all enjoy high market awareness and strong customer satisfaction.

Our business

Over the year, we added 124,000 new customers, an increase of 4%. Our strong portfolio of products and services offers our customers a wide range of solutions to meet their specific requirements, such as *Peachtree* and *Peachtree Quantum* which offer flexibility and good functionality to smaller and medium-sized businesses. *MAS 90/200/500* are our mid-market products offering larger companies a high degree of customisation and deeper functionality. We also have a number of specialised solutions to manage fixed asset registers *(FAS)* and human resources functions *(ABRA)* as well as products for specialised industries, including not-for-profit, construction and real estate *(Timberline/Master Builder)* and doctors practices (Sage Healthcare Division). Sage Payment Solutions is one of our newer services, which is being integrated into our *Peachtree* and *MAS* product ranges to offer our customers a payment system that feeds directly into the sales and finance functions.

North America is also collaborating with our UK and Mainland Europe businesses on introducing a number of best practice initiatives. Combined software/support contracts were introduced last year as *Peachtree Business Care* and *Simply Care* and have experienced strong customer demand. These programmes will gradually be extended and are expected to drive future growth. North America has also adopted the integrated product suite concept, called Extended Enterprise Suites. Both *Peachtree* and *MAS* can now be fully integrated with CRM, *FAS* and Payment Solutions in Extended Enterprise Suites.

Sage in the community

Our North American employees have always strongly supported charitable activities at a local level. This year they introduced payroll giving with a matching employer contribution, initiated a charitable Volunteer Day allowing employees a paid day off to volunteer at a charity and volunteered in local health centres as part of a week-long focus on community health. As part of "Sage Day 2008", in which over 50 charities benefited, our people distributed environmentally friendly shopping bags, promoted car pool programmes, planted trees and removed waste from parks and beaches.

"Our businesses in Rest of World enjoyed another excellent year, with total revenues growing by 16%* to £91.1m (2007: £78.5m*) and organic revenue growth of 14%*. Our businesses in Rest of World cover a diverse geographic area with differing market conditions."

Rest of World – Asia and Southern Hemisphere

CEO Asia: Guy Berruyer (pictured left), including: Bahrain, China, Dubai, India, Malaysia, Saudi Arabia, Singapore, and Thailand.

CEO Southern Hemisphere: Ivan Epstein (pictured right), including: Australia, Botswana, Namibia, and South Africa.

Performance

Revenue

£91.1m

+16%*

	£m
2008	91.1
2007	78.5*

EBITA†

£23.4m

EBITA† margin 26%

	£m
2008	23.4
2007	20.7*

Customers

501,000

+59,000

	'000
2008	501
2007	442

Contracts

154,000

+35,000

	'000
2008	154
2007	119

Subscription revenue

£36.5m

+19%*

	£m
2008	36.5
2007	30.8*

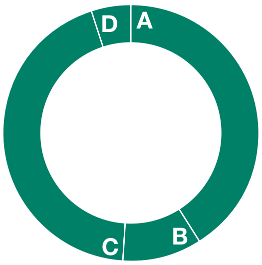
Software and software-related services revenue

£54.6m

+15%*

	£m
2008	54.6
2007	47.7*

Revenue by sector



		%
A	Accounting	41
B	Industry-specific	10
C	HR and payroll	44
D	CRM	5
	Total	**100**

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

Regional results

Total revenues in Rest of World grew by 16%* to £91.1m (2007: £78.5m*). Organic revenue growth was 14%*. South Africa had another impressive year, with a strong finish to the year and excellent growth in support, payroll and international products. Australia experienced good revenue growth in the first half, with only a slight moderation to growth in the second half. India, China and the Middle East all grew strongly, successfully leveraging our existing solutions such as *Sage ERP X3*, CRM products and *Sage Accpac ERP* to build their market positions.

The EBITA† margin was maintained at 26% (2007: 26%*).

Marketplace

Our businesses in Rest of World cover a diverse geographic area with differing market conditions. South Africa is one of our fastest growing businesses, driven by the rapid development of the SME community automating their business processes and implementing *Pastel Accounting*, the market leader in South Africa. Through South Africa, we are expanding into other businesses in African countries.

In Australia, we are the leading supplier of payroll solutions to SMEs. We also have a strong position in the Far East, where we are the market leader in Malaysia and Singapore, and have small, rapidly growing businesses in China, India and the Middle East which are supplying the emerging SME community.

Many of our solutions in Rest of World are mid-market products and services. Consequently, 34% of our sales are through our business partner network. Direct sales through our own sales teams comprise 64% and retail contributes 2%.

Our business

Over the year, we added 59,000 new customers, an increase of 13%. South Africa's *Pastel Accounting* and *VIP Payroll* continues to expand through migration and strong customer support offerings. Through innovation and a close customer relationship, Australia has maintained its market leadership and developed new solutions in construction. We have well-established and fast-growing businesses in newer markets such as China, India, Malaysia, Singapore, Dubai and Saudi Arabia. SMEs in these emerging markets are increasingly automating their business process using financial accounting software. Our products and services are particularly well suited to these types of markets with large numbers of emerging SMEs.

The market for CRM solutions is less developed in emerging markets. Our CRM products are enjoying rapid growth off a still nascent base, providing a platform for future growth.

"South Africa had another impressive year, with strong growth in support, payroll and international products. Australia experienced good revenue growth."
Ivan Epstein

Sage in the community
The Pastel Schools Programme aims to introduce computerised accounting to every Grade 10, 11 and 12 pupil in South Africa to better educate young people in financial management skills that can increase job opportunities and benefit industry and commerce as more financially skilled young people enter the workforce. The programme requires an investment of R1m per year to support the 200 educators and 100 schools involved across the country. Pastel developed a computerised training programme which fits with the schooling curriculum and is approved by the South African Government.

"India, China, Malaysia, Singapore and the Middle East all successfully leveraging our existing solutions such as *Sage ERP X3*, CRM products and *Sage Accpac ERP* to build their market positions."
Guy Berruyer

"The Group remains highly cash generative with operating cash flow of £342.0m, representing 114% of EBITA† (2007: 112%)."

To see Paul's biography please go to page **44**

Profit measures

	EBITA† to operating profit 2008 £m	EBITA† to operating profit 2007 £m	**Growth %**	**Pre-tax profit 2008 £m**	Pre-tax profit 2007 £m	**Growth %**	**EPS 2008 pence**	EPS 2007 pence	**Growth %**
Disclosed measure	**299.8**	297.0	**1%**	**273.4**	265.1	**3%**	**14.44**	14.07	**3%**
Impact of movements in foreign currency exchange rates	**–**	(13.8)		**–**	(13.8)		**–**	(0.73)	
	299.8	283.2	**6%**	**273.4**	251.3	**9%**	**14.44**	13.34	**8%**
Amortisation of acquired intangible assets and net development	**(32.4)**	(28.0)		**(32.4)**	(28.0)		**(1.71)**	(1.49)	
Statutory measure	**267.4**	255.2	**5%**	**241.0**	223.3	**8%**	**12.73**	11.85	**7%**

Overview

In the year ended 30 September 2008, revenue increased by 12% to £1,295.0m (2007: £1,157.6m). Operating profit increased by 5% to £267.4m (2007: £255.2m). Profit before taxation increased by 8% to £241.0m (2007: £223.3m). EPS increased 7% to 12.73p (2007: 11.85p).

In order to assess like-for-like performance, regional and Group growth trends are shown on a foreign currency neutral basis where indicated. The impact of foreign exchange movements on profit is shown on page 38.

It is Sage's policy to hedge currency exposure to cash flows by broadly aligning the currency denominations of our debt with the currency of the cash flows arising from our trading activities. We do not hedge pure translational exposure resulting from conversion for accounting purposes of overseas companies' results into Sterling.

Over the year, we saw significant movement in foreign currency exchange rates. The average rate for the Euro strengthened 13% from £1 = €1.48 to £1 = €1.31, which had a favourable translational impact on our financial results. The US Dollar to Sterling average rate for the year remained broadly unchanged at £1 = $1.97 (2007: $1.98). However, the US Dollar appreciated rapidly near the end of our financial year, closing at $1.78, an appreciation of 13% against the prior year end rate. This affected various balance sheet items, including valuation of our net debt, a substantial proportion of which is denominated in US Dollars and Euros. At 30 September 2008, net debt stood at £541.0m (2007: £509.7m).

Revenue analysis

Revenues increased 7%* to £1,295.0m (2007: £1,214.1m*). Organic revenue growth for the year, excluding Sage Healthcare Division, was 6%* (3%* including Sage Healthcare Division). Organic revenue growth in the first half of the year was 8%* excluding Sage Healthcare Division and was 5%* including Sage Healthcare Division. In the second half organic revenue growth was 4%* excluding Sage Healthcare Division and was 2%* including Sage Healthcare Division. Organic revenue growth excludes the contributions of current year and prior year acquisitions (together 5% of total revenues) and non-core products (2% of total revenues).

Total revenues for software and software-related services were £509.3m (2007: £499.8m*), with organic revenue growth of 2%* excluding Sage Healthcare Division. Total subscription revenues grew by 10%* to £785.7m (2007: £714.3m*), benefiting from strong organic revenue growth in combined software/support contracts.

Following the reclassification of our revenue categories last year, software and software-related services include stand-alone software licence sales (including new licences, upgrades and migrations) and professional services, hardware and business forms.

Subscription revenues are recurring in nature and include maintenance and support (13% of total revenues), combined software/support contracts (39% of total revenues), hosted products (1% of total revenues) and transaction services (8% of total revenues).

EBITA†

EBITA† increased 1%* to £299.8m (2007: £297.0m*).

The Group's EBITA† margin was reduced by 1% to 23% (2007: 24%*) due to the dilutive effects of recent acquisitions and the announced investment in our North America business over the year.

Finance expenses

Net finance expenses of £26.4m (2007: £31.9m) were lower than the prior year. The average interest rate on borrowings during the year was 4.5% (2007: 4.8%). The 2007 interest was greater due to a higher level of average borrowings during the year following the acquisitions made during 2006 and higher average interest rates. Interest cover was in excess of ten times, increasing from eight times in the prior year.

Profit before taxation

Statutory profit before taxation increased by 8% to £241.0m (2007: £223.3m) and was impacted by amortisation of acquired intangible assets and net development expenditure of £32.4m (2007: £28.0m). Adjusted pre-tax profit** rose 3% to £273.4m (2007: £265.1m).

Taxation

The tax charge of £74.7m (2007: £69.2m) was greater than the prior year reflecting the additional profits and gives an effective rate of 31% (2007: 31%).

EPS

Basic earnings (after amortisation) per share for the year ended 30 September 2008 increased by 7% to 12.73p (2007: 11.85p). Diluted earnings per share increased by 8% to 12.69p (2007: 11.79p). Adjusted earnings per share** grew 3% to 14.44p (2007: 14.07p).

Dividend

Our full year dividend is increased by 3% to 7.21p per share (2007: 7.00p per share), with a proposed final dividend of 4.78p per share (2007: 5.73p per share, following the rebasing of our dividend policy which was reflected in our final dividend in the second half of the prior year).

The final dividend will be payable on 6 March 2009 to shareholders on the register at close of business on 6 February 2009.

* Foreign currency results for the year ended 30 September 2007 have been retranslated based on the average exchange rates for the year ended 30 September 2008 of $1.97/£1 and €1.31/£1 to facilitate the comparison of results.

† Earnings before interest, tax and amortisation of intangible fixed assets ("EBITA").

** Pre-tax profit and earnings per share figures stated prior to amortisation of intangible fixed assets and after neutralisation of foreign exchange movements.

R&D and capex

The Group spent £139.7m in the year ended 30 September 2008 on research and development (2007: £111.4m). No expenditure was capitalised and £0.6m was amortised to the income statement relating to prior years' expenditure which had been capitalised.

Capital expenditure in the year ended 30 September 2008 (including the purchase of third-party software systems for internal use) was £40.4m (2007: £38.0m). The majority of this expenditure relates to IT infrastructure, both in new and replacement systems.

Capital structure

Our balance sheet at 30 September 2008 is summarised as set out in the table below.

Net assets increased by 19% to £1,247.0m (2007: £1,050.8m) and net assets per share by 17% to 95p (2007: 81p). The main movements in the balance sheet items were in goodwill and intangible fixed assets (relating mainly to investment in acquisitions and the impact of foreign currency retranslation) and the associated change in net debt (see further "Net debt" and "Cash flow" below).

Debt and facilities

Net debt

The Group has net debt of £541.0m at 30 September 2008 (2007: £509.7m). The balance sheet remains strong with net debt to EBITA of 1.8 times. There has been a significant change in the closing exchange rates used to translate the debt at 30 September 2008 compared to 30 September 2007, which has resulted in a foreign exchange translation movement of £71.9m on the debt drawings.

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. Cash outflows to fund acquisitions of £81.1m have therefore been funded by debt financing.

Cash flow

The Group remains highly cash generative with operating cash flow of £342.0m, representing 114% of EBITA (2007: 112%). After interest, tax and net capital expenditure, free cash flow was £215.5m. The net cost of acquisitions completed in the period was £81.1m.

After dividends of £106.2m and other movements of (£59.5m), including exchange movements, net debt stood at £541.0m at 30 September 2008 (30 September 2007: £509.7m).

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 by 13 January 2011 (with £100m amortising a year earlier) and £650m expire on 4 August 2011. At 30 September 2008, £575.4m had been drawn under these facilities, leaving £274.6m undrawn. Group cash balances are invested with institutions and in instruments with high credit ratings.

Treasury and risk management

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below. Further detail can be found in note 16 of the accounts.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments with respect to changes in economic conditions and the strategic objectives of the Group.

Capital structure

	Assets £m	Liabilities £m	Net assets £m
Goodwill and intangible assets	2,049.2	–	2,049.2
Property, plant and equipment	140.5	–	140.5
Current assets and liabilities	272.3	(648.5)	(376.2)
Retirement benefit obligations	–	(3.9)	(3.9)
Deferred tax	5.2	(26.8)	(21.6)
Total before net debt	2,467.2	(679.2)	1,788.0
Net debt	70.8	(611.8)	(541.0)
Total as at 30 September 2008	2,538.0	(1,291.0)	1,247.0
Total as at 30 September 2007	2,207.8	(1,157.0)	1,050.8

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

The Group's Treasury function has a policy of reducing the level of cash in the businesses in order to minimise external borrowings.

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

The credit risk on liquid funds is considered to be low, as the Audit Committee approved Group Treasury Policy limits the value that can be invested with each approved counterparty to minimise the risk of loss.

Interest rate risk
The Group is exposed to cash flow interest rate risk on floating rate bank loans and overdrafts. At 30 September 2008, the Group had drawn down £575.4m (2007: £562.3m) from its committed revolving credit facility. The Group regularly reviews the interest rates to mitigate this risk, which are rebased on a monthly basis and seeks to fix interest rates on a portion of its debt when market conditions make this desirable. At 30 September 2008, all outstanding debt was held at variable rates.

Foreign currency risk
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 derivative financial instruments.

Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate because of the changes in foreign exchange rates. The Group's foreign currency exposures are principally to the US Dollar and Euro.

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 foreign exchange on translation of the borrowings into Sterling has been recognised in exchange reserves.

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 2008 and 30 September 2007, these exposures were immaterial to the Group.

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

Analysis of borrowings by maturity and currency

	2008 £m	2007 £m
Due within one year:		
Sterling	**8.4**	–
Euro	**5.3**	0.2
Other	**0.2**	0.1
	13.9	0.3
Due within one and two years:		
Euro	**0.2**	0.1
Due in more than two years but not more than five years:		
Sterling	**66.9**	–
Euro	**203.4**	235.9
US Dollar	**290.6**	314.2
Swiss Franc	**13.9**	11.8
Other	**0.2**	–
	575.0	561.9
Total	**589.1**	562.3

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, which could have a material impact on our long-term performance and could cause actual results to differ materially from forecast and historic results. Risks also impact on non-financial aspects of Sage, such as reputation, employees and security. Many of the risk factors affecting Sage are considered to be business risks which can be effectively mitigated by ensuring appropriate controls are in place. However, some of the risk factors affecting Sage are inherent risks based on our location, type of business and other external factors predominately beyond our control. Noted below are the principal inherent risks that we face. This section of the report should be read in conjunction with the Internal control and risk management section of the report, found on pages 51 and 52.

International factors

As an international company, we face potential challenges from economic, political, legal, accounting and business factors across the globe. In the current economic environment, this situation has intensified. We have operations in many international markets which 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.

In current economic conditions, our defensive business model and the significant percentage of our revenue which is recurring give comfort and support against economic exposure. As we grow through acquisitions and expand our geographical coverage, we continually review all relevant requirements to ensure appropriate policies and controls are developed. By acquiring businesses which are well established in their own region, we rely on the experience of local management to understand the local regulatory environment. In addition, our group-wide compliance programme seeks to ensure that local operating companies continually manage and review local rules and regulations.

Competitive environment

The market for business management solutions is highly competitive. This competition continues to grow, particularly in the SME market where 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.

Systems and networks

Our business operations rely significantly on systems and networks. Any external and malicious incident on the systems and networks 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 receivable and payable, could be disabled. Our reliance on systems and networks includes internally managed and externally provided systems and networks.

We continue to invest in our internal systems and networks and build and develop relevant recovery plans. We also continue to review our security, system and network infrastructure to ensure that, wherever possible, these risks are kept to an acceptable level. Any externally provided systems and networks are subject to intensive contract negotiations and performance ability reviews to ensure that an appropriate level of service will be continually maintained.

Technology changes

Technology in the software industry is constantly changing. In order to be successful within the software sector, companies must be able to adapt to changing technologies. This ability to adapt is vital in maintaining current products, attracting new customers and retaining existing customers. Changing technology places demands on employees, particularly research and development teams, to stay up to date with technology changes and customer demands. Continued success in developing new products and services, anticipating and reacting to customer needs and satisfying market demand, depends on Sage's ability to adapt to changing technologies.

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. We also seek to develop appropriate strategic direction and maintain a knowledge of industry developments to ensure, where possible, a proactive response to changing customer requirements.

Intellectual property

We rely on intellectual property laws, including laws on copyright, patents, 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 increases and provides 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 continually police the unauthorised use of our products. We also ensure secure storage of our source code throughout the Group.

Foreign exchange and treasury

Although a substantial proportion of Sage's revenue and profit is earned outside the UK, subsidiaries generally only trade in their own currency. Sage is not subject to any significant foreign exchange transactional exposure. Sage'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 borrowing in the same currency. In light of this limited exposure to foreign exchange risk, Sage does not hold any derivative financial instruments.

Sage 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. All outstanding debt is currently held at variable interest rates.


Tony Hobson


Tamara Ingram


Paul Walker


Tim Ingram


Paul Harrison


Ruth Markland


Paul Stobart


Ian Mason


Guy Berruyer


Mark Rolfe


David Clayton

Tony Hobson, 61

Chairman, non-executive director

Tony is the Chairman of Northern Foods plc and a non-executive director of Glas Cymru and HBOS plc. He was previously Group Finance Director of Legal and General Group plc for 14 years, retiring in 2001. He is a graduate of the Darden Graduate School of Business, University of Virginia. He joined the Board in June 2004, becoming Chairman in May 2007.

Paul Walker, 51

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.

Paul Harrison, 44

Finance Director

A chartered accountant, Paul joined Sage 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 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.

Paul Stobart, 51

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.

Guy Berruyer, 57
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.

David Clayton, 51
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.

Tamara Ingram, 48
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.

Tim Ingram, 61
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.

Ruth Markland, 55
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.

Ian Mason, 46
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.

Mark Rolfe, 50
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 before retiring in 2007. He is also a non-executive director of Hornby plc and Barratt Developments 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

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

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

Independent Chartered Accountants and Registered Auditors
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Newcastle upon Tyne NE1 8HW

Registrars
Equiniti
The Causeway, Worthing,
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Contact details
Registered Office
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NE13 9AA

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

Directors' report
For the year ended 30 September 2008

The directors present their report and the audited financial statements for the year ended 30 September 2008.

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 £241.0m on revenue of £1,295.0m.

The Business review, including key performance indicators, can be found on pages 6 to 43 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 and the amount transferred to reserves are set out on page 66. Dividends paid and proposed are set out on page 78. The Board proposes a final dividend of 4.78p per share (2007: 5.73p per share) taking the proposed full year dividend to 7.21p per share (2007: 7.00p per share).

Research and development
During the year, the Group invested £139.7m (2007: £111.4m) 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 43.

Charitable contributions and political donations
During the year, within the UK, charitable contributions totalling £148,000 were made, which included £60,000 to The Tyne and Wear Community Foundation, £20,000 to The Community Foundation for Greater Manchester, £20,000 to The Berkshire Community Foundation, and a total of £48,000 smaller contributions to numerous charities. The rest of the Group made charitable contributions totalling £137,000. 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 54 to 65. 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 2008, 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 24 and 25.

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 (2007: 40 days).

Substantial shareholdings
At 17 December 2008, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests in the ordinary share capital of the Company:

Name	Direct shares	%	Indirect shares	%	Total shares	%
Invesco plc	–	–	129,837,372	9.92	129,837,372	9.92
Baillie Gifford & Co	–	–	124,221,242	9.52	124,221,242	9.52
Aviva plc	65,471,319	5.00	25,990,149	1.98	91,461,468	6.98

Future developments
The Group's future developments are described in the Business review on pages 6 to 43.

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 Tuesday 3 March 2009, brief details of which are set out in the circular containing the Notice of Annual General Meeting.

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, a qualifying person (being an individual who is a member of the Company, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote; 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 3 March 2009 are set out in the Notice of Annual General Meeting.

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 If the Company is in liquidation, the liquidator may, with the authority of a special resolution of the Company and any other authority required by the Statutes (as defined in the 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, 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 28 February 2008) to buy-back up to 130,416,015 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 3 March 2009. The minimum price which must be paid for such shares is 1p and the maximum price payable is 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 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 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next 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 special resolution (or by ordinary resolution of which special notice has been given) remove and the Board by unanimous decision may remove any director before the expiration of his 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.

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 multi-currency 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.

The Business review does not contain any information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company as, in the directors view, there are no such arrangements.

By Order of the Board

M J Robinson
Secretary
17 December 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 (2006) 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 was 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 joined its Audit Committee. Mr Rolfe, whose biography appears on page 45, took over the role of chair of the Audit Committee on 1 April 2008 and Mr Hobson retired from the Committee at that time. The Company, therefore, is again fully compliant 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 pages 52 and 53. 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 ten occasions, six such meetings being formal Board meetings with a further four meetings of the Board called at short notice and held by telephone. All directors in office at the time attended all of these Board meetings other than Ms R Markland, who was unable to attend one meeting, and each of Messrs Stobart and Walker and Ms Ingram and 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, have undertaken 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 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). Under its terms of reference, the Committee meets at least twice a year. In the year under review, five meetings of the Committee were held on full notice with a further meeting held at short notice. All members in office at the time attended all the meetings other than Ms Markland who was unable to attend one meeting held on short notice. 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 54 to 65, together with further details of the Remuneration Committee.

Audit Committee
The Audit Committee was chaired by Mr A J Hobson until 1 April 2008 when Mr M E Rolfe (who joined the Committee on 1 December 2007) became its chair and Mr Hobson retired from the Committee. Its other members are independent non-executive directors, Mr T C W Ingram, Ms R Markland and Mr I Mason (who joined the Committee on 1 November 2007). Ms T Ingram joined the Committee on 1 October 2008. 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 Director 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. An Internal Audit charter is also in place which outlines the objectives, authority, scope and responsibilities of Internal Audit. Performance against this charter is reviewed on an ongoing basis.

  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 current external auditors were appointed to that role in 1988. The Committee has determined that formal consideration of a tender process will be undertaken every five years, with the next such review taking place in the financial year ending in September 2009. There are no contractual restrictions on the choice of the Committee as to external audit and, having considered the services provided by the current external auditors, their independence and knowledge of the Group, the Committee has determined to recommend to the Board the reappointment of the auditors at the Annual General Meeting in March 2009. In reaching this decision, the Committee also had regard to the likelihood of a withdrawal of the auditor from the market.

The scope, fee, performance and independence of the external auditor is considered annually by the Audit Committee.

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 and has adopted controls to ensure that this independence is not compromised. These controls include the continued monitoring of the independence and effectiveness of the audit process.

Audit partners are rotated every five years and a formal statement of independence from the external auditors is received each year. In addition, the Audit Committee has adopted a specific policy on auditor independence drawing together the various existing Group policies in this area. This policy requires that there is full consideration of independence issues before any appointment of an employee or former employee of the auditor to a position with the Group. It expressly states that the Group will not engage the auditors to undertake any work that could threaten the independence of the auditors and prohibits the Group from engaging the auditors to undertake certain types of service, such as, amongst others, human resources services, legal and actuarial services.

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 its very international nature. 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. Where these financial limitations are exceeded, the approval of the Audit Committee is required for such appointment. The Group also receives taxation advice from other large accountancy practices as and when appropriate.

Non-audit services (other than in relation to taxation) may be undertaken by the external auditors, subject to the rules referred to above, and 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 that acquisition due diligence be undertaken by firms other than the auditors unless conflicts of interest for comparable firms make this impractical.

At each meeting, the Committee receives a report from the external auditors providing an update on the fees for non-audit services incurred since the previous meeting. Where the cumulative non-audit fees (excluding tax) in the year exceeds a certain sum the prior approval of the Audit Committee is required before the external auditor undertakes any non-audit work other than in relation to tax.

In the year to 30 September 2008 the audit fee was £1,651,000. 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 £2,025,000 of which £1,819,000 was attributable to tax services and tax compliance work and £206,000 to other non-tax compliance services. Further details of fees paid to auditors are set out on page 77.

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. Four 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 when Ms Markland was 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 43 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. 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.

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 Director, the Secretary and certain 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. Processes for the confidential reporting of concerns have been introduced in France and Germany and the Group is considering the introduction of further telephone hotlines where local legislation permits.

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 49 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 Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP). In preparing the Group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ("IASB"). The Group and parent Company 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 the IASB, and with regard to the parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the Group and parent Company 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 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.

The directors are responsible for the maintenance and integrity of the group website, www.sage.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Board of Directors and advisers section on pages 44 and 45, confirms that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Each 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
17 December 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 making recommendations to the Board on remuneration policy for 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.

1.2 Advisers to the Remuneration Committee

The Remuneration Committee keeps itself fully informed of developments and best practice in the field of remuneration and it seeks advice from external advisers when it considers it appropriate. In order to be aware of market trends in remuneration and current best practice, the Remuneration Committee considers market data for comparable businesses. The Remuneration Committee has received advice from Deloitte and Hewitt New Bridge Street Consultants LLP ("HNBSC"), both independent firms of remuneration consultants appointed after consultation with the Board. The terms of engagement of Deloitte and HNBSC are available on request from the Secretary. Deloitte and HNBSC were appointed by the Committee and provide no services to the Group other than advice on executive remuneration to the Remuneration Committee, and, in the case of Deloitte, advice to the Group's North American business on a software implementation programme and advice in relation to the audit of its Polish subsidiary. Ms K Geary (Director of Human Resources and Corporate Communications), Ms R Fyffe (Director of Performance and Reward) 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. The Chief Executive, Ms K Geary, Ms R Fyffe 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 are base salary (a fixed sum payable monthly which is reviewed annually), benefits (including car allowance and non-contributory health insurance), an annual bonus (with a deferred element to encourage director shareholdings), long-term incentives (comprising performance share plan awards) 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 2008 comprise performance share plan awards, share options 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. Policy on performance-based incentives for the forthcoming year is discussed below.

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 executive directors' individual performance and the performance of the Group. In the year ending 30 September 2009 salaries of executive directors have been increased by between 4% and 5% from those disclosed in this report, in line with comparator information from the time of the review.

2.3 Policy on fees of non-executive directors

The fees of the non-executive directors are reviewed every two years. For the two financial years ending on 30 September 2008, the basic fee for directors was £40,000. An additional fee of £5,000 and £7,000 was paid for membership of the Remuneration and Audit Committees respectively, and further payments were made to the chair of each of these Committees (£6,000 and £8,000 for chairing the Remuneration and Audit Committees respectively). A further payment of £4,000 was made each year to the Senior Independent Director.

For the two financial years ending 30 September 2010, the basic fee has been increased to £55,000, but Committee membership fees will no longer be paid. The chairmanship fees will be increased to £13,000 and £17,000 for the Remuneration and Audit Committees respectively. The payment to the Senior Independent Director will be increased to £10,000.

In relation to the Chairman of the Board, 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. The Chairman's remuneration will next be reviewed in 2010.

Non-executive directors are not entitled to participate in any bonus, long-term incentive 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.

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. The Committee considers the targets each year and selects those which it considers to be drivers of shareholder value. Bonus payable to executive directors for on-target performance is 75% of salary with maximum bonus potential of 125% of salary. Bonuses above on-target level represent superior performance against one or more measures. At the end of each year the Remuneration Committee assesses the degree to which the targets have been met.

The requirement to defer bonus into shares applies only to those executive directors who have not yet met the shareholding policy of the Board (see paragraph 2.7 below).

For the financial year to 30 September 2008, the cash multiplier which had previously applied was removed, and individual strategic objectives were introduced.

For the financial year to 30 September 2009, executive directors with no specific divisional responsibility will have 75% of their bonus based on Group profit before tax and amortisation. This replaces EPS as the main earnings measure now that EPS growth will be the primary measure in the long-term incentives (see paragraph 2.5 below). The remaining 25% will be based on individual strategic objectives. For regional CEOs, 25% of bonus is based on Group profit before tax and amortisation, 50% on EBITA of the relevant operating company or companies, and the remaining 25% on individual objectives.

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 executive director has not yet achieved the target holding of shares equivalent to 150% of 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 director and will be generally at risk of forfeiture if the executive director 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.

2.5 Policy on long-term incentives
The Committee has undertaken a wide-reaching review of long-term incentives to establish a motivational and performance-orientated structure that focuses on the creation of shareholder value. It consulted with major investors and representative bodies regarding the proposed changes and had a constructive and positive dialogue with them. Under the new arrangements for the financial year ending 30 September 2009 executive share options will not be granted under the 1999 Executive Share Option Scheme ("ESOS").

The Performance Share Plan ("PSP") will be the main long-term incentive vehicle for the financial year to 30 September 2009. Currently PSP awards vest depending on the Company's Total Shareholder Return ("TSR") performance compared with a selected group of comparator companies over a three-year period. However, to best recognise the strengths of the performance conditions which have previously applied to the ESOS and PSP, future PSP awards will vest on the following basis:

As has been the case with executive share options to date, a sliding scale based on EPS will be used. 25% of the award will vest at the end of the period if the increase in EPS exceeds RPI by 9% (an average of 3% per year); 100% of the award will vest at that time only if RPI is exceeded in that period by 27% (an average of 9% per year). Between those targets, awards will vest on a straight-line basis, and if those targets are not met there is no opportunity for re-testing.

Awards will then be subject to a TSR 'multiplier' whereby the level of vesting based on EPS achievement will be adjusted according to TSR performance over the same three-year period compared with a group of international software and computer services companies (listed below).

- If Sage's TSR is ranked at lower quartile in the group, the multiplier is 0.75;
- If Sage's TSR is ranked at median in the group, the multiplier is 1; and,
- If Sage's TSR is ranked at upper quartile in the group, then the multiplier is 1.5.

Straight-line pro-rating applies between 0.75 and 1, and between 1 and 1.5, but the multiplier cannot be higher or lower than these figures.

The minimum EPS growth performance required has been set at RPI+3% in light of business strategy and market expectations. The Committee considers that this level of EPS growth would represent robust performance in the market. The proportion of award that will vest for this level of EPS growth is 25% (previously 30% in the ESOS), before TSR performance is considered.

The Remuneration Committee considers that this matrix approach to performance conditions is appropriately demanding at this time and provides the best incentive for the generation of shareholder value. EPS growth has been chosen because it requires executives to produce sustained improvement in the underlying performance of the Group; TSR has been chosen as it helps to align the interests of award holders with shareholders and complements the focus on Group financial results in the EPS condition and the annual bonus plan.

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.

The comparator group for awards to be made in the year to 30 September 2009 for TSR purposes 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	

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

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 grant of awards under the PSP is currently limited to shares worth up to 150% of base salary. However, shareholder approval is being sought at the Annual General Meeting in March 2009 to amend the rules of the PSP to increase this limit to 300% of salary. The reason for the increase is to reflect the fact that, going forward, long-term share incentives will be granted under the PSP only and not under the ESOS. It will therefore be necessary to have an increased individual limit under the PSP. Although 300% would be the permitted maximum, in practice awards would be granted below this level.

For instance, to recognise the loss of share options in the overall package, and the need to reward superior performance with commensurate reward, PSP awards to executive directors for the year to 30 September 2009 will have a maximum value on award of 210% of salary.
This represents a “core” award to the value of 140% of salary, which if maximum EPS growth is attained, and TSR performance is ranked upper quartile against the comparator group, could rise to 210% of salary (ignoring share price movements), subject to shareholder approval to the PSP rule amendment. The Remuneration Committee considers that this grant level is appropriate, taking account of the interaction of the challenging performance criteria and recognising the increased competition for senior executives. If, in due course, it were to become appropriate routinely to make awards higher than the 210% of salary maximum currently planned, then the Company will consult with its major investors accordingly, and prior to making such awards. There are currently no plans to increase the 210% award level.

Awards under the PSP will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. For the financial year to 30 September 2009, they will be made following the AGM in March 2009.

For the year to 30 September 2009 and onwards, there are no intentions to grant options to executive directors under the ESOS, which ceases in December 2009.

In the financial year to 30 September 2008 market value options were granted under the ESOS 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. Grants to executive directors were limited to shares under option worth 100% of base salary.

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.

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 defined contribution. The Sage Executive Pension Scheme is the main pension fund for Sage executives in the UK. It is a defined contribution plan where the standard contribution rate is 25% of base salary subject, where appropriate, to limits set by HMRC. No components of remuneration, other than base salary, are 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 PSP.

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 one 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. The Remuneration Committee reviews the contracts of executives on an annual basis to ensure they are in line with policy and market practice.

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. Mr P S Harrison is a non-executive director of Hays plc. Fees received in their capacity as directors of these companies are retained by each of them reflecting the personal responsibility they undertake in these roles. In the year under review, these fees were £70,000 in the case of Mr P A Walker, £42,000 in the case of Mr P L Stobart and £57,000 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.

The service agreement with Mr R Verni was terminated on 11 October 2007. Mr Verni received payments in lieu of 12 months notice under the contract at the times when salary would have been paid under his service agreement. Against these payments was set off the remuneration which Mr Verni received from third parties during that time. All payments ceased on 11 October 2008. The tables relating to executive share options and the performance share plan on page 61 onwards set out the treatment of his share awards.

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 2008	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
D H Clayton	25 July 2007	Age 60 or 12 months	12 months from the Company and/or 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
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	1 year 8 months	12 months from the Company and/or individual
T Ingram	23 November 2007	2 years 3 months	6 months from the Company and/or 1 month from individual
T C W Ingram	14 March 2008	6 months	6 months from the Company and/or 1 month from individual
R Markland	15 August 2006	1 year	6 months from the Company and/or 1 month from individual
I Mason	31 October 2007	2 years 1 month	6 months from the Company and/or 1 month from individual
M E Rolfe	23 November 2007	2 years 2 months	6 months from the Company and/or 1 month from individual
The following director ceased to be a director during the course of the financial year			
R Verni	8 July 2003	Nil (terminated on 11 October 2007)	12 months from the Company and/or individual

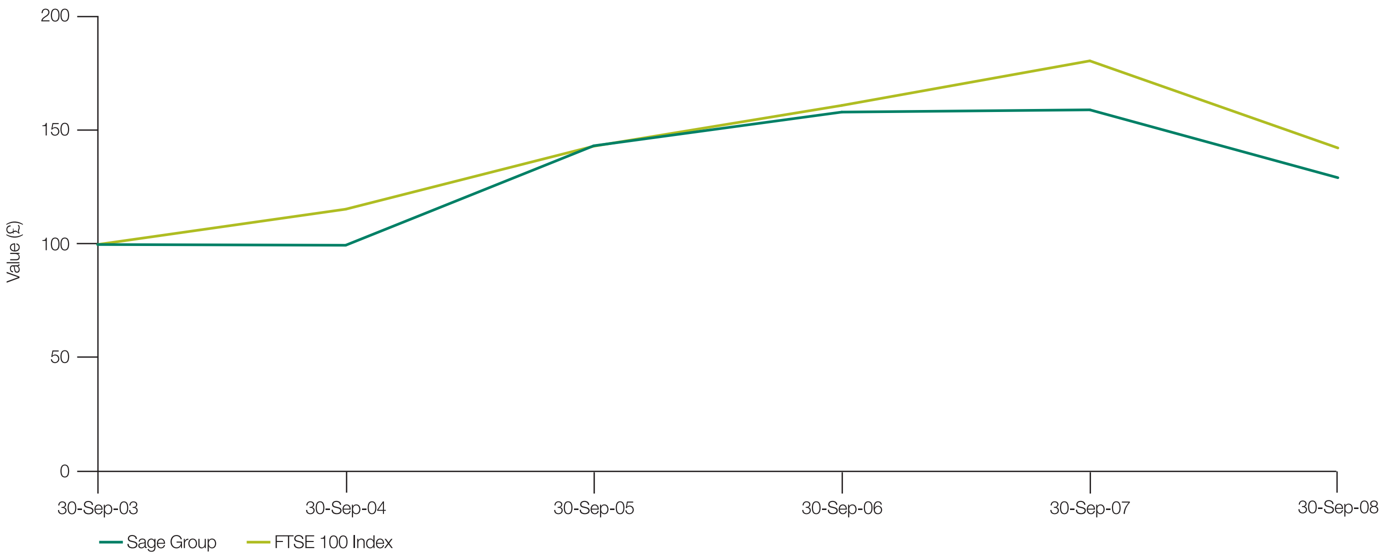
Notes:
- There are no other benefits in the contracts relevant to termination payment.

4 Performance graph

Total Shareholder Return ("TSR") against FTSE 100

The Company is required to include a graph indicating its TSR performance (that is, share price assuming reinvestment of any dividends) over the last five years relative to a recognised equity index. Accordingly the graph below shows the Company's performance relative to the FTSE 100.

Total shareholder return



Source: Thomson Financial

This graph shows the value, by 30 September 2008 of £100 invested in The Sage Group plc on 30 September 2003 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.

TSR performance to 30 September 2008 for PSP awards made to date was as follows:

- 2006 awards – TSR ranking of 9.13 out of 11 comparators
- 2007 awards – TSR ranking of 10.17 out of 13 comparators
- 2008 awards – TSR ranking of 10.42 out of 19 comparators

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[5] '000	Benefits in kind[6] '000	2008 Total '000	2007 Total '000	2008 Pension contributions[7] '000	2007 Pension contributions '000
Executive directors								
G S Berruyer	€625	€546	€26	€7	€1,204	€1,216	–	–
D H Clayton	£335	£251	–	£17	£603	£42	£84	–
P S Harrison	£335	£251	–	£18	£604	£676	£84	£48
P L Stobart	£425	£191	–	£18	£634	£793	£106	£60
R Verni[1]	$632	–	–	–	$632	$933	–	$6
P A Walker	£735	£551	–	£21	£1,307	£1,459	£184	£105
Non-executive directors								
A J Hobson	£250	–	–	–	£250	£127	–	–
J M Horn-Smith[2]	–	–	–	–	–	£454	–	–
T Ingram	£45	–	–	–	£45	£45	–	–
T C W Ingram	£62	–	–	–	£62	£59	–	–
R Markland	£52	–	–	–	£52	£52	–	–
I Mason[3]	£48	–	–	–	£48	–	–	–
M E Rolfe[4]	£47	–	–	–	£47	–	–	–

Notes:

1 Ceased to be a member of the Board, and contract terminated on 11 October 2007. Therefore, the figure above represents the fees paid to him whilst a director ($23,356) and the payment in lieu of notice due to him ($608,875).
2 Ceased to be a member of the Board on 26 April 2007.
3 Appointed 1 November 2007.
4 Appointed 1 December 2007.
5 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 December 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 ending 30 September 2009.
6 Benefits in kind include the provision of car allowance and insurance.
7 Retirement benefits were accruing to four directors (2007: four). All pension contributions accrued under money purchase schemes.

- Apart from the payment in lieu of notice to Mr R Verni referred to in note 1 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 £4,893,000 (2007: £5,001,000).
- 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 £1,307,000 (2007: £1,459,000).
- In the table above exchange rates of $1.97/£1 and €1.31/£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 employee share schemes in any ten year period. The limits and the Group's current position against those limits as at 17 December 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	5.4% used
10% of Group's share capital can be used for all share schemes	5.9% used

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 2007 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2008 number**	Date exercisable
G S Berruyer	136.00p	350,000	–	(350,000)	–	**–**	16 December 2001 – 16 December 2008
	329.75p	121,304	–	–	–	**121,304**	17 January 2004 – 17 January 2011
	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
	214.00p	–	218,545	–	–	**218,545**	10 January 2011 – 10 January 2018
		1,131,211	**218,545**	**(350,000)**	**–**	**999,756**	
D H Clayton	214.00p	–	156,542	–	–	**156,542**	10 January 2011 – 10 January 2018
		–	**156,542**	**–**	**–**	**156,542**	
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
	214.00p	–	156,542	–	–	**156,542**	10 January 2011 – 10 January 2018
		839,227	**156,542**	**(60,000)**	**–**	**935,769**	
P L Stobart	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
	214.00p	–	198,598	–	–	**198,598**	10 January 2011 – 10 January 2018
		997,557	**198,598**	**–**	**–**	**1,196,155**	
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
		1,311,883	**–**	**(808,727)**	**(503,156)**	**–**	

Executive share options (continued)

Director	Exercise price per share	Shares under option at 1 October 2007 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2008 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
	214.00p	–	343,457	–	–	**343,457**	10 January 2011 – 10 January 2018
		2,014,079	**343,457**	**–**	**–**	**2,357,536**	
Total		**6,293,957**	**1,073,684**	**(1,218,727)**	**(503,156)**	**5,645,758**	

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 – 1 September 2008 was 208.64p.
– P S Harrison – 22 September 2008 was 214.91p.
– R Verni – 25 January 2008 was 215.75p (option price 134.00p).
– R Verni – 1 February 2008 was 230.50p (option price 134.00p).
– R Verni – 9 May 2008 was 214.75p (option prices 134.00p, 171.00p, 198.00p and 204.50p).

- The market price of a share of the Company at 30 September 2008 was 195.30p and the lowest and highest market price during the year was 187.10p and 251.75p respectively.
- Total gains on the exercise of share options were £684,275 (2007: £1,736,952), including £684,275 (2007: £1,736,952) on executive share options.
- The table above does not show exercises of options after 30 September 2008 which are referred to in the notes to the table in paragraph 5.5 below.
- On termination of his contract on 11 October 2007, the Committee permitted Mr R Verni to exercise any vested share options for a period of six months following the termination date.
- Options which vested during the 12 months following the termination date of Mr R Verni, where the performance period for those options had ended prior to the termination date were permitted to be exercised within six months of their vesting date.

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 2007 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2008 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 2007 14,801.8 units were held by Mr G S Berruyer at a price of €3.89 per share. On 30 September 2008 16,566.38 units were held at a price of €2.668 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 1 October 2007 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Awarded 30 September 2008 number**	Vesting date
G S Berruyer	178,903	–	(77,956)	(100,947)	**–**	18 March 2008
	147,748	–	–	–	**147,748**	10 January 2009
	147,639	–	–	–	**147,639**	10 January 2010
	–	361,647	–	–	**361,647**	3 March 2011
	474,290	**361,647**	**(77,956)**	**(100,947)**	**657,034**	
D H Clayton	–	253,787	–	–	**253,787**	3 March 2011
	–	**253,787**	**–**	**–**	**253,787**	
P S Harrison	128,329	–	(55,918)	(72,411)	**–**	18 March 2008
	116,054	–	–	–	**116,054**	10 January 2009
	118,519	–	–	–	**118,519**	10 January 2010
	–	253,787	–	–	**253,787**	3 March 2011
	362,902	**253,787**	**(55,918)**	**(72,411)**	**488,360**	
P L Stobart	174,334	–	(75,965)	(98,369)	**–**	18 March 2008
	146,228	–	–	–	**146,228**	10 January 2009
	148,889	–	–	–	**148,889**	10 January 2010
	–	321,969	–	–	**321,969**	3 March 2011
	469,451	**321,969**	**(75,965)**	**(98,369)**	**617,086**	
R Verni	166,118	–	(72,386)	(93,732)	**–**	18 March 2008
	151,975	–	–	(151,975)	**–**	10 January 2009
	140,846	–	–	(140,846)	**–**	10 January 2010
	458,939	**–**	**(72,386)**	**(386,553)**	**–**	
P A Walker	302,663	–	(131,885)	(170,778)	**–**	18 March 2008
	253,771	–	–	–	**253,771**	10 January 2009
	258,889	–	–	–	**258,889**	10 January 2010
	–	556,818	–	–	**556,818**	3 March 2011
	815,323	**556,818**	**(131,885)**	**(170,778)**	**1,069,478**	
Total	**2,580,905**	**1,748,008**	**(414,110)**	**(829,058)**	**3,085,745**	

Notes:
- No variations were made in the terms of the awards in the year.
- The market price of a share on 3 March 2008, the date of the awards made in the year ended 30 September 2008 was 198.00p.
- For awards which vested in the year ended 30 September 2008, the market price on the date of award (18 March 2005) was 206.50p. The market price of a share on 18 March 2008, the vesting date of these awards was 192.90p.
- 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 (other than for awards in March 2008 where 25% 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. For awards made in 2005, TSR performance was such that 40.7% of shares originally awarded vested to executive directors.
- 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. For those vesting in 2011 the group comprised: Adobe Systems, ARM Holdings, Autonomy, Blackbaud, Cap Gemini, Cegid, Dassault Systemes, Exact, Intuit, Lawson Software, LogicaCMG, Micro Focus International, Microsoft, Misys, MYOB, Oracle, Salesforce.com, SAP and Software AG.
- The Committee permitted only the 2005 PSP award to vest to Ron Verni following the termination of his contract on 11 October 2007 as the vesting would have occurred during the 12 months following termination and the performance period relevant to the award was complete. His award was subject to the same performance criteria as all other PSP awards made to executive directors.

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 2007 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	**Shares at 30 September 2008 number**	Vesting date
G S Berruyer	11,736	–	–	–	**11,736**	10 January 2009
	10,815	–	–	–	**10,815**	10 January 2010
	–	14,714	–	–	**14,714**	10 January 2011
	22,551	**14,714**	**–**	**–**	**37,265**	
P S Harrison	8,418	–	–	–	**8,418**	10 January 2009
	10,187	–	–	–	**10,187**	10 January 2010
	–	11,495	–	–	**11,495**	10 January 2011
	18,605	**11,495**	**–**	**–**	**30,100**	
P L Stobart	3,524	–	–	–	**3,524**	10 January 2009
	3,878	–	–	–	**3,878**	10 January 2010
	–	8,401	–	–	**8,401**	10 January 2011
	7,402	**8,401**	**–**	**–**	**15,803**	
R Verni	17,693	–	(17,693)	–	**–**	10 January 2009
	10,715	–	–	(10,715)	**–**	10 January 2010
	28,408	**–**	**(17,693)**	**(10,715)**	**–**	
P A Walker	19,853	–	–	–	**19,853**	10 January 2009
	22,275	–	–	–	**22,275**	10 January 2010
	–	25,111	–	–	**25,111**	10 January 2011
	42,128	**25,111**	**–**	**–**	**67,239**	
Total	**119,094**	**59,721**	**(17,693)**	**(10,715)**	**150,407**	

Notes:

- Following the termination of Mr R Verni's contract on 11 October 2007, the Committee permitted the vesting of the 2006 Deferred Shares award only.
- 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 further performance conditions once granted.
- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 January 2008, the date of the award, was 214.00p.

5.5 Interests in shares

The interests of each person who was a director of the Company as at 30 September 2008 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2008 number	Ordinary shares at 30 September 2007 number
G S Berruyer	**301,836**	223,880
D H Clayton	**31,000**	31,000
P S Harrison	**41,065**	8,437
A J Hobson	**24,126**	24,126
T Ingram	**3,600**	3,600
T C W Ingram	**33,552**	33,552
R Markland	**5,000**	5,000
I Mason	**10,000**	–
M E Rolfe	**10,000**	–
P L Stobart	**67,803**	23,477
P A Walker	**6,201,657**	6,069,772
Total	**6,729,639**	6,422,844

Notes:

• There have been no changes in the directors' holdings in the share capital of the Company between 30 September 2008 and 17 December 2008 other than those referred to in the note below:

– On 10 December 2008 Mr P A Walker exercised options under the terms of The Sage Group (No. 2) Executive Share Option Scheme over 440,000 ordinary shares at an option price of 136.00p per share. He subsequently sold on that day 440,000 ordinary shares at an average price of 179.90p per share.

5.6 Significant awards to past directors

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

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

T C W Ingram
Chairman of the Remuneration Committee
17 December 2008

Consolidated income statement

For the year ended 30 September 2008

	Note	2008 £m	2007 £m
Revenue	1	**1,295.0**	1,157.6
Cost of sales		**(94.0)**	(103.7)
Gross profit		**1,201.0**	1,053.9
Selling and administrative expenses		**(933.6)**	(798.7)
Operating profit	1,3	**267.4**	255.2
Finance income	2	**3.8**	3.6
Finance expenses	2	**(30.2)**	(35.5)
Net finance expenses	2	**(26.4)**	(31.9)
Profit before taxation		**241.0**	223.3
Taxation	4	**(74.7)**	(69.2)
Profit for the year – attributable to equity shareholders	22,23	**166.3**	154.1
EBITA*	1	**299.8**	283.2
Earnings per share (pence)			
– Basic	6	**12.73p**	11.85p
– Diluted	6	**12.69p**	11.79p

Consolidated statement of recognised income and expense

For the year ended 30 September 2008

	Note	2008 £m	2007 £m
Profit for the year	22,23	**166.3**	154.1
Net exchange adjustments offset in reserves	21,23	**117.1**	(51.6)
Equity movement of deferred tax	17,22,23	**(0.2)**	(3.3)
Actuarial gain/(loss) on employment benefits	22,23	**3.1**	(1.2)
Net gains/(losses) not recognised in income statement		**120.0**	(56.1)
Total recognised income for the year – attributable to equity shareholders		**286.3**	98.0

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

Consolidated balance sheet

As at 30 September 2008

	Note	2008 £m	2007 Restated £m
Non-current assets			
Goodwill	7	**1,825.5**	1,567.0
Other intangible assets	8	**223.7**	200.6
Property, plant and equipment	9	**140.5**	130.5
Deferred tax assets	17	**5.2**	8.3
		2,194.9	1,906.4
Current assets			
Inventories	10	**5.4**	5.5
Trade and other receivables	11	**267.6**	230.3
Cash and cash equivalents	12	**70.1**	65.6
		343.1	301.4
Total assets		**2,538.0**	2,207.8
Current liabilities			
Trade and other payables	13	**(247.2)**	(210.2)
Current tax liabilities		**(69.2)**	(56.3)
Financial liabilities			
– Borrowings	15	**(13.9)**	(0.3)
Deferred consideration		**(2.6)**	(8.5)
Deferred income	14	**(352.2)**	(300.2)
		(685.1)	(575.5)
Non-current liabilities			
Financial liabilities			
– Borrowings	15	**(575.2)**	(562.0)
Retirement benefit obligations	28	**(3.9)**	(5.3)
Deferred tax liabilities	17	**(26.8)**	(14.2)
		(605.9)	(581.5)
Total liabilities		**(1,291.0)**	(1,157.0)
Net assets		**1,247.0**	1,050.8
Equity			
Share capital	18	**13.1**	13.0
Share premium account	20	**486.6**	478.2
Other reserves	21	**109.2**	(7.9)
Retained earnings	22	**638.1**	567.5
Total equity	23	**1,247.0**	1,050.8

The consolidated financial statements on pages 66 to 105 were approved by the Board of Directors on 17 December 2008 and are signed on their behalf by:

P A Walker
Director

P S Harrison
Director

Consolidated cash flow statement
For the year ended 30 September 2008

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from continuing operations	25	**342.0**	317.1
Interest received	2	**3.8**	3.6
Interest paid	2	**(29.2)**	(34.4)
Tax paid		**(62.5)**	(66.1)
Net cash generated from operating activities		**254.1**	220.2
Cash flows from investing activities			
Acquisitions of subsidiaries (net of cash acquired)	26(g)	**(81.1)**	(96.2)
Disposal of subsidiaries		**–**	0.9
Purchase of intangible assets	8	**(15.4)**	(15.9)
Purchase of property, plant and equipment	9	**(25.0)**	(22.1)
Proceeds from sale of property, plant and equipment		**1.8**	0.2
Net cash used in investing activities		**(119.7)**	(133.1)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**8.5**	15.0
Finance lease principal payments	25	**(0.1)**	(0.2)
Issue costs on loans	25	**(0.3)**	(0.2)
Repayment of borrowings	25	**(233.5)**	(189.0)
New borrowings	25	**193.9**	122.2
Dividends paid to shareholders	5	**(106.2)**	(49.0)
Net cash used in financing activities		**(137.7)**	(101.2)
Net decrease in cash and cash equivalents (before exchange rate changes)		**(3.3)**	(14.1)
Effects of exchange rate changes	25	**7.8**	(2.3)
Net increase/(decrease) in cash and cash equivalents		**4.5**	(16.4)
Cash and cash equivalents at 1 October		**65.6**	82.0
Cash and cash equivalents at 30 September	12	**70.1**	65.6

Notes to the accounts – Group
For the year ended 30 September 2008

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 26 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 17 December 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 except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relates to IAS 19, "Employee Benefits" and IFRS 2, "Share-based Payment".

Balance sheet restatement
When the accounting for acquisitions is provisional at a year end date and is then finalised within 12 months, the carrying amount of the assets and associated goodwill is accounted for at the revised level from the original acquisition date. Comparative information presented for the periods before the accounting is complete, is presented as if the initial accounting had been complete from the acquisition date. As a result the Consolidated balance sheet as at 30 September 2007 has been restated to reflect the final accounting. The impact of the restatement has been to reduce goodwill by £5.1m, and increase other intangible assets by £5.1m. There is no impact on the Consolidated income statement for the year ended 30 September 2007.

Standards, amendment and interpretations effective in 2008
IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of Financial Statements – Capital Disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group financial instruments, or the disclosures relating to taxation.

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 control. 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, "Business Combinations" 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 reports revenue under two revenue categories:

- Subscription revenues, which are recurring in nature and include combined software/support contracts, maintenance and support, transaction revenues (payment and health insurance claims processing) and hosted products; and
- Software and software-related services revenue, which includes software licences, sale of professional services, business forms, hardware and training.

Subscriptions – revenue is recognised on a straight-line basis over the term of the subscription contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

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.

Group accounting policies (continued)

d Revenue recognition (continued)
Where appropriate the Group provides a reserve for estimated returns under the standard acceptance terms at the time the revenue is recorded.

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.

Other products (which includes business forms and hardware) – revenue is recognised as the products are shipped.

Other services (which includes the sale of professional services and training) – 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.

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 is carried at cost less accumulated impairment losses. Goodwill previously written-off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates. Gains and losses on disposal of the entity includes the carrying amount of the foreign exchange on the goodwill relating to the entity sold (except for goodwill taken to reserves prior to the transition to IFRS on 1 October 2004).

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 brands, technology and/or customer related contractual cash flows exist, along with any other intangibles acquired on a business combination, and their fair value can therefore be measured reliably.

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 – 4 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 seven 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 Financial assets
The Group classifies its financial assets in the category loans and receivables. This classification is due to the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables (excluding prepayments and accrued income) and cash and cash equivalents in the balance sheet (note n).

n 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.

o 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 at 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, 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.

p Financial instruments and hedge accounting
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 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 hedging or trading purposes.

The only hedging undertaken by the Group are net investment hedges, using foreign currency borrowings. 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.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Group accounting policies (continued)

q 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 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, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1, "First-time Adoption of International Financial Reporting".

r 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.

s Leasing

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. 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.

t Retirement benefit costs

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

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.

u 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.

At each Balance sheet date, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the Income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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

w 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.

x 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.

y 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 and early adoption has not been applied.

International Financial Reporting Standards ("IFRS")
- IFRS 8, "Operating Segments" (this has been adopted by the EU)
- IFRS 3 (Revised), "Business Combinations"
- IAS 1 (Revised), "Presentation of Financial Statements"
- IAS 27 (Revised), "Consolidated and Separate Financial Statements"

International Financial Reporting Interpretations Committee ("IFRIC") interpretations
- IFRIC 12, "Service Concession Arrangements"
- IFRIC 13, "Customer Loyalty Programmes"
- IFRIC 14, "IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- IFRIC 15, "Agreements for Construction of Real Estates"
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

Amendments to existing standards
- Amendment to IAS 23 – "Borrowing Costs"
- Amendment to IAS 32 – "Financial Instruments: Presentation – Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation"
- Amendment to IFRS 1 and IAS 27 – "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate"
- Amendment to IAS 39 and IFRS 7 – "Reclassification of Financial Assets"
- Amendment to IAS 39 – "Eligible Hedged Items"
- Amendment to IFRS 2 – "Vesting Conditions and Cancellations"
- IFRS Annual Improvements

All the IFRSs, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the EU at the date of approval of these consolidated financial statements with the exception of IFRS 8 and the amendment to IAS 39 and IFRS 7.

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.

z 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 2008	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		245.7	457.3	500.9	91.1	1,295.0
Segment operating profit	3	84.5	87.8	71.9	23.2	267.4
Finance income	2					3.8
Finance expenses	2					(30.2)
Profit before taxation						241.0
Taxation	4					(74.7)
Profit for the year from continuing operations						166.3
The primary segment assets and liabilities were as follows:						
Segment assets		419.0	655.7	1,347.0	116.3	2,538.0
Segment liabilities		(183.7)	(269.1)	(221.8)	(41.5)	(716.1)
Segment net assets		235.3	386.6	1,125.2	74.8	1,821.9
Unallocated liabilities						
– Corporate borrowings						(574.9)
Total net assets						1,247.0
Other segmental information in respect of the primary segments was as follows:						
Capital expenditure – property, plant and equipment	9	7.8	7.4	7.8	2.0	25.0
Capital expenditure – intangible fixed assets	8	0.1	3.2	12.1	–	15.4
Depreciation	9	7.2	4.5	5.1	1.7	18.5
Amortisation of intangible assets	8	4.2	13.6	18.7	0.2	36.7
Other non-cash expenses – share-based payments	19	2.8	2.2	2.1	0.5	7.6

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

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)	2008 £m	2007 £m
Operating profit	**267.4**	255.2
Amortisation of acquired intangible assets	**31.8**	27.2
Net amortisation of software development expenditure	**0.6**	0.8
EBITA*	**299.8**	283.2

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

1 Segmental reporting (continued)

Secondary reporting format – business segment

The business segments identified are: Accounting; industry-specific; HR and payroll; CRM and payment processing.

	Revenue 2008 £m	Revenue 2007 £m	Segment assets 2008 £m	Segment assets 2007 £m	Capital expenditure 2008 £m	Capital expenditure 2007 £m
Continuing operations						
Accounting	**713.7**	561.7	**1,398.7**	1,071.3	**22.3**	18.4
Industry-specific	**314.6**	342.5	**616.6**	653.2	**9.8**	11.2
HR and payroll	**145.2**	139.4	**284.6**	265.9	**4.5**	4.6
CRM	**68.7**	66.4	**134.6**	126.6	**2.1**	2.2
Payment processing	**52.8**	47.6	**103.5**	90.8	**1.7**	1.6
	1,295.0	1,157.6	**2,538.0**	2,207.8	**40.4**	38.0

Analysis of revenue	Revenue 2008 £m	Revenue 2007 £m
Software and software-related services	**509.3**	476.6
Subscription	**785.7**	681.0
	1,295.0	1,157.6

2 Net finance expenses

	2008 £m	2007 £m
Finance income – interest income on short-term deposits	**3.8**	3.6
Finance expenses:		
Finance costs on bank borrowings	**(29.2)**	(34.4)
Amortisation of issue costs	**(1.0)**	(1.1)
	(30.2)	(35.5)
Net finance expenses	**(26.4)**	(31.9)

3 Operating profit

The following items have been included in arriving at operating profit	Note	2008 £m	2007 £m
Staff costs	27	**595.5**	511.5
Inventories			
– Cost of inventories recognised as an expense (included in cost of sales)	10	**39.9**	35.9
Depreciation of property, plant and equipment			
– Owned assets	9	**18.3**	16.1
– Under finance leases	9	**0.2**	0.1
Amortisation of intangible assets (excluding amortisation of development expenditure)	8	**36.1**	32.7
Amortisation of development expenditure	8	**0.6**	0.8
Loss on disposal of property, plant and equipment		**–**	1.3
Loss on disposal of intangible assets		**–**	0.5
Other operating lease rentals payable			
– Plant and machinery		**0.7**	3.4
– Property		**27.5**	17.6
Repairs and maintenance expenditure on property, plant and equipment		**5.6**	3.0
Research and development expenditure		**139.7**	111.4

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:

	2008 £m	2007 £m
Audit services		
– Fees payable to the Company auditor for the audit of parent Company and consolidated accounts	**1.5**	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**	0.2
– Other non-tax compliance services	**0.2**	0.2
– Tax services and tax compliance work	**1.8**	1.3
	3.7	3.0

The total audit fee for the Group, including the audit of overseas subsidiaries was £1.7m (2007: £1.5m). Other services include interim review costs and are therefore closely associated with the audit.

The Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on pages 50 and 51.

4 Taxation

Analysis of charge in the year	2008 £m	2007 £m
Current tax		
– Current year	**74.9**	60.3
– Adjustment in respect of prior year	**0.5**	(1.3)
	75.4	59.0
Deferred tax (note 17)	**(0.7)**	10.2
Taxation	**74.7**	69.2

Tax on items (credited)/charged to equity	2008 £m	2007 £m
Deferred tax charge on share options	**0.2**	3.3
Current tax credit on exchange adjustments	**(4.6)**	–
Total tax on items (credited)/charged to equity	**(4.4)**	3.3

The tax for the year is higher (2007: higher) than the standard rate of corporation tax in the UK 29% (2007: 30%). The differences are explained below:	2008 £m	2007 £m
Profit on ordinary activities before taxation	**241.0**	223.3
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 29% (2007: 30%)	**69.9**	67.0
Effects of:		
Adjustment in respect of prior year	**0.5**	(1.3)
Adjustment in respect of foreign tax rates	**5.8**	7.1
Expenses not deductible for tax purposes and other permanent differences	**(0.4)**	(4.2)
Other	**(1.1)**	0.6
Total taxation	**74.7**	69.2

5 Dividends

	2008 £m	2007 £m
Final dividend paid for the year ended 30 September 2007 of 5.73p per share	74.5	–
(2007: final dividend paid for the year ended 30 September 2006 of 2.51p per share)	–	32.4
Interim dividend paid for the year ended 30 September 2008 of 2.43p per share	31.7	–
(2007: interim dividend paid for the year ended 30 September 2007 of 1.27p per share)	–	16.6
	106.2	49.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2008 of 4.78p per share which will absorb an estimated £62.6m of shareholders' funds. It will be paid on 6 March 2009 to shareholders who are on the register of members on 6 February 2009. 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 2008, 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:

	2008			2007		
	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	166.3	1,306.5	12.73	154.1	1,299.9	11.85
Effect of dilutive securities						
Options	–	3.8	(0.04)	–	7.1	(0.06)
Diluted EPS	166.3	1,310.3	12.69	154.1	1,307.0	11.79

Adjusted EPS – Non GAAP measure

	2008			2007		
	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	166.3	1,306.5	12.73	154.1	1,299.9	11.85
Non GAAP items:						
Intangible asset amortisation excluding amortisation of computer software	32.4			28.0		
Taxation	(10.0)			(8.7)		
Net adjustments	22.4		1.71	19.3		1.49
Adjusted basic EPS	188.7	1,306.5	14.44	173.4	1,299.9	13.34
Exchange adjustments						
Exchange adjustments				13.8		
Taxation				(4.3)		
Net exchange adjustments				9.5		0.73
Adjusted basic EPS (after exchange adjustments)	188.7	1,306.5	14.44	182.9	1,299.9	14.07
Effect of dilutive securities						
Options		3.8	(0.04)		7.1	(0.08)
Adjusted diluted EPS (after exchange adjustments)	188.7	1,310.3	14.40	182.9	1,307.0	13.99

Exchange adjustments relate to the retranslation of prior year results to current year exchange rates as shown in the table on page 38 within the Financial review.

7 Goodwill

	Note	2008 £m	2007 Restated £m
Cost			
At 1 October		1,567.0	1,561.9
Additions	26(h)	67.2	90.3
Disposals		–	(0.9)
Exchange adjustments		191.3	(79.2)
At 30 September – as reported		1,825.5	1,572.1
Prior period restatement		–	(5.1)
At 30 September – as restated		1,825.5	1,567.0
Aggregate impairment at 1 October and 30 September		–	–
Net book amount at 30 September – as reported		1,825.5	1,572.1
Prior period restatement		–	(5.1)
Net book amount at 30 September – as restated		1,825.5	1,567.0

7 Goodwill (continued)

Details of acquisitions 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.

Details of the restatement are included in the Group accounting policies on page 69.

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:	**2008 £m**	2007 Restated £m
UK & Ireland	**213.2**	181.1
France	**251.9**	198.1
Germany	**24.8**	22.0
Switzerland	**32.1**	26.9
Poland	**8.0**	6.4
Spain	**116.1**	94.5
North America	**1,103.7**	969.4
South Africa	**34.1**	31.3
Australia	**24.7**	22.7
Asia	**16.9**	14.6
	1,825.5	1,567.0

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 the 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 5.9% (2007: 6.4%) to 11.4% (2007: 10.5%).
- 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 8% (2007: 18%) to 47% (2007: 45%).
- 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% (2007: 1.0%) to 5.0% (2007: 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 2007	**34.0**	**70.7**	**0.3**	**4.7**	**38.2**	**112.5**	**260.4**
Additions	**–**	**–**	**–**	**–**	**14.8**	**0.6**	**15.4**
Acquisitions – through business combinations	**1.5**	**8.9**	**–**	**–**	**0.2**	**8.8**	**19.4**
Transfers	**–**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Disposals	**–**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Exchange adjustments	**4.9**	**9.2**	**–**	**0.4**	**7.5**	**14.6**	**36.6**
At 30 September 2008	**40.4**	**88.8**	**0.3**	**5.1**	**60.4**	**136.5**	**331.5**
Aggregate amortisation							
At 1 October 2007	**4.5**	**16.1**	**0.1**	**3.2**	**14.2**	**21.7**	**59.8**
Charge for the year	**2.8**	**11.9**	**0.1**	**0.6**	**4.3**	**17.0**	**36.7**
Acquisitions	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Disposals	**–**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Exchange adjustments	**0.9**	**2.9**	**(0.1)**	**0.3**	**3.2**	**4.3**	**11.5**
At 30 September 2008	**8.2**	**30.9**	**0.1**	**4.1**	**21.5**	**43.0**	**107.8**
Net book amount at 30 September 2008	**32.2**	**57.9**	**0.2**	**1.0**	**38.9**	**93.5**	**223.7**

Restated	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 – as reported	34.0	72.9	0.3	4.7	38.2	105.2	255.3
Prior period restatement	–	(2.2)	–	–	–	7.3	5.1
At 30 September 2007 – as restated	34.0	70.7	0.3	4.7	38.2	112.5	260.4
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 – as reported	29.5	56.8	0.2	1.5	24.0	83.5	195.5
Prior period restatement	–	(2.2)	–	–	–	7.3	5.1
Net book amount at 30 September 2007 – as restated	29.5	54.6	0.2	1.5	24.0	90.8	200.6

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. Details of the restatement are included in the Group accounting policies on page 69.

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 2007	**91.8**	**115.4**	**39.4**	**246.6**
Additions at cost	**0.1**	**19.9**	**5.0**	**25.0**
Acquisitions	**0.4**	**1.8**	**1.0**	**3.2**
Disposals	**(1.2)**	**(4.6)**	**(1.5)**	**(7.3)**
Transfers	**–**	**(0.1)**	**–**	**(0.1)**
Exchange adjustments	**2.2**	**10.1**	**3.4**	**15.7**
At 30 September 2008	**93.3**	**142.5**	**47.3**	**283.1**
Accumulated depreciation				
At 1 October 2007	**5.9**	**82.7**	**27.5**	**116.1**
Charge for the year	**1.0**	**13.7**	**3.8**	**18.5**
Acquisitions	**0.2**	**1.6**	**0.8**	**2.6**
Disposals	**–**	**(4.4)**	**(1.1)**	**(5.5)**
Exchange adjustments	**0.4**	**8.0**	**2.5**	**10.9**
At 30 September 2008	**7.5**	**101.6**	**33.5**	**142.6**
Net book amount at 30 September 2008	**85.8**	**40.9**	**13.8**	**140.5**

	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

Depreciation expense of £18.5m (2007: £16.2m) have been charged through selling and administrative expenses (note 3).

Lease rentals amounting to £0.7m (2007: £3.4m) and £27.5m (2007: £17.6m) relating to the lease of plant and machinery and property respectively are included in the income statement (note 3).

Assets held under finance leases have the following net book amount:	2008 £m	2007 £m
Cost	1.3	0.6
Accumulated depreciation	(0.5)	(0.3)
Net book amount	0.8	0.3

Included in assets held under finance leases are plant and equipment with a net book amount of £0.5m (2007: £0.3m) and vehicles £0.3m (2007: £nil).

10 Inventories

	2008 £m	2007 £m
Materials	1.2	1.8
Finished goods	4.2	3.7
	5.4	5.5

The Group consumed £39.9m (2007: £35.9m) 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:	2008 £m	2007 £m
Trade receivables	255.0	226.5
Less: provision for impairment of receivables	(28.0)	(25.8)
Trade receivables – net	227.0	200.7
Other receivables	23.2	15.5
Prepayments and accrued income	17.4	14.1
	267.6	230.3

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties. The directors estimate that the carrying value of financial assets within trade and other receivables approximated their fair value.

The Group considers the credit quality of trade and other receivables by geographical location. The Group consider that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets. This is considered to be the case as there is a low risk of default due to the high number of recurring customers and credit control policies, thus the carrying value is expected to be the final value received.

Trade and other receivables by geographical location:	2008 £m	2007 £m
UK & Ireland	77.0	76.7
Mainland Europe	96.8	69.4
North America	62.0	57.8
Rest of World	14.4	12.3
	250.2	216.2

Movements on the Group provision for impairment of trade receivables were as follows:	2008 £m	2007 £m
At 1 October	25.8	23.0
Acquisition of subsidiaries	0.4	0.3
Increase in provision for receivables impairment	7.7	7.7
Receivables written-off during the year as uncollectible	(4.5)	(4.3)
Unused amounts reversed	(4.4)	(1.3)
Exchange adjustments	3.0	0.4
At 30 September	28.0	25.8

11 Trade and other receivables (continued)

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in the circumstances of the individual receivables. The directors believe that there is no further provision required in excess of the allowance for doubtful debts.

The creation and release of provision for impaired receivables have been included in selling and administrative expenses in the income statement. Amounts charged to the allowance account are generally written-off when there is no expectation of recovering additional cash.

At 30 September 2008, trade receivables of £52.5m (2007: £38.9m) were either partially or fully impaired.

The ageing of these receivables was as follows:	**2008 £m**	2007 £m
Not due	**7.5**	7.8
Less than six months past due	**25.0**	14.2
More than six months past due	**20.0**	16.9
	52.5	38.9

Trade receivables which were past their due date but not impaired at 30 September 2008 were £65.4m (2007: £53.8m).

The ageing of these receivables was as follows:	**2008 £m**	2007 £m
Less than six months past due	**60.8**	49.4
More than six months past due	**4.6**	4.4
	65.4	53.8

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above, the Group held no collateral as security. The directors estimate that the carrying value of trade receivables approximated their fair value.

12 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise:	**2008 £m**	2007 £m
Cash at bank and in hand	**69.8**	64.3
Short-term bank deposits	**0.3**	1.3
	70.1	65.6

The effective interest rate on short-term deposits was 3.2% (2007: 5.0%) and these deposits have an average maturity of 30 days (2007: 44 days).

Group's credit risk on cash and cash equivalents is limited because the counterparties are well established banks with high credit ratings.

13 Trade and other payables – current

	2008 £m	2007 £m
Trade payables	**66.5**	54.9
Other tax and social security payable	**71.6**	60.7
Accruals	**109.1**	94.6
	247.2	210.2

14 Deferred income

	2008 £m	2007 £m
Deferred income	**352.2**	300.2

Revenue not recognised in the income statement under the Group accounting policy for revenue recognition is classified as deferred income in the balance sheet to be recognised in future periods.

15 Financial liabilities – borrowings

Current	2008 £m	2007 £m
Bank loans due within one year of demand:		
Unsecured	**13.6**	0.2
	13.6	0.2
Finance lease obligations	**0.3**	0.1
	13.9	0.3

Non-current	2008 £m	2007 £m
Bank loans:		
Secured (a)	**–**	0.6
Unsecured	**575.0**	561.3
	575.0	561.9
Finance lease obligations	**0.2**	0.1
	575.2	562.0

(a) The bank loans were 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 £575.0m (2007: £561.5m) 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 by 13 January 2011 (with £100.0m amortising a year earlier).

In the table above, loans are stated net of unamortised issue costs of £0.5m (2007: £1.0m). The Group has incurred total issue costs of £7.6m (2007: £7.3m) in respect of these facilities. These costs are allocated to the income statement over the term of the facility using the effective interest method.

Unsecured borrowings were drawn in the following currencies: Sterling £75.3m (2007: £nil); US Dollar £290.6m (2007: £314.2m), Euro £208.8m (2007: £235.9m) and Swiss Franc £13.9m (2007: £11.4m) and bear interest at a rate of 0.45% (2007: 0.45%) above LIBOR.

16 Financial instruments

Numerical financial instruments disclosures are set out below and also in note 25.

Fair values of financial instruments

For the following financial assets and liabilities: long-term borrowings, short-term borrowings, trade and other payables excluding other tax and social security, trade and other receivables excluding prepayments, short-term bank 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.

		2008		2007	
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowings	15	**(575.2)**	**(575.2)**	(562.0)	(562.0)
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	**(13.9)**	**(13.9)**	(0.3)	(0.3)
Trade and other payables excluding other tax and social security	13	**(175.6)**	**(175.6)**	(149.5)	(149.5)
Trade and other receivables excluding prepayments	11	**250.2**	**250.2**	216.2	216.2
Short-term bank deposits	12	**0.3**	**0.3**	1.3	1.3
Cash at bank and in hand	12	**69.8**	**69.8**	64.3	64.3

16 Financial instruments (continued)

Risk management

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

Capital risk

The Group's objectives when managing capital (defined as net debt (note 25) plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, with respect to changes in economic conditions and the strategic objectives of the Group.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital (see below).

The Group's Treasury function has a policy of reducing the level of cash in the business in order to minimise external borrowings.

Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities at 30 September was as follows:

	2008			2007		
	Borrowings £m	Trade and other payables £m	Total £m	Borrowings £m	Trade and other payables £m	Total £m
In less than one year	13.9	247.2	261.1	0.3	210.2	210.5
In more than one year but not more than two years	0.2	–	0.2	0.1	–	0.1
In more than two years but not more than five years	639.9	–	639.9	666.2	–	666.2
	654.0	247.2	901.2	666.6	210.2	876.8

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:

	2008 Total £m	2007 Total £m
Expiring within one year	–	–
Expiring between one and two years	–	–
Expiring in more than two years	274.6	287.7
	274.6	287.7

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.

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Group in relation to lending, settlement and other financial activities.

The Group's principal financial assets are trade and other receivables and bank balances and cash.

The Group's credit risk primarily arises from trade and other receivables. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Group has a very low credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Audit Committee approved Group Treasury Policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. The Group does not hold collateral over any of these financial assets.

Interest rate risk
The Group is exposed to cash flow interest rate risk on floating rate bank loans and overdrafts. At 30 September 2008, the Group had drawn down £575.4m (2007: £562.3m) from its committed revolving credit facility. The Group regularly reviews the interest rates to mitigate this risk, which are rebased on a monthly basis and seeks to fix interest rates on a portion of its debt when market conditions make this desirable. At 30 September 2008, all outstanding debt was held at variable rates.

Foreign currency risk
Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate because of the changes in foreign exchange rates. The Group's foreign currency exposures are principally to the US Dollar and Euro.

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 2008 was £290.6m (2007: £314.2m), the Euro borrowings £203.5m (2007: £235.9m) and Swiss Franc borrowings £13.9m (2007: £11.4m). The foreign exchange loss of £71.7m (2007: gain of £33.8m) on translation of the borrowings into Sterling has been recognised in exchange reserves.

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 2008 and 30 September 2007, these exposures were immaterial to the Group.

Sensitivity analysis as at 30 September 2008
Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7, "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being UK, US Dollar and Euro interest rates, and US Dollar/Sterling and Euro/Sterling exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in LIBOR to be 1%, based on interest rate history. Similarly, sensitivity to movements in US Dollar/Sterling and Euro/Sterling exchange rates of 10% are shown reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on the Consolidated income statement and equity.

	2008		2007	
	Income gains/(losses) £m	**Equity gains/(losses) £m**	Income gains/(losses) £m	Equity gains/(losses) £m
LIBOR rate interest rates 1% increase	**(6.0)**	**(6.0)**	(6.1)	(6.1)
LIBOR rate interest rates 1% decrease	**6.0**	**6.0**	6.1	6.1
US Dollar/Sterling exchange rates 10% increase	**8.2**	**78.2**	9.2	63.7
Euro/Sterling exchange rates 10% increase	**9.2**	**18.3**	7.0	14.6
US Dollar/Sterling exchange rates 10% decrease	**(8.9)**	**(86.0)**	(10.2)	(70.0)
Euro/Sterling exchange rates 10% decrease	**(10.1)**	**(20.1)**	(7.7)	(16.1)

The minimum lease payments under finance leases fall due as follows:	**2008 Total £m**	2007 Total £m
Not later than one year	**0.3**	0.1
Later than one year but not more than five years	**0.2**	0.1
	0.5	0.2
Future finance charges on finance leases	**–**	–
Present value of finance lease liabilities	**0.5**	0.2

17 Deferred tax

Deferred tax has been calculated at 28% (2007: 28%) 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:	2008 £m	2007 £m
At 1 October	(5.9)	16.3
Acquisition of subsidiary	(6.2)	(8.5)
Transfer to current tax liabilities	(8.2)	–
Income statement credit	0.7	(10.2)
Exchange differences	(1.8)	(0.2)
Share options	(0.2)	(3.3)
At 30 September	(21.6)	(5.9)

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,"Income Taxes") 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 2007	6.6	1.7	8.3
Income statement credit	–	1.0	1.0
Reclassification from/(to) deferred tax liability	(6.9)	3.0	(3.9)
Exchange differences	–	(0.2)	(0.2)
At 30 September 2008	(0.3)	5.5	5.2
Liabilities			
At 1 October 2007	(23.5)	9.3	(14.2)
Income statement (charge)/credit	(5.9)	5.6	(0.3)
Deferred tax on intangible assets	(7.4)	–	(7.4)
Reclassification (from)/to deferred tax asset	6.9	(3.0)	3.9
Acquisition of subsidiary	–	1.2	1.2
Exchange differences	(3.2)	1.6	(1.6)
Share options	–	(0.2)	(0.2)
Transfer to current tax	–	(8.2)	(8.2)
At 30 September 2008	(33.1)	6.3	(26.8)
Net deferred tax (liability)/asset			
At 30 September 2008	(33.4)	11.8	(21.6)
At 30 September 2007	(16.9)	11.0	(5.9)

The deferred tax liability due after more than one year is £33.1m (2007: £23.5m).

18 Share capital

Authorised	2008 £m	2007 £m
1,860,000,000 (2007: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2008 shares	2008 £m	2007 shares	2007 £m
At 1 October	**1,304,160,154**	**13.0**	1,294,280,944	12.9
Allotted under share option schemes	**5,397,403**	**0.1**	9,879,210	0.1
At 30 September	**1,309,557,557**	**13.1**	1,304,160,154	13.0

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 134.00p 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	2008 number	2007 number
17 December 1997	81.10p	17 December 2000 – 17 December 2007	**–**	15,000
20 January 1998	98.75p	20 January 2001 – 20 January 2008	**–**	150,000
15 May 1998	140.00p	15 May 2001 – 15 May 2008	**–**	588,480
16 December 1998	136.00p	16 December 2001 – 16 December 2008	**614,370**	1,290,475
7 June 1999	204.50p	7 June 2002 – 7 June 2009	**766,500**	1,059,500
11 February 2000	275.50p–467.60p	11 February 2000 – 6 January 2010	**62,987**	119,137
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	**2,220,944**	2,713,403
17 January 2001	329.75p	17 January 2004 – 17 January 2011	**459,833**	581,137
16 May 2001	264.00p	16 May 2004 – 16 May 2011	**1,588,503**	1,795,696
2 January 2002	228.50p	2 January 2005 – 2 January 2012	**3,191,187**	3,758,614
31 December 2002	134.00p	31 December 2005 – 31 December 2012	**2,293,237**	2,933,693
12 May 2003	147.00p	12 May 2006 – 12 May 2013	**772,578**	1,365,985
24 December 2003	171.00p	24 December 2006 – 24 December 2013	**6,701,339**	8,083,316
24 May 2004	172.00p	24 May 2007 – 24 May 2014	**252,051**	269,493
6 January 2005	198.00p	6 January 2008 – 6 January 2015	**3,769,565**	4,544,001
12 May 2005	206.00p	12 May 2008 – 12 May 2015	**1,830,784**	1,983,695
10 January 2006	258.50p	10 January 2009 – 10 January 2016	**5,047,073**	5,894,597
10 January 2007	270.00p	10 January 2010 – 10 January 2017	**6,986,236**	8,119,550
20 June 2007	248.00p	20 June 2010 – 20 June 2017	**195,530**	247,220
10 January 2008	214.00p	10 January 2011 – 10 January 2018	**9,668,002**	–
17 June 2008	219.25p	17 June 2011 – 17 June 2018	**246,209**	–
			46,717,215	45,563,279

Under the above scheme, 4,955,415 1p ordinary shares were issued during the year for aggregate proceeds of £7,822,691.

18 Share capital (continued)

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

Date of award	Vesting date	2008 number	2007 number
18 March 2005	18 March 2008	–	1,808,170
12 May 2005	12 May 2008	–	210,588
10 January 2006	10 January 2009	1,989,958	2,348,990
10 January 2007	10 January 2010	2,347,292	2,793,003
20 June 2007	20 June 2010	33,000	33,000
3 March 2008	3 March 2011	5,107,983	–
17 June 2008	17 June 2011	333,148	–
		9,811,381	7,193,751

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	2008 number	2007 number
1 March 2001	240.00p	1 March 2008 – 31 August 2008	–	1,531
1 March 2002	180.40p	1 March 2009 – 31 August 2009	6,575	6,575
1 March 2003	112.00p	1 March 2008 – 31 August 2008	–	132,064
1 March 2003	112.00p	1 March 2010 – 31 August 2010	13,312	14,579
1 March 2004	140.00p	1 March 2009 – 31 August 2009	101,937	104,954
1 March 2004	140.00p	1 March 2011 – 31 August 2011	34,744	34,744
1 March 2005	157.00p	1 March 2008 – 31 August 2008	965	331,306
1 March 2005	157.00p	1 March 2010 – 31 August 2010	102,970	121,915
1 March 2005	157.00p	1 March 2012 – 31 August 2012	18,284	19,422
1 August 2006	184.00p	1 August 2009 – 31 January 2010	769,091	930,309
1 August 2006	184.00p	1 August 2011 – 31 January 2012	201,098	241,173
1 August 2006	184.00p	1 August 2013 – 31 January 2014	33,450	35,308
1 August 2007	203.00p	1 August 2010 – 31 January 2011	446,269	671,566
1 August 2007	203.00p	1 August 2012 – 31 January 2013	126,097	168,521
1 August 2007	203.00p	1 August 2014 – 31 January 2015	33,588	35,319
1 August 2008	177.00p	1 August 2011 – 31 January 2012	785,306	–
1 August 2008	177.00p	1 August 2013 – 31 January 2014	339,268	–
1 August 2008	177.00p	1 August 2015 – 31 January 2016	15,571	–
			3,028,525	2,849,286

Under the above scheme, 441,988 1p ordinary shares were issued during the year for aggregate proceeds of £636,238.

The market price of the shares of the Company at 30 September 2008 was 195.30p and the highest and lowest prices during the year were 251.75p and 187.10p respectively.

19 Share-based payments

The total charge for the year relating to employee share-based payment plans was £7.6m (2007: £8.8m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £5.2m (2007: £6.1m). A reconciliation of share movements for options granted after 7 November 2002 to which IFRS 2 is applicable is shown below.

ESOS

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

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

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

Grant date	December 2003	May 2004	January 2005	May 2005	January 2006	January 2007	June 2007	January 2008	June 2008
Share price at grant date	£1.75	£1.72	£1.90	£2.07	£2.53	£2.72	£2.49	£2.13	£2.21
Exercise price	£1.71	£1.72	£1.98	£2.06	£2.59	£2.70	£2.48	£2.14	£2.19
Number of employees	449	21	139	134	411	600	14	462	2
Shares under option	6,701,339	252,051	3,769,565	1,830,784	5,047,073	6,986,236	195,530	9,668,002	246,209
Vesting period (years)	3	3	3	3	3	3	3	3	3
Expected volatility	62%	57%	52%	48%	40%	30%	25%	24%	26%
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	4.5%	5.1%	4.4%	4.3%	4.1%	5.0%	5.7%	4.2%	5.3%
Expected dividends expressed as a dividend yield	0.9%	1.0%	1.6%	1.6%	1.6%	1.4%	3.0%	3.0%	3.0%
Fair value per option	£0.855	£0.794	£0.802	£0.777	£0.799	£0.762	£0.539	£0.390	£0.475

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:

	2008 Number '000s	**2008 Weighted average exercise price £**	2007 Number '000s	2007 Weighted average exercise price £
Outstanding at 1 October	**33,442**	**2.13**	32,218	1.88
Granted	**10,376**	**2.14**	8,958	2.69
Forfeited	**(2,920)**	**2.46**	(2,093)	2.27
Exercised	**(3,135)**	**1.64**	(5,641)	1.59
Outstanding at 30 September	**37,763**	**2.14**	33,442	2.13
Exercisable at 30 September	**16,543**	**1.83**	12,580	1.62

19 Share-based payments (continued)

Range of exercise prices	Weighted average exercise price £	Number of shares	2008 Weighted average remaining life years Expected	2008 Weighted average remaining life years Contractual	Weighted average exercise price £	Number of shares	2007 Weighted average remaining life years Expected	2007 Weighted average remaining life years Contractual
1.34 – 2.70	**2.14**	**37,763**	**0.8**	**7.3**	2.13	33,442	0.8	7.5

The weighted average share price during the period for options exercised over the year was 211.02p (2007: 261.21p).

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 currently 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 2008 comprised the following companies:

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

25% 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	January 2006	January 2007	June 2007	March 2008	June 2008
Share price at grant date	£2.59	£2.72	£2.49	£2.00	£2.21
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00
Number of employees	81	94	2	118	2
Shares under award	1,989,958	2,347,292	33,000	5,107,983	333,148
Vesting period (years)	3	3	3	3	3
Expected volatility	32%	24%	22%	25%	27%
Award life (years)	3	3	3	3	3
Expected life (years)	3	3	3	3	3
Risk free rate	4.2%	5.1%	5.7%	4.0%	5.3%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Fair value per award	£1.401	£1.478	£1.041	£1.088	£1.254

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:

	2008 Number '000s	2008 Weighted average exercise price £	2007 Number '000s	2007 Weighted average exercise price £
Outstanding at 1 October	7,194	–	4,554	–
Awarded	5,568	–	3,028	–
Forfeited	(1,862)	–	(388)	–
Exercised	(1,089)	–	–	–
Outstanding at 30 September	9,811	–	7,194	–
Exercisable at 30 September	–	–	–	–

Range of exercise prices	2008 Weighted average exercise price £	2008 Number of shares	2008 Weighted average remaining life years Expected	2008 Weighted average remaining life years Contractual	2007 Weighted average exercise price £	2007 Number of shares	2007 Weighted average remaining life years Expected	2007 Weighted average remaining life years Contractual
N/A	–	9,811	1.7	1.7	–	7,194	1.5	1.5

The Sage Group Savings-related Share Option Plan (the "SAYE Plan")

In February 1996, the Company introduced an Inland Revenue approved savings-related share option scheme allowing all UK employees to apply for an option to acquire ordinary shares in the Company ("Shares") at a price per Share which was not less than 80% of the market value of those Shares when invitations for options were made. The acquisition of the Shares was funded by the proceeds of a savings account with a bank or building society. The original scheme adopted in 1996 continued in accordance with its terms for 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.

19 Share-based payments (continued)

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 2004	March 2004	March 2005	March 2005	March 2005	August 2006
Share price at grant date	£1.34	£1.93	£1.93	£2.06	£2.06	£2.06	£2.28
Exercise price	£1.12	£1.40	£1.40	£1.57	£1.57	£1.57	£1.84
Number of employees	1	35	10	1	32	6	372
Shares under option	13,312	101,937	34,744	965	102,970	18,284	769,091
Vesting period (years)	7	5	7	3	5	7	3
Expected volatility	52%	59%	54%	44%	55%	54%	26%
Option life (years)	7	5	7	3	5	7	3
Expected life (years)	7	5	7	3	5	7	3
Risk free rate	4.0%	4.6%	4.7%	4.7%	4.7%	4.7%	4.7%
Expected dividends expressed as a dividend yield	1.1%	0.9%	0.9%	1.6%	1.6%	1.6%	1.6%
Fair value per option	£0.746	£1.135	£1.192	£0.847	£1.092	£1.176	£0.706

Grant date	August 2006	August 2006	August 2007	August 2007	August 2007	August 2008	August 2008	August 2008
Share price at grant date	£2.28	£2.28	£2.28	£2.28	£2.28	£1.98	£1.98	£1.98
Exercise price	£1.84	£1.84	£2.03	£2.03	£2.03	£1.77	£1.77	£1.77
Number of employees	71	13	346	58	9	461	95	10
Shares under option	201,098	33,450	446,269	126,097	33,588	785,306	339,268	15,571
Vesting period (years)	5	7	3	5	7	3	5	7
Expected volatility	42%	51%	22%	34%	45%	28%	27%	39%
Option life (years)	5	7	3	5	7	3	5	7
Expected life (years)	5	7	3	5	7	3	5	7
Risk free rate	4.7%	4.6%	5.4%	5.3%	5.2%	4.8%	4.8%	4.8%
Expected dividends expressed as a dividend yield	1.6%	1.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fair value per option	£1.028	£1.255	£0.503	£0.750	£0.965	£0.476	£0.543	£0.746

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:

	2008 Number ’000s	**2008 Weighted average price £**	2007 Number ’000s	2007 Weighted average price £
Outstanding at 1 October	**2,841**	**1.79**	2,552	1.65
Awarded	**1,182**	**1.77**	914	2.03
Forfeited	**(175)**	**1.84**	(90)	1.71
Surrendered	**(384)**	**1.93**	(180)	1.81
Exercised	**(442)**	**1.44**	(355)	1.40
Outstanding at 30 September	**3,022**	**1.82**	2,841	1.79
Exercisable at 30 September	**1**	**1.57**	–	–

Range of exercise prices	2008 Weighted average exercise price £	2008 Number of shares	2008 Weighted average remaining life years Expected	2008 Weighted average remaining life years Contractual	2007 Weighted average exercise price £	2007 Number of shares	2007 Weighted average remaining life years Expected	2007 Weighted average remaining life years Contractual
1.12 – 2.03	**1.82**	**3,022**	**2.4**	**2.4**	1.79	2,841	2.4	2.4

20 Share premium account

	£m
At 1 October 2006	462.8
Premium on shares issued during the year under share option schemes	15.4
At 1 October 2007	478.2
Premium on shares issued during the year under share option schemes	**8.4**
At 30 September 2008	**486.6**

21 Other reserves

	Translation reserve £m	Other reserve £m	Total other reserves £m
At 1 October 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)
Exchange adjustments, net of tax	**117.1**	**–**	**117.1**
At 30 September 2008	**48.1**	**61.1**	**109.2**

Translation reserve
The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

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

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

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

22 Retained earnings

	2008 £m	2007 £m
At 1 October	**567.5**	458.1
Profit for the year	**166.3**	154.1
Share-based payments	**7.6**	8.8
Dividends paid	**(106.2)**	(49.0)
Actuarial gain/(loss) on employment benefits	**3.1**	(1.2)
Equity movement of deferred tax	**(0.2)**	(3.3)
At 30 September	**638.1**	567.5

The actuarial gain of £3.1m (2007: loss (£1.2m)) is made up of net gains of £2.8m (2007: loss (£1.8m)) on post-employment benefits (note 28) and a gain of £0.3m (2007: gain £0.6m) on other long-term employee benefits.

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £267.4m (2007: £236.4m).

22 Retained earnings (continued)

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 Trust holds 3,648,697 ordinary shares in the Company (2007: 4,755,602) at a cost of £10,218,347 (2007: £13,272,933) and a nominal value of £36,487 (2007: £47,556). The Trust originally purchased the shares in February 2006 with the cost being deducted from retained earnings.

These shares were originally acquired by the Trust in the open market using funds provided by the Company to meet obligations under the Performance Share Plan. During the year, 1,106,905 shares were utilised to meet these obligations. 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 2008 was £7.1m (2007: £11.8m).

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

	Share capital (note 18) £m	Share premium (note 20) £m	Retained earnings (note 22) £m	Other reserves (note 21) £m	Equity funds £m	Minority interest (note 24) £m	Total equity £m
At 1 October 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)
Profit for the year	–	–	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
Exchange adjustments	**–**	**–**	**–**	**117.1**	**117.1**	**–**	**117.1**
New shares issued	**0.1**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Profit for the year	**–**	**–**	**166.3**	**–**	**166.3**	**–**	**166.3**
Equity movement of deferred tax	**–**	**–**	**(0.2)**	**–**	**(0.2)**	**–**	**(0.2)**
Share options							
– proceeds from shares issued	**–**	**8.4**	**–**	**–**	**8.4**	**–**	**8.4**
– value of employee services	**–**	**–**	**7.6**	**–**	**7.6**	**–**	**7.6**
Actuarial gain on employment benefits	**–**	**–**	**3.1**	**–**	**3.1**	**–**	**3.1**
Dividends	**–**	**–**	**(106.2)**	**–**	**(106.2)**	**–**	**(106.2)**
At 30 September 2008	**13.1**	**486.6**	**638.1**	**109.2**	**1,247.0**	**–**	**1,247.0**

24 Minority interest

	2008 £m	2007 £m
At 1 October	**–**	0.1
Purchase of minority interest	**–**	(0.1)
At 30 September	**–**	–

25 Cash flow and net debt

Reconciliation of profit for the year to cash generated from continuing operations	2008 £m	2007 £m
Profit for the year	166.3	154.1
Adjustments for:		
Taxation	74.7	69.2
Finance income	(3.8)	(3.6)
Finance expenses	30.2	35.5
Amortisation of intangible assets	36.7	33.5
Depreciation of property, plant and equipment	18.5	16.2
Loss on disposal of property, plant and equipment	–	1.3
Loss on disposal of intangible assets	–	0.5
Equity-settled share-based transactions	7.6	8.8
Exchange movements	2.3	(1.8)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
• Decrease/(increase) in inventories	1.1	(0.1)
• Increase in trade and other receivables	(13.9)	(9.9)
• Increase/(decrease) in payables	3.5	(3.0)
• Increase in deferred income	18.8	16.4
Cash generated from continuing operations	**342.0**	317.1

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)	2008 £m	2007 £m
Decrease in cash in the year (pre-exchange movements)	**(3.3)**	(14.1)
Cash outflow from decrease in loans, finance leases and cash collected from customers	40.0	67.2
Change in net debt resulting from cash flows	**36.7**	53.1
Loans acquired with subsidiaries	(0.9)	(0.5)
Non-cash movements	(1.0)	0.3
Exchange movements	(66.1)	31.0
Movement in net debt in the year	**(31.3)**	83.9
Net debt at 1 October	(509.7)	(593.6)
Net debt at 30 September	**(541.0)**	(509.7)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2007 £m	Cash flow £m	Acquisitions £m	Other £m	Exchange movements £m	At 30 September 2008 £m
Net cash at bank and in hand	65.6	(3.3)	–	–	7.8	70.1
Loans due within one year	(0.2)	(12.7)	(0.7)	–	–	(13.6)
Finance leases due within one year	(0.1)	0.1	–	–	(0.3)	(0.3)
Loans due after more than one year	(561.1)	59.5	–	(1.0)	(71.7)	(574.3)
Finance leases due after more than one year	(0.1)	–	(0.2)	–	0.1	(0.2)
Cash collected from customers	(13.8)	(6.9)	–	–	(2.0)	(22.7)
Total	(509.7)	**36.7**	**(0.9)**	**(1.0)**	**(66.1)**	**(541.0)**

Included in cash above is £22.7m (2007: £13.8m) 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 KCS Global Holdings Limited

On 26 October 2007 the Group completed the acquisition of KCS Global Holdings Limited ("KCS"), for a consideration of £20.4m (inclusive of £0.3m related costs). Total goodwill arising on the acquisition is £16.2m.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2008 the acquisition contributed £5.6m to revenue and £1.1m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill. Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
– Cash paid	**19.9**
– Direct costs relating to the acquisition	**0.3**
– Deferred consideration	**0.2**
Total purchase consideration	**20.4**
– Fair value of net identifiable assets (see below)	**(4.2)**
Goodwill	**16.2**

The value of goodwill represents anticipated synergies expected to result from integration of operations into our existing UK business and a previous acquisition in this sector. This acquisition will enhance our existing product and services portfolio and add scale to our HR and Payroll operations in the UK. Goodwill also includes the value of the acquired workforce.

KCS acquisition	Carrying values pre-acquisition £m	**Fair value £m**
Intangible fixed assets	7.3	**7.8**
Property, plant and equipment	0.2	**0.2**
Receivables	1.3	**1.3**
Payables	(1.2)	**(1.2)**
Deferred income	(1.6)	**(1.6)**
Taxation – Current	(0.2)	**(0.2)**
Taxation – Deferred	–	**(2.3)**
Cash and cash equivalents	0.2	**0.2**
Net assets acquired	6.0	**4.2**
Goodwill		**16.2**
Consideration		**20.4**
Consideration satisfied by:		
Cash		**20.2**
Deferred consideration		**0.2**
Consideration		**20.4**

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

	£m
Cash consideration	**20.2**
Cash acquired	**(0.2)**
Net cash outflow	**20.0**

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

	£m
Brands	**0.5**
Customer relationships	**4.5**
Technology	**2.8**
	7.8

Further details of these are given in note 8.

b Acquisition of Hallco 1390 Ltd (trading as Tekton Group Ltd)

On 29 March 2008 the Group completed the acquisition of Hallco 1390 Ltd which trades under the name of Tekton Group Ltd ("Tekton"), for a consideration of £21.1m (inclusive of £0.4m related costs). Total goodwill arising on the acquisition is £16.4m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2008 the acquisition contributed £3.7m to revenue and loss of £0.1m. Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
– Cash paid	**19.7**
– Direct costs relating to the acquisition	**0.4**
– Deferred consideration	**1.0**
Total purchase consideration	**21.1**
– Fair value of net identifiable assets (see below)	**(4.7)**
Goodwill	**16.4**

Goodwill recognised represents the value of the assembled workforce at the time of acquisition with specific knowledge and expertise in the specialised field of development, implementation and support services related to construction software. The value of goodwill also represents prospective future economic benefits that are anticipated will be derived from enhancing the portfolio of products and services to our existing customer base with those offered by Tekton.

The fair value adjustments contain some provisional amounts which will be finalised in the 2009 accounts.

Tekton acquisition	Carrying values pre-acquisition £m	**Provisional fair value £m**
Intangible fixed assets	12.2	**7.1**
Property, plant and equipment	0.3	**0.2**
Receivables	2.3	**2.1**
Payables	(1.4)	**(1.4)**
Borrowings	(0.9)	**(0.9)**
Deferred income	(1.7)	**(1.7)**
Taxation – Current	0.1	**0.1**
Taxation – Deferred	–	**(2.1)**
Cash and cash equivalents	1.3	**1.3**
Net assets acquired	12.2	**4.7**
Goodwill		**16.4**
Consideration		**21.1**
Consideration satisfied by:		
Cash		**20.1**
Deferred consideration		**1.0**
Consideration		**21.1**

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

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

	£m
Cash consideration	**20.1**
Cash acquired	**(1.3)**
Net cash outflow	**18.8**

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

	£m
Customer relationships	**3.0**
Technology	**4.1**
	7.1

Further details of these are given in note 8.

26 Acquisitions and disposals (continued)

c Acquisition of Eurowin (Millor Soft, S.L., Millor Soft Consulting, S.L., Millor Soft Imatge, S.L. and Millor Soft Internet, S.L.)

On 14 July 2008 the Group completed the acquisition of Eurowin, which comprises Millor Soft, S.L., Millor Soft Consulting, S.L., Millor Soft Imatge, S.L. and Millor Soft Internet, S.L. for a consideration of £11.9m (inclusive of £0.1m related costs). Total goodwill arising on the acquisition is £9.0m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2008 the acquisition contributed £1.8m to revenue and £nil to profit.

Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
– Cash paid	**11.8**
– Direct costs relating to the acquisition	**0.1**
Total purchase consideration	**11.9**
– Fair value of net identifiable assets (see below)	**(2.9)**
Goodwill	**9.0**

Goodwill represents the value of the potential synergies, workforce in place and anticipated future benefits from strengthening our market position in the entry-level market space in Spain. The value of goodwill also represents benefit that is anticipated will be derived from enhancing the product portfolio offered by Eurowin to their existing customer base.

The fair value adjustments contain some provisional amounts which will be finalised in the 2009 accounts.

Eurowin acquisition	Carrying values pre-acquisition £m	**Provisional fair value £m**
Intangible fixed assets	–	**4.3**
Property, plant and equipment	0.2	**0.2**
Inventories	0.4	**0.4**
Receivables	0.8	**0.8**
Payables	(1.7)	**(1.7)**
Deferred income	(0.8)	**(0.8)**
Taxation – Deferred	0.3	**(1.0)**
Cash and cash equivalents	0.7	**0.7**
Net assets acquired	(0.1)	**2.9**
Goodwill		**9.0**
Consideration satisfied by: Cash		**11.9**

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

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

	£m
Cash consideration	**11.9**
Cash acquired	**(0.7)**
Net cash outflow	**11.2**

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

	£m
Brands	**1.0**
Customer relationships	**1.3**
Technology	**2.0**
	4.3

Further details of these are given in note 8.

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

- EIG Maroc SARL was acquired on 7 November 2007 for a cash consideration of £1.0m (including costs). The fair value of assets acquired was (£0.1m) resulting in goodwill of £1.1m.
- DCS Automative Ibérica, S.L. was acquired on 7 July 2008 for a cash consideration of £0.3m (including costs). The fair value of assets acquired was (£0.1m) resulting in goodwill of £0.4m.
- Européenne Alliance Technologie SAS (API) was acquired on 10 September 2008 for a cash consideration of £12.0m (including costs). The fair value of assets acquired was £2.1m resulting in goodwill of £9.9m.

Other acquisitions	Carrying values pre-acquisition £m	**Provisional fair value £m**
Intangible fixed assets	1.0	**–**
Inventories	0.1	**0.1**
Receivables	0.3	**0.3**
Payables	(1.7)	**(1.6)**
Taxation – Current	0.1	**–**
Cash and cash equivalents	3.2	**3.2**
Deferred income	(0.1)	**(0.1)**
Net assets acquired	2.9	**1.9**
Goodwill		**11.4**
Consideration satisfied by: Cash		**13.3**

The fair value adjustments contain some provisional amounts which will be finalised in the 2009 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	**13.3**
Cash acquired	**(3.2)**
Net cash outflow	**10.1**

e 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.

f Other
During the year ended 30 September 2008 adjustments were made in respect of goodwill on prior year acquisitions of £14.2m, due to additional cash acquisition payments of £16.2m, reduction in deferred consideration of £3.3m and decrease in net assets of £1.3m following the re-appraisal of the fair value of assets and liabilities.

26 Acquisitions and disposals (continued)

g 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
KCS	26a	**20.0**
Tekton	26b	**18.8**
Eurowin	26c	**11.2**
Other acquisitions	26d	**10.1**
Payments in relation to previous years' acquisitions	26f	**16.2**
Payment of deferred consideration		**4.8**
Net cash outflow in respect of acquisitions		**81.1**

h Analysis of goodwill

The total additions to goodwill are calculated as follows:

	Note	£m
KCS	26a	**16.2**
Tekton	26b	**16.4**
Eurowin	26c	**9.0**
Other acquisitions	26d	**11.4**
Adjustments in relation to previous years' acquisitions	26f	**14.2**
Net movement in goodwill on acquisitions		**67.2**

27 Employees and directors

Average number of people employed	**2008 number**	2007 number
By territory:		
UK & Ireland	**2,695**	2,200
Mainland Europe	**5,653**	4,703
North America	**4,939**	5,158
Rest of World	**1,752**	1,470
	15,039	13,531

Staff costs	Note	**2008 £m**	2007 £m
Wages and salaries		**492.6**	425.7
Social security costs		**86.5**	69.0
Share-based payments	19	**7.6**	8.8
Other pension costs	28	**8.8**	8.0
		595.5	511.5

Key management compensation	**2008 £m**	2007 £m
Salaries and short-term employee benefits	**6.3**	5.7
Post-employment benefits	**0.6**	0.2
Share-based payments	**2.1**	1.6
	9.0	7.5

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 two small schemes in Switzerland.

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:	Note	2008 £m	2007 £m
Defined contribution schemes	27	7.4	7.4

Defined benefit plan

The most recent actuarial valuations of the Swiss pension plans were performed by Expertisa AG in October 2008.

The principal assumptions made by the actuaries were:	2008 %	2007 %
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	3.50	3.00
Inflation assumption	1.50	1.00
Expected return on plan assets	4.00	4.00

Pensions and other post-employment obligations

The amounts recognised in the balance sheet are determined as follows:	2008 £m	2007 £m
Present value of funded obligations	(20.0)	(17.9)
Fair value of plan assets	16.1	12.6
Net liability recognised in the balance sheet	**(3.9)**	(5.3)

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

The major categories of plan assets as a percentage of total plan assets are as follows:	2008 £m	2008 %	2007 £m	2007 %
Bonds	7.6	47.2	3.6	28.5
Equities	1.5	9.3	1.5	11.9
Property	1.0	6.2	0.6	4.8
Other	6.0	37.3	6.9	54.8
	16.1	100.0	12.6	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 2009 are £1.1m.

The amounts recognised in the income statement are as follows:	Note	2008 £m	2007 £m
Interest cost		(0.6)	(0.5)
Expected return on plan assets		0.6	0.6
Current service cost		(1.4)	(0.7)
Total included within staff costs	27	**(1.4)**	(0.6)

The entire cost is included within selling and administrative expenses.

28 Pension commitments (continued)

Changes in the present value of the defined benefit obligation are as follows:	2008 £m	2007 £m
Present value of obligation – 1 October	(17.9)	(11.7)
Exchange movement	(3.6)	0.3
Business combinations	–	(5.3)
Service cost	(1.4)	(0.7)
Plan participant contributions	(0.7)	(0.5)
Interest cost	(0.6)	(0.5)
Benefits paid	0.7	(5.3)
Actuarial gain on benefit obligation	3.5	5.8
Present value of obligation – 30 September	**(20.0)**	(17.9)

Changes in the fair value of plan assets are as follows:	2008 £m	2007 £m
Fair value of plan assets – 1 October	12.6	9.6
Exchange movement	2.5	(0.3)
Business combinations	–	3.9
Expected return on plan assets	0.6	0.6
Employer's contributions	1.1	0.5
Employee's contributions	0.7	0.6
Benefits paid	(0.7)	5.3
Actuarial loss on plan assets	(0.7)	(7.6)
Fair value of plan assets – 30 September	**16.1**	12.6

Analysis of the movement in the balance sheet liability	2008 £m	2007 £m
At 1 October	(5.3)	(2.1)
Exchange movement	(1.1)	–
Business combinations	–	(1.4)
Total expense as recognised in the income statement	(1.4)	(0.6)
Contributions paid	1.1	0.6
Actuarial gain/(loss)	2.8	(1.8)
At 30 September	**(3.9)**	(5.3)

The actual return on plan assets was £0.1m (2007: £7.0m).

History of experience gains and losses	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	(20.0)	(17.9)	(11.7)	(11.2)
Fair value of plan assets	16.1	12.6	9.6	8.8
Deficit	**(3.9)**	(5.3)	(2.1)	(2.4)
Experience adjustments on plan liabilities	(3.5)	(5.8)	(0.1)	(0.1)
Change in assumptions adjustment on plan assets	–	–	–	0.3
Experience adjustments on plan assets	0.7	7.6	0.1	(0.1)
Total actuarial (gain)/loss	**(2.8)**	1.8	–	0.1

Cumulative actuarial gains and losses recognised in equity	2008 £m	2007 £m
At 1 October	(1.9)	(0.1)
Actuarial gains/(losses) recognised in the year (before tax)	2.8	(1.8)
At 30 September	**0.9**	(1.9)

29 Operating lease commitments – minimum lease payments

Total future commitments under non-cancellable operating leases expiring:	2008 Property £m	2008 Vehicles plant and equipment £m	2007 Property £m	2007 Vehicles plant and equipment £m
Within one year	**6.7**	**0.7**	5.3	0.7
Later than one year and less than five years	**62.2**	**3.7**	40.2	4.0
After five years	**93.7**	**–**	105.3	–
	162.6	**4.4**	150.8	4.7

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 2008 (2007: 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 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 all of these subsidiaries 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.

Incorporated subsidiaries

Name	Country of incorporation
Sage (UK) Limited	UK
Sage Hibernia Limited	Ireland
Sage Software, Inc.	US
Sage Payment Solutions, Inc.	US
Sage Software Healthcare, Inc.	US
Sage Software Canada Ltd	Canada
Ciel SAS	France
Sage SAS	France
Adonix SAS	France
Sage Holding France SAS	France
XRT SAS	France
Sage Software GmbH	Germany
Sage bäurer 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.L.	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 Sdn Bhd	Malaysia
Sage Software (Shanghai) Co. Ltd	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 2008 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 2008 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 section 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 directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) 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, the non-audited information in the Remuneration report and all of the other information listed on the contents page. 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 judgements 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 2008 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
17 December 2008

Company balance sheet

At 30 September 2008
Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2008 £m	2007 £m
Fixed assets			
Investments	2	**1,544.1**	1,544.0
		1,544.1	1,544.0
Current assets			
Debtors	3	**257.7**	899.5
Cash at bank and in hand		**0.3**	–
		258.0	899.5
Creditors: amounts falling due within one year	4	**(499.1)**	(982.4)
Net current liabilities		**(241.1)**	(82.9)
Total assets less current liabilities		**1,303.0**	1,461.1
Creditors: amounts falling due in more than one year	5	**(574.9)**	(561.3)
Net assets		**728.1**	899.8
Capital and reserves			
Called up share capital	6	**13.1**	13.0
Share premium account	7	**486.6**	478.2
Treasury shares	7	**(10.2)**	(13.3)
Merger reserve	7	**61.1**	61.1
Profit and loss account	7	**177.5**	360.8
Total shareholders' funds		**728.1**	899.8

The financial statements on pages 107 to 110 were approved by the Board of Directors on 17 December 2008 and are signed on their behalf by:

P A Walker
Director

P S Harrison
Director

Notes to the accounts – Company

For the year ended 30 September 2008

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, "Deferred Tax", 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 and cash flow statement

The amount of loss for the financial year before dividends within the accounts of the parent Company is £79.5m (2007: £52.4m). There is no material difference between the profits and losses as reported above and historical cost profits and losses and there are no other gains or losses in the year.

No profit and loss account or cash flow statement is presented for the Company as permitted by section 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.

At each Balance sheet date, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1 Dividends

	2008 £m	2007 £m
Final dividend paid for the year ended 30 September 2007 of 5.73p per share	**74.5**	–
(2007: final dividend paid for the year ended 30 September 2006 of 2.51p per share)	**–**	32.4
Interim dividend paid for the year ended 30 September 2008 of 2.43p per share	**31.7**	–
(2007: interim dividend paid for the year ended 30 September 2007 of 1.27p per share)	**–**	16.6
	106.2	49.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2008 of 4.78p per share which will absorb an estimated £62.6m of shareholders' funds. It will be paid on 6 March 2009 to shareholders who are on the register of members on 6 February 2009. These financial statements do not reflect this dividend payable.

2 Investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2007	**1,544.0**
Additions in year	**0.1**
At 30 September 2008	**1,544.1**
Provision for diminution in value at 30 September 2007 and 2008	**–**
Net book value	
At 30 September 2008	**1,544.1**
At 30 September 2007	1,544.0

The additions in the year represent investments in existing subsidiary undertakings. The directors believe that the carrying value of the investments is supported by their underlying net assets.

Principal trading subsidiary undertakings, included in the Group accounts at 30 September 2008, are shown in note 32 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.

3 Debtors

	2008 £m	2007 £m
Amounts owed by Group undertakings	**256.8**	893.2
Other debtors	**0.9**	1.1
Taxation recoverable	**–**	5.2
	257.7	899.5

4 Creditors: amounts falling due within one year

	2008 £m	2007 £m
Bank overdraft	**–**	1.3
Amounts owed to Group undertakings	**498.3**	980.2
Accruals	**0.8**	0.9
	499.1	982.4

5 Creditors: amounts falling due in more than one year

Loans **Amounts falling due:**	2008 £m	2007 £m
In more than two years but not more than five years	**574.9**	561.3
	574.9	561.3

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 £575.0m (2007: £561.5m) 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 by 13 January 2011 (with £100.0m amortising a year earlier). In the table above, loans are stated net of unamortised issue costs of £0.5m (2007: £1.0m). The Company has incurred total issue costs of £7.6m (2007: £7.3m) in respect of these facilities. These costs are allocated to the income statement over the term of the facility using the effective interest method.

6 Called up share capital

Authorised	2008 £m	2007 £m
1,860,000,000 (2007: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2008 shares	2008 £m	2007 shares	2007 £m
At 1 October	**1,304,160,154**	**13.0**	1,294,280,944	12.9
Allotted under share option schemes	**5,397,403**	**0.1**	9,879,210	0.1
At 30 September	**1,309,557,557**	**13.1**	1,304,160,154	13.0

6 Called up share capital (continued)

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 134.00p to 721.00p under the share option schemes approved by shareholders. Details of 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 in note 18 of the Group financial statements.

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.

7 Reserves

	Share premium account £m	Treasury shares £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 October 2007	478.2	(13.3)	61.1	360.8	886.8
New shares issued	**8.4**	**–**	**–**	**–**	**8.4**
Utilisation of treasury shares	**–**	**3.1**	**–**	**(3.1)**	**–**
Retained loss for the year	**–**	**–**	**–**	**(79.5)**	**(79.5)**
Dividends	**–**	**–**	**–**	**(106.2)**	**(106.2)**
Equity-settled transactions	**–**	**–**	**–**	**5.5**	**5.5**
At 30 September 2008	**486.6**	**(10.2)**	**61.1**	**177.5**	**715.0**

Treasury shares

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market for use in connection with the Group's share-based payments arrangements. The Trust holds 3,648,697 ordinary shares in the Company (2007: 4,755,602) at a cost of £10,218,347 (2007: £13,272,933) and a nominal value of £36,487 (2007: £47,556). The Trust originally purchased the shares in February 2006 with the cost being reflected in the treasury shares reserve.

The amounts shown in the treasury shares reserve at 30 September each year would be deducted from the profit and loss account reserve in determining the distributable profits of the Company at that date.

These shares were originally acquired by the Trust in the open market using funds provided by the Company to meet obligations under the Performance Share Plan. During the year, 1,106,905 shares were utilised to meet these obligations. 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 2008 was £7.1m (2007: £11.8m).

8 Operating lease commitments – minimum lease payments

The Company had no operating lease commitments during the year (2007: £nil).

9 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 September 2008 (2007: 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 2008 which comprise the Company 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 2008.

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 section 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, the non-audited information in the Remuneration report and all of the other information listed on the contents page. 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 judgements 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 2008;
- 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
17 December 2008

Shareholder information

Financial calendar

Annual General Meeting	3 March 2009
Dividend payments	
Final payable – year ended 30 September 2008	6 March 2009
Interim payable – period ending 31 March 2009	June 2009
Results announcements	
Interim results – period ending 31 March 2009	6 May 2009
Final results – year ending 30 September 2009	25 November 2009

Shareholder information online

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

To take advantage of this service for future communications, please go to www.shareview.co.uk 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 eleven character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

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

Registrars

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Information for investors

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

Investor enquiries

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

Cynthia Alers

Director of Investor Relations
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