

The Sage Group plc  
Annual Report  
and Accounts 2009

Business software  
and services for the  
world's entrepreneurs



sage

## What we do

Across the world Sage supports our customers – mainly small and medium-sized enterprises (“SMEs”) – in their everyday endeavours. We provide software, services and support to help them better manage the tasks and processes that are at the core of their business.

## How we've performed

Sage has performed well in a difficult market. Our business model has proved strong and agile and we have outperformed many of our competitors. We quickly adjusted our business to the economic environment and focused on delivering the software and services most needed by our customers to help them through the recession.

### Revenue

£1,439.3m **-4%\***

### Adjusted pre-tax profit<sup>^</sup>

£307.5m **-2%**

### EBITA<sup>†</sup>

£320.7m **-6%\***

### Total dividend

7.43p **+3%**

**+** [More analysis of financial highlights and our key performance indicators](#) | Pages 06–07

## Longer term opportunities

Our large, loyal customer base, our focus on delivering solutions that businesses value, trust and rely on, alongside the efficiencies we have driven in our business position us well for future growth.

**+** [More on supporting customers through the downturn and preparing our business for growth](#) | Pages 02–05

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of intangible assets.

<sup>^</sup> Adjusted pre-tax profit stated prior to amortisation of intangible fixed assets and after neutralisation of foreign exchange movements.

Note: A reconciliation of operating to statutory results is provided on page 14.

# What we do and how we work

## Our business

We are a market-leading, global company with offices in 24 countries and products and services available in more than 160.

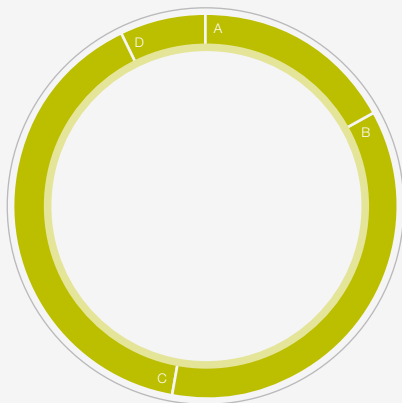
Yet we complement our size by staying in touch with customers through our localised business model. Products and services are developed wherever our customers are and they can talk to someone who speaks their language and understands their situation.

**24**

Countries with direct operations – a presence in many more

### Revenue by region

A	UK & Ireland	17%
B	Mainland Europe	36%
C	North America	40%
D	Rest of World	7%



## Our products and sectors

We combine our affinity for SMEs with our technological expertise to deliver high quality, easy to use, relevant and cost-effective solutions across a range of sectors.

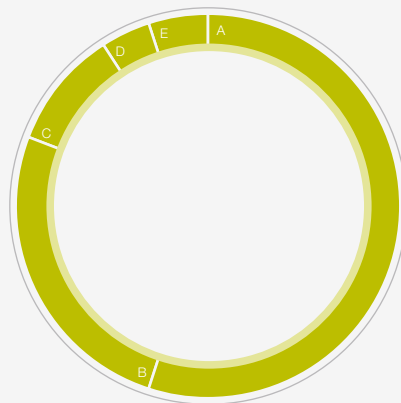
From accounts and payroll through to payment processing, customer relationship management (“CRM”) and solutions for specific industries we anticipate customers needs, offer choice and advice on the best fit for each individual business.

**6.1 million**

Customers

### Revenue by sector

A	Accounting	55%
B	Industry-specific	26%
C	HR and payroll	10%
D	CRM	4%
E	Payment processing	5%



## Our customers

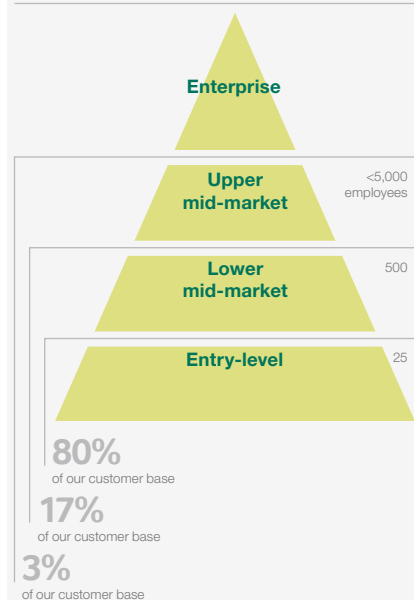
Our customers are principally small and medium-sized businesses, though we also serve larger organisations.

They remain at the centre of our thinking. We share their passion for entrepreneurialism and we respect that they invest much more than money in their business. We strive to help them manage their businesses more efficiently allowing them to pursue their ambitions.

**8%#**

Third largest provider of business management solutions in the world with 8% market share

### Customer profile



\* Gartner, June 2009. Worldwide Total ERP Software Revenue Market share by Vendor, 2008.

# Our partners

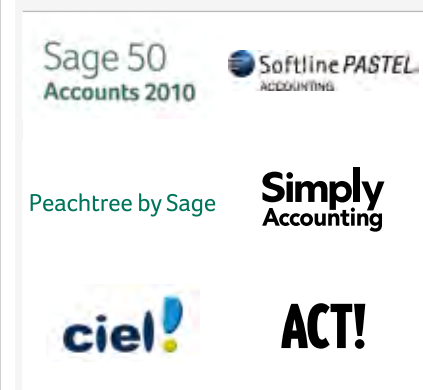
Sage has a powerful ecosystem designed to enable customers to get what they want from us, when and how they want it.

We constantly seek innovative ways to make ourselves accessible to customers. This can be through providing software and support direct from Sage or their local business partner; working with our developer community to provide add-on solutions; integrating our software with their accountant's system or ensuring our products can easily be found online, in their local bank or retail store.

**30,000** Business partners  
**40,000** Accountants

## Our brands

These brands, such as ACT!, Ciel! in France, Sage 50 in the UK, Softline Pastel in South Africa, Peachtree in the US 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.



# Our guiding principles

In the same way our customers rely on the skills and talent of their employees to operate their businesses, we rely on our 13,400 people to do the right thing for our customers, day in day out.

To help them deliver consistently wherever they are in the world we live by five principles which guide our thinking and decision making.

**40%+**  
Sage people dedicated to technical support, customer service and training

## Our principles

-  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 think ahead, to anticipate our customers' needs and are 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.

[+ More on our people](#) | Pages 34 and 35

# Our strategy and goals

Our strategy is to provide the most effective solutions, developed and supported locally to meet our customers' specific market needs.

We encourage innovation to flourish locally, utilising the most appropriate technology to bring real benefits for customers.

Many of our customers are resource constrained and look to Sage for support and advice, not only to ensure they get the most out of their software and services but also for guidance on key business issues. We place great emphasis on providing this customer support, which is a key differentiator in the marketplace.

**1.7 million**  
Support contracts

## Our long-term goals

- 1** Be a key leader in all markets of the world.
- 2** Develop products and services which are the most compelling fit with a customer's country and industry.
- 3** Have the most trusted brands.
- 4** Have the most satisfied and active customers in our industry.
- 5** Experience superior organic revenue growth versus our peer group.
- 6** Be recognised as one of the most admired employers.

# Contents



[www.ar2009.sage.com](http://www.ar2009.sage.com)

The online version of this report offers a richer experience, as well as providing PDFs of the report.

## About Sage

- ifc What we do and how we work
- 02 Supporting customers through the downturn
- 04 Preparing our business for growth

## Business review

- 06 Performance overview
- 08 Chairman's statement
- 10 Chief Executive's review
- 14 Financial review
- 18 Principal risks and uncertainties
- 20 Regional reviews
- 32 Corporate responsibility
  - Industry
  - People
  - Community
  - Environment

## Governance

- 38 Board of directors and advisers
- 40 Directors' report
- 43 Corporate governance statement
- 49 Remuneration report

## Financial statements

### Group

- 61 Financial statements
- 64 Notes to the accounts
- 105 Independent auditors' report

### Company

- 106 Financial statements
- 107 Notes to the accounts
- 111 Independent auditors' report

### Additional information

- 112 Shareholder information



**65%**

Contribution to Group revenue from recurring subscription revenues

### A proven business model and diversified customer base

Our performance has been driven by the continued growth in subscription revenues. This recurring revenue accounts for 65% of our business and underpins our strong cash flow. We operate across diverse sectors and broad regions, meaning we are not overly exposed to one particular industry or geographic market. Moreover this positions us well to exploit opportunities for growth wherever they exist.

“These initiatives have helped our customers through the downturn, maintained loyalty and enhanced our position as one of their trusted partners.”

# Supporting customers through the downturn

Our business model has proved robust, allowing us to take appropriate action to continue to thrive, whilst at the same time giving us the agility to invest in the software and services most needed by our customers.

## Anticipating customer needs

Access to credit and managing cash flow have been critical issues for SMEs over the past year. Our local presence meant we were uniquely placed to identify this at an early stage and quickly introduced a range of options tailored to help customers wherever they are. These included flexible payment and financing options such as quarterly and monthly payment plans and free offerings, for example free downloadable accounts and invoicing software, credit card processing modules and online invoicing services. On top of this our businesses conducted road shows to advise customers on business legislation and launched online business health check services. These initiatives have helped our customers through the downturn, maintained loyalty and enhanced our position as one of their trusted partners.

## Investment for the future

The Sage brand has been refreshed and rolled out across the Group to bring greater consistency and meaning to what we offer locally; to help us stand out from our competitors; and to raise our profile. Our brand has been re-energised to reflect the commitment we have to our customers and that we aspire to a level of performance that is truly exceptional.

Our people are fundamental to our success and investment in them remains a priority. Learning and development initiatives are run at all levels of the business, including our senior leadership. We actively seek the involvement of our people, for example through employee forums and engagement surveys.

## Experienced and responsible management

We made difficult but necessary decisions in the long-term interests of all of our stakeholders – our shareholders, our people, our partners and our customers. We successfully reduced cost to offset the decline in revenues as a consequence of the changing economic conditions, whilst at the same time maintaining prudent investment ensuring we are well positioned for the future. Additionally, we used the opportunity to restructure some parts of the business to improve our processes and become more streamlined and agile.

# Preparing our business for growth

We are well positioned to take advantage of new opportunities and to exploit emerging trends in our marketplace.

## Helping customers get the most out of Sage

Whilst businesses will remain cautious in the short term, SMEs are still willing to purchase software and services where they deliver value. With continued investment and innovative thinking we have significant opportunities to provide this value to both new and existing customers. Whether it is through the integration of desktop software with online services, such as payment processing, product upgrades as customers expand internationally or the continued expansion of our support services, Sage will help grow our customers' as well as our own businesses.

## Acquisitions

During this downturn we have not completed any significant acquisitions. However, acquisitions remain part of our growth strategy. We continually assess the marketplace and maintain dialogue with various potential targets. Of particular interest are higher growth segments of the SME market and emerging markets. Our strong cash flow and balance sheet mean we are well positioned to move quickly when opportunities are identified.

## Technology and market trends

Sage understands technology and understands SMEs. Consequently, we judge technological innovations by how much easier they make it for customers to run their businesses. We generate new ways to apply technologies but do not get seduced by them unless they have a clear customer benefit. Similarly, we anticipate and take advantage of market trends, balancing the need to innovate without disrupting existing customers. Key developments include the progression of web and mobile technologies which are driving demand for more flexible solutions. We are responding to this in a number of ways – “cloud” and “software as a service” offerings, mobile applications, online customer communities, integration of social media tools into our software – to ensure our customers have the tools they need to prosper.

“We judge technological innovations by how much easier they make it for customers to run their businesses.”



“Substantial funding set aside for adoption of electronic health records in the American Recovery and Reinvestment Act.”

### Sage Healthcare

The US Healthcare market represents a significant opportunity for growth. Our market-leading, industry-accredited products, position us well to leverage future demand for electronic health record (“EHR”) solutions. This is primarily being driven by funding for adoption of EHR in the American Recovery and Reinvestment Act. We are actively pursuing opportunities presented by the Act, concentrating on building brand awareness, sales effectiveness and the development of strategic relationships with purchasing organisations and government agencies.

## 2009 performance in context

As summarised on pages 10 to 13, 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 earlier on the inside front cover. Consistent and sustainable earnings growth, organic revenue growth and strong cash generation from our businesses are our KPIs. Over the year, in the context of challenging market conditions, we performed well against these financial benchmarks.

We also closely monitor the degree of customer satisfaction relating to our products and services. We take almost nine million calls a year, or over 35,000 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. One 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 2009 we again achieved this high rate of customer renewal.

These KPIs are the most appropriate measurements of our business. Whilst we do not include a KPI on people or corporate responsibility, both of these are discussed in depth on pages 32 to 37.

## Key performance indicators (“KPIs”)

### Adjusted EPS growth

flat

2005	12.07p
2006	14.29p
2007	16.34p
2008	16.63p
2009	16.63p

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

22%

2005	27%
2006	27%
2007	24%
2008	23%
2009	22%

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

-5%

2005	6%
2006	7%
2007	7%
2008	3%
2009	-5%

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

112%

2005	119%
2006	107%
2007	112%
2008	114%
2009	112%

Cash flows from operating activities divided by EBITA provide a measure of the ability of the Group to yield cash from its ongoing business to reinvest and fund liabilities.

### Renewal rates on maintenance and support contracts

81%

2005	78%
2006	80%
2007	81%
2008	81%
2009	81%

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.

## Other financial highlights – five year history

### Revenue

**£1,439.3m** **-4%\*\***

2005	£759.6m
2006	£935.6m
2007	£1,157.6m
2008	£1,295.0m
2009	£1,439.3m

### Adjusted pre-tax profit<sup>^</sup>

**£307.5m** **-2%\*\***

2005	£196.4m
2006	£234.7m
2007	£251.3m
2008	£273.4m
2009	£307.5m

### EBITA<sup>†</sup>

**£320.7m** **-6%\*\***

2005	£202.1m
2006	£249.3m
2007	£283.2m
2008	£299.8m
2009	£320.7m

### Total dividend

**7.43p** **+3%**

2005	2.88p
2006	3.59p
2007	7.00p
2008	7.21p
2009	7.43p

#### Notes:

- 1 A reconciliation of operating to statutory results is provided on page 14.
- 2 The results of all comparative years have not been retranslated to current year exchange rates.
- \*\* Growth has been calculated after the neutralisation of foreign exchange movements.
- † EBITA is defined as earnings before interest, tax and amortisation of intangible assets.
- <sup>^</sup> Adjusted pre-tax profit stated prior to amortisation of intangible fixed assets.

Our results are in line with expectations and indicate the resilience of our business model.

### Dear Shareholder


Set against a backdrop of a recessionary environment, Sage has produced a robust performance. The strength of our business model and our large, international, customer base has helped us to navigate through these turbulent 12 months.

Our customers have continued to rely on us as a trusted partner in running their businesses. The demand for high quality support remains strong and the growth in recurring subscription revenues has compensated for reduced demand for software and software-related services. However, 245,000 new customers purchased software solutions during the year, demonstrating the value that our products offer to SMEs. By working closely with our high quality business partners and by supporting customers with locally based services and solutions, we have continued to grow our customer base around the world.

### Financial strength

More than 70% of the Group's profits are earned outside of the UK and exchange rate movements have had a favourable effect on our reported earnings. Statutory pre-tax profit rose by 11% to £267.4m, benefiting from a resilient business performance, currency movements and lower financing costs. We rapidly reduced our cost base during the year to reflect the challenging business environment, but we maintained our investment in R&D at £174.6m, as we continue to invest in our products and customers.

The Group remains highly cash generative, with operating cash flow of £357.6m, representing 112% of EBITA. With little acquisition activity, net debt fell by £167.4m on a currency neutral basis. We have a strong balance sheet and, during the year, we renegotiated and extended the term of our £200.0m bank facility converting it to a US\$264.0m facility, so that all of our £815.1m facilities now mature in 2011.



“Set against a backdrop of a recessionary environment, Sage has produced a robust performance.”



## Dividend

Our reliable cash flows, robust balance sheet and recurring revenue streams provide strong support for our progressive dividend policy, whilst ensuring that the Group can continue to maintain the appropriate levels of organic and acquisition-led investment.

As a result the Board is increasing the full year dividend by 3% to 7.43p per share (2008: 7.21p per share), with a proposed final dividend of 4.93p per share (2008: 4.78p per share).

## People

This has been a difficult year for our people, as we have had to adjust the business to reflect the tough economic environment. We reduced headcount by 11% during the year and we thank those employees who have left Sage for their important contribution to the development of our business. More than any other year, our employees have been remarkable in their steadfast commitment to delivering the very best for our customers during these challenging times. We thank them for all their dedication and professionalism.

We are proud of our reputation for the quality of our people and we continue to develop programmes to provide opportunities for talent to flourish. Last year we introduced The Sage Leadership Standard, a set of leadership values which define clearly what we expect from our leaders globally. We continued to roll out the Standard during 2009 and this is helping to provide a consistent approach in the way our leaders operate. It is creating a new standard of leadership across Sage, which continues to inspire the 13,400 people working to help our customers and grow our business.

## Outlook

Whilst demand for our products stabilised in the second half of the year, we are not experiencing a general recovery in our markets. Thus, we continue to manage our business prudently. Our large and international customer base, strong business model and robust finances position us favourably for the eventual market upturn. We have many opportunities to serve the changing needs of our dynamic SME customer base using our expertise and insight into a wide range of industries and markets.

### **Anthony Hobson**

Chairman



8%#

Market share in worldwide total ERP software revenues

-5%\*

Cost reduction achieved during 2009

## Overview of the year

Our UK and North American customers felt the full impact of the economic downturn in mid to late calendar year 2008. This was followed by Mainland Europe and our other markets early in calendar year 2009. Our customers acted quickly with their own businesses, managing their costs and working capital, and adapting to an environment where credit became scarce. Despite these difficult conditions, our customers continued to renew support contracts at normal rates and we continued to attract a large number of first-time customers to Sage.

As market conditions deteriorated, we took swift action to realign our own cost base and eliminated annualised costs of £53.9m, incurring one-off restructuring charges of £26.4m. This saving represented 5%\* of our 2008 cost base. However, we balanced the need to reduce our cost base with that of investing appropriately for the future, spending £174.6m on research and development in the year, and increasing the headcount in customer support by 5%.

We have made good progress in our North American business with operational improvements underway and an appropriate reduction in the cost base.

Organic revenues declined by 5%\* in the year (2008: 3%\* growth). Organic subscription revenues grew by 2%\* with demand for customer support remaining resilient. In the UK and Mainland Europe, where the customer support model is well established, subscription revenues grew 5%\* on an organic basis and in the emerging markets of Rest of World, subscription revenues showed strong organic growth of 14%\*. In North America, where the premium support model is less well established, organic subscription revenues contracted 2%\*. This represents a key area of focus for our North American business in 2010. Support contract renewals, a key measure of the underlying performance of our business model, remained high at 81% in line with the long-term average renewal rates. Payment processing, which represents 5% of total revenues and is included in subscription revenues, grew by 2%\* in the year. We believe that this area offers significant potential for the Group as SMEs seek the benefits of linking payment processing to their back office accounting systems.

As we anticipated at the start of the financial year, in these market conditions, customer demand for software and software-related services was weak with an organic contraction of 16%\* in the year. Nevertheless, 245,000 new customers purchased software solutions in the year demonstrating the value that our solutions offer to SMEs, and bringing our total customer number to 6.1m.

## Our business structure

We are focused 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. This model provides local focus alongside our global scale. 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.

\* Gartner, June 2009. Worldwide Total ERP Software Revenue Market share by Vendor, 2008.

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

## Long-term opportunities

We have identified several longer term aspirational goals for the Group. From these goals, we derive our products and services strategy, acquisition strategy, people development programmes and operational objectives throughout the Group. These goals are to:

- Be a key leader in all markets of the world;
- Develop products and services that are the most compelling fit with a customer's country and industry;
- Have the most trusted brands;
- Have the most satisfied and active customers in our industry;
- Experience superior organic revenue growth versus our peer group; and
- Be recognised as one of the most admired employers.

## Product and services strategy

The needs of SMEs continue to evolve. Increasingly, they want access to data via the web or mobile devices. They seek the ability to deploy some software solutions on the web, whilst still making extensive use of their desktop environment. We need to be flexible in allowing customers to buy or rent software as their needs dictate. Connectivity to third parties is an increasing requirement and we find SMEs trading outside their domestic market more than ever before.

Our strategy is to address the needs of SMEs by developing solutions through our in-country teams who best understand our customers' specific requirements. We take an open approach to the technology that we use, developing across a number of platforms and leveraging a range of delivery models that best meet the needs of our customers. Today, a number of services such as online payment processing, invoicing, CRM, payroll and tax filing are delivered over the web by Sage.



“We have made significant progress towards achieving our key strategic goals – ensuring we are able to deliver value through the cycle.”

For core accounting and ERP products, at present the significant majority of demand remains for those products deployed on-premise. However, as a new generation of entrepreneurs, instinctively web-centric, start businesses, we expect the proportion of accounting software delivered via the web to increase. We therefore believe that software as a service ("SaaS") for accounting will become more relevant to customers in the small and micro business market segment over time. To that end, we have launched a number of offers to address this emerging market and continue to develop products to meet customer demand.

In the mid-market, we believe that the demand for pure SaaS ERP solutions is currently limited. However, we see the opportunity to combine the advantages of on-premise applications (such as data ownership, customisation flexibility and upgrade control), with easy access to web services which complement and add value to the core application. Such web services include payroll processing, data hosting and online backup, remote access, payment services, and project management. We have, and continue to develop, offerings in this space and are in a strong position to meet this demand.

Whilst we continue to focus on local solutions and services, the trend of SMEs conducting business internationally is increasing demand for the products we sell in multiple countries. To be successful, these products must meet local requirements in each country as well as having international capabilities. *Sage Accpac ERP*, *Sage ERP X3* and our CRM products are particularly focused on meeting this demand. In the year, a number of our businesses have launched *Sage ERP X3* which has been well received by customers and industry analysts, and demonstrated growth in the year Group-wide of 13%\*.

As a Group we are focused on the overall customer experience and have launched a number of initiatives to enhance this, including the use of web technologies (such as automatic updates, information feeds and online diagnostic services). Our premium support offers, including, for example, guaranteed response times and dedicated support advisors, enhance the value we deliver to customers. Our support continues to be relied upon by our customers to help them negotiate changes in legislation and business regulation, and address market uncertainty. This has reinforced our role as a trusted business partner to them.

1.7 million

Provide advice to customers through 1.7 million support contracts

35,000

Manage around 35,000 customer calls every day

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

## Executive Committee

## Group responsibility



**Paul Walker**

Group Chief Executive

Paul is responsible for developing Sage's overall business strategy and ensuring we deliver value to our shareholders. He is accountable for Sage's senior leadership team and for making sure our global and regional teams work together to achieve our goals.



**Paul Harrison**

Group Finance Director

Paul has overall responsibility for Sage's finances and financial controls. He has direct accountability to our shareholders for performance and strategy and promoting Sage's investment case. Paul plays a key role in acquisitions and chairs the Group committee of Chief Information Officers.



**Michael Robinson**

Company Secretary and Group Legal Director

As Company Secretary Michael supports the Board, supervises share incentive schemes and compliance with stock exchange rules. As Legal Director he is involved in acquisitions, oversees legal risks and makes sure we are legally compliant in the countries in which we operate.



**Klaus-Michael Vogelberg**

Group Chief Technology Officer

Klaus-Michael represents the engineering function of Sage, overseeing the direction of technology within our business. His role includes ensuring best practice, advising our R&D function, the Executive Committee and the Board on technology and developing interoperability between Sage products.



40,000 | 30,000

Worldwide network of over 40,000 accountancy practices and 30,000 business partners

## Acquisition strategy

Whilst we did not complete any significant acquisitions in the year, acquisitions remain part of our growth strategy both for entering new markets and for strengthening our position in existing markets. Our strong balance sheet and cash conversion mean that we will be in a position to acquire attractive businesses when such opportunities arise. We will continue to use financial hurdles when evaluating acquisitions, and in particular the need to earn a return in excess of our weighted average cost of capital using reasonable financial projections for potential targets.

## 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 ongoing relationships with our customers.

## Environment

As detailed in the Corporate Responsibility report on pages 32 to 37, we are focused on understanding our environmental impacts, raising awareness of energy consumption and reducing carbon emissions. We are also helped in this by the trend in our industry towards electronic rather than printed data.

## Outlook

We have a robust business model with a strong balance sheet underpinned by reliable cash flows. Our customers continue to rely on us as a trusted partner in running their businesses more efficiently.

Conditions stabilised in the second half of the year with SMEs still investing in value-adding business management products and services. However, at this stage, we are not yet seeing a general recovery in our markets. Therefore, we will continue to manage our cost base prudently whilst ensuring the business is well positioned to take advantage of the future economic upturn.

### Paul Walker

Chief Executive

## Regional responsibility



### David Clayton

Group Strategy and Mergers and Acquisitions Director

David has overall responsibility for Group strategy and buying or selling of businesses. His remit is to provide an overarching, Group-wide strategy, fully leveraging our global capabilities whilst maintaining the decentralised ethos that has been key to our success.



### Karen Geary

Group Director of Human Resources and Corporate Communications

Responsible for our People Strategy, Karen works with our operating companies to ensure we have the right talent in place to achieve our goals. She is also responsible for Corporate Communications and Corporate Responsibility.



### Paul Stobart

CEO, UK & Ireland

Paul is responsible for the UK & Ireland region, including strategy development, business planning activities, R&D and front line and support operations ranging from sales and marketing through to human resources, business development, finance and legal.



### Guy Berruyer

CEO, Mainland Europe and Asia

Guy supervises our activities in Mainland Europe and Asia, overseeing the management teams in the individual countries. He is responsible for our growth strategy in the region, identifying potential new acquisitions and opportunities for expansion.



### Sue Swenson

CEO, North America

Sue oversees our North American businesses in the United States and Canada. She is responsible for managing the business whilst at the same time establishing clear goals, identifying and exploiting areas for growth and broadening our focus on our customers.



### Ivan Epstein

CEO, South Africa and Australia

Ivan runs the Southern Hemisphere region, encompassing both Softline in South Africa and Sage in Australia. With nine business units over two continents Ivan sets strategic direction, identifies opportunities for future growth and coordinates activities across the region.

### Reconciliation of operating to statutory results

EBITA <sup>†</sup> to operating profit	2009 £m	2008 £m	Change %
EBITA <sup>†</sup>	320.7	341.2	-6%
Impact of movements in foreign currency exchange rates		(41.4)	
	320.7	299.8	7%
Amortisation of intangible assets and net development	(40.1)	(32.4)	
Operating profit	280.6	267.4	5%
<b>Pre-tax profit</b>	<b>2009 £m</b>	<b>2008 £m</b>	<b>Change %</b>
Adjusted pre-tax profit <sup>†</sup>	307.5	314.8	-2%
Impact of movements in foreign currency exchange rates		(41.4)	
	307.5	273.4	12%
Amortisation of intangible assets and net development	(40.1)	(32.4)	
Profit before taxation	267.4	241.0	11%
<b>EPS</b>	<b>2009 pence</b>	<b>2008 pence</b>	<b>Change %</b>
Adjusted EPS <sup>^</sup>	16.63	16.63	0%
Impact of movements in foreign currency exchange rates		(2.19)	
	16.63	14.44	15%
Amortisation of intangible assets and net development	(2.17)	(1.71)	
Basic earnings per share	14.46	12.73	14%

**-4%\***

Revenues decreased by 4%\* to £1,439.3m during 2009

2008: £1,504.0m\*

**-1%**

EBITA<sup>†</sup> margin reduced to 22% (24% excluding restructuring costs)

2008: 23%\*

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

† EBITA is defined as earnings before interest, tax and amortisation of intangible assets.

^ Adjusted pre-tax profit and earnings per share are stated prior to amortisation of intangible fixed assets and after neutralisation of foreign exchange movements.

### Overview

In the year ended 30 September 2009, revenue increased by 11% to £1,439.3m (2008: £1,295.0m). Operating profit increased by 5% to £280.6m (2008: £267.4m). Profit before taxation increased by 11% to £267.4m (2008: £241.0m). EPS increased 14% to 14.46p (2008: 12.73p).

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 the left.

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 Euro exchange rate used to translate the income statement strengthened 15% from £1 = €1.31 to £1 = €1.14, which had a favourable translational impact on our financial results. The US Dollar to Sterling average rate used to translate the income statement strengthened 28% from £1 = \$1.97 to £1 = \$1.54.

In addition, the closing exchange rates at the year end saw a significant appreciation. The closing exchange rate on the Euro was £1 = €1.09 (2008: £1 = €1.27) an appreciation of 14% against the prior year end rate. The closing exchange rate on the US Dollar was £1 = \$1.60 (2008: £1 = \$1.78) an appreciation of 10% 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 2009, net debt stood at £439.4m (2008: £541.0m).

### Revenue analysis

Revenues reduced 4%\* to £1,439.3m (2008: £1,504.0m\*). Organic revenue for the year contracted 5%\*. Organic revenue contracted in the first half of the year by 4%\*. In the second half organic revenue contracted by 6%\*. Organic revenue excludes the contributions of current year and prior year acquisitions (together 2% of total revenues) and non-core products (2% of total revenues).

Total revenues for software and software-related services were £502.5m (2008: £586.9m\*), which contracted organically by 16%\*. Total subscription revenues grew by 2%\* to £936.8m (2008: £917.1m\*), benefiting from organic revenue growth in combined software/support contracts.

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 (12% of total revenues), combined software/support contracts (43% of total revenues), hosted products (1% of total revenues) and transaction services (9% of total revenues).

### EBITA<sup>†</sup>

EBITA<sup>†</sup> decreased by 6%\* to £320.7m (2008: £341.2m\*). The Group's EBITA<sup>†</sup> margin reduced to 22% (2008: 23%\*). EBITA<sup>†</sup> includes restructuring charges of £26.4m incurred in the year ended 30 September 2009. Excluding restructuring charges, EBITA<sup>†</sup> grew 2%\* to £347.1m and EBITA<sup>†</sup> margin improved to 24%.

## 20 times

Our interest cover increased due to lower debt and interest rates

2008: 10 times

## Finance expenses

Net finance expenses of £13.2m (2008: £26.4m) were lower than the prior year. The average interest rate on borrowings during the year was 2.2% (2008: 4.5%).

The 2008 interest was greater due to a higher level of average borrowings during the year and higher average interest rates. Interest cover was in excess of 20 times, increasing from 10 times in the prior year.

## Profit before taxation

Statutory profit before taxation increased by 11% to £267.4m (2008: £241.0m) and was impacted by amortisation of acquired intangible assets and net development expenditure of £40.1m (2008: £32.4m). Adjusted pre-tax profit<sup>^</sup> declined by 2% to £307.5m (2008: £314.8m).

## Taxation

The tax charge of £77.9m (2008: £74.7m) was greater than the prior year reflecting the additional profits and gives an effective rate of 29% (2008: 31%). This decrease partly reflected a reduction in headline tax rates in a number of Sage territories.

## Flat

Adjusted EPS<sup>^</sup> was flat on prior year 16.63p

2008: 16.63p

## EPS

Basic earnings (after amortisation) per share for the year ended 30 September 2009 increased by 14% to 14.46p (2008: 12.73p). Diluted earnings per share increased by 14% to 14.42p (2008: 12.69p). Adjusted earnings per share<sup>^</sup> was maintained at 16.63p.

## +3%

Our full year dividend increased by 3% to 7.43p

2008: 7.21p

## Dividend

Our full year dividend is increased by 3% to 7.43p per share (2008: 7.21p per share), with a proposed final dividend of 4.93p per share (2008: 4.78p per share).

The final dividend will be payable on 5 March 2010 to shareholders on the register at close of business on 5 February 2010.

## R&D and capex

The Group spent £174.6m in the year ended 30 September 2009 on research and development (2008: £175.2m\*). No expenditure was capitalised and £0.6m (2008: £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 2009 (including the purchase of third party software systems for internal use) was £29.8m (2008: £40.4m). The majority of this expenditure relates to IT infrastructure, both in new and replacement systems.



“Strong cash flow primarily from recurring service contracts, continues to underpin the Group’s robust financial position.”

Capital structure	Assets £m	Liabilities £m	Net assets £m
Goodwill and intangible assets	2,246.8	–	2,246.8
Property, plant and equipment	144.5	–	144.5
Current assets and liabilities	280.3	(689.2)	(408.9)
Retirement benefit obligations	–	(11.8)	(11.8)
Deferred tax	7.5	(41.2)	(33.7)
<b>Total before net debt</b>	<b>2,679.1</b>	<b>(742.2)</b>	<b>1,936.9</b>
Net debt	59.4	(498.8)	(439.4)
<b>Total as at 30 September 2009</b>	<b>2,738.5</b>	<b>(1,241.0)</b>	<b>1,497.5</b>
Total as at 30 September 2008	2,538.0	(1,291.0)	1,247.0

**£439.4m**

Net debt balance at 30 September 2009

2008: £541.0m

**112%**

Operating cash flow represents 112% of EBITA<sup>†</sup>

2008: 114%

## Goodwill

At 30 September 2009 goodwill was £2,030.8m (2008: £1,825.5m). As described in note 7, the carrying value of goodwill has been subjected to testing for impairment. The assumptions used for these purposes are described in note 7. Following this assessment, the Board concluded that no impairment of goodwill had arisen in the year.

## Capital structure

Our balance sheet at 30 September 2009 is summarised as set out in the table on the left. Net assets increased by 20% to £1,497.5m (2008: £1,247.0m) and net assets per share by 20% to 114p (2008: 95p). The main movements in the balance sheet items were in goodwill and intangible fixed assets (relating principally to the impact of foreign currency retranslation) and the change in net debt (see further “Net debt” and “Cash flow” below).

## Debt and facilities

### Net debt

The Group has net debt of £439.4m at 30 September 2009 (2008: £541.0m or £606.8m at constant exchange rates). The balance sheet remains strong with net debt to EBITDA of 1.3 times. There has been a significant change in the closing exchange rates used to translate the debt at 30 September 2009 compared to 30 September 2008 as explained above, which has resulted in a foreign exchange translation movement of £72.1m on the debt drawings. Over the year, strong cash generation reduced net debt by £167.4m on a constant currency basis. 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 £13.8m have therefore been funded by debt financing.

### Cash flow

The Group remains highly cash generative with operating cash flow of £357.6m, representing 112% of EBITA<sup>†</sup> (2008: 114%). After interest, tax and net capital expenditure, free cash flow was £259.2m. The net cost of acquisitions and disposals completed in the period was £1.8m.

After dividends of £95.1m and other movements of (£60.7m), including exchange movements, net debt stood at £439.4m at 30 September 2009 (2008: £541.0m).

## Facilities, cash management and gearing

The Group is funded through retained earnings and multi-currency revolving credit facilities totalling £815.1m, which expire in 2011. At 30 September 2009, £460.6m had been drawn under these facilities. The Group continues to explore opportunities to enhance and diversify its funding sources in the current capital market conditions. A rigorous counterparty evaluation process is maintained.

## Treasury and risk management

The Group’s Treasury function seeks to ensure liquidity is available to meet the foreseeable needs of the Group, to invest cash assets safely and profitably and reduce exposures to interest rate, foreign exchange and other financial risks. 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 with respect to changes in economic conditions and the strategic objectives of the Group.

<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of intangible assets.



### 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 optimising 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. Continued strong credit control ensured that in the year ended 30 September 2009 we did not see a deterioration in days' sales outstanding. 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. All counterparties must meet minimum credit rating requirements.

### Interest rate risk

The Group is exposed to cash flow interest rate risk on floating rate borrowings. At 30 September 2009, the Group had drawn down £460.6m (2008: £575.4m) from its committed revolving credit facilities. The Group regularly reviews forecast debt and interest rates to monitor this risk. Interest rates on a portion of debt are fixed when management decide this is appropriate. During the year £93.8m of debt was fixed at an average interest rate of 1.70% (excluding margin) until 30 April 2012. At 30 September 2009, all remaining 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 partly 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. Surplus cash generated by the Group's principal overseas subsidiaries is used to repay debt in the same currencies to provide a further natural hedge.

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 2009 and 30 September 2008, 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

Group Finance Director

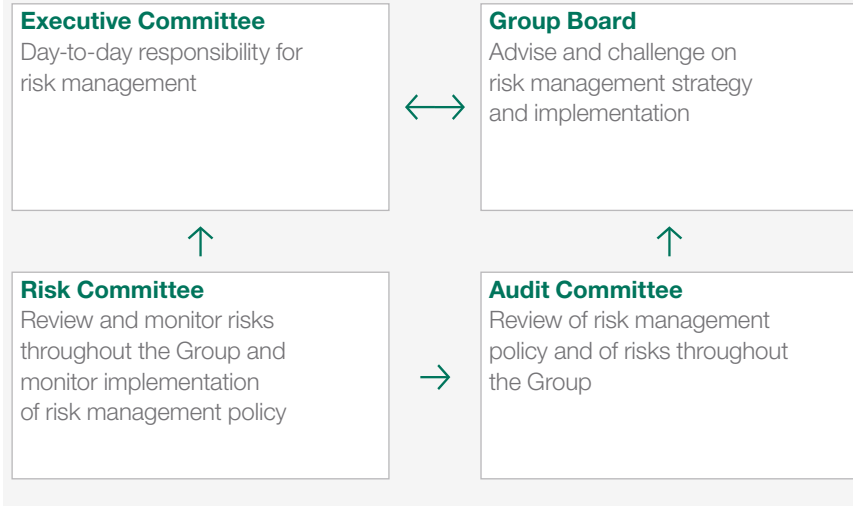
# 18 Principal risks and uncertainties

Risks can materialise and impact on both the achievement of business objectives and the successful running of Sage's business. A key element in achieving business objectives and maintaining services to customers is the management of risks. Sage's risk management strategy is therefore to support the successful running of the business by identifying and managing risks to an acceptable level, and delivering assurances on this.

### Operational processes:

- Group compliance framework
- Detailed risk management policies
- Code of ethics
- Whistle-blowing policy
- Organisation and culture
- Delegated authorities
- Group and local risk committees
- Local, decentralised business processes

### Risk management responsibilities and processes:



Business review

## Sage is a worldwide company facing a number of wide ranging international factors

Risk description	Potential impact	Mitigation
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, including Payment Card Industry compliance and unexpected changes to economic and market conditions are specific risks associated with managing our business.	Any failure to maintain compliance with relevant laws or changes in regulation or any failure to adapt to market changes or local business conditions could have a material, adverse impact on our business. Specific impacts would include deterioration in financial results, financial penalties and damage to our reputation.	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. We continually review all relevant local geography requirements to ensure appropriate policies and controls are developed. Our Group-wide compliance programme seeks to ensure that local operating companies continually manage and review local rules and regulations. Our detailed quarterly forecasting process helps to ensure robust and realistic challenge to financial performance.

## Sage faces significant competitive risk

Risk description	Potential impact	Mitigation
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.	If we are unable to compete in the market in which we operate, our financial results would deteriorate through loss of our customer base.	Through the provision of customer support and our strong brand, we continue to engender loyal customer relationships. Our strategy to develop our product and service offering to meet local customer needs further improves customer loyalty.

## Sage is heavily dependent on information systems and networks

Risk description	Potential impact	Mitigation
<p><b>We rely significantly on systems and networks in order to run our business operations on a day-to-day basis. Our reliance on systems and networks includes internally managed and externally provided systems and networks.</b></p>	<p>Any external malicious attack on the systems and networks could lead to misappropriation of or damage to 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.</p>	<p>We continue to invest in our internal systems and networks and build and develop relevant recovery processes. We also continue to review our security, systems and network infrastructure to ensure that, 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.</p>

## Sage must ensure it is able to react to ongoing technology changes

Risk description	Potential impact	Mitigation
<p><b>Technology in the software industry is constantly changing. In order to be successful within the software sector, Sage 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.</b></p>	<p>Changing technology places demands on employees, particularly R&amp;D teams, to stay up-to-date with technology changes and customer demands. An inability to adapt to changing technologies would adversely affect our competitive position.</p>	<p>Through our substantial dialogue with customers we are well placed to develop and expand our product and service offering to meet customer needs. We also develop appropriate strategic direction and maintain knowledge of industry developments to ensure a proactive response to changing customer requirements.</p>

## Sage must ensure its intellectual property is appropriately secure

Risk description	Potential impact	Mitigation
<p><b>We rely on intellectual property laws, including laws on copyright, patents, trade secrets and trademarks to protect our products. Despite laws and regulations being in place, unauthorised copies of software still exist. The internet increases and provides new methods for illegal copying of the technology used in our products and services.</b></p>	<p>Illegal or unauthorised copies of our software could be sold without our knowledge, impacting financial results and Sage's reputation.</p>	<p>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.</p>

## Sage must ensure it manages its exposure to fluctuations in foreign exchange rates

Risk description	Potential impact	Mitigation
<p><b>A substantial proportion of Sage's revenue and profit is earned outside the UK. Subsidiaries generally only trade in their own currency, therefore Sage is not subject to significant foreign exchange transactional exposure. Sage's principal exposure to foreign currency therefore lies in the translation of overseas profits into Sterling, the fluctuation in the value of foreign currency denominated assets and liabilities in the balance sheet and any conversion of foreign currency surplus cash into Sterling.</b></p>	<p>The accounting profits of the Group and the book value of assets and liabilities are subject to the fluctuation in foreign currency rates. The conversion of foreign currency denominated surplus cash balances into Sterling are also subject to the effects of foreign currency fluctuations.</p>	<p>The Group has US Dollar, Euro and Swiss Franc denominated borrowings which act as a natural hedge of the net investment in its subsidiaries in the US, France, Spain, Germany and Switzerland. The interest on this debt also acts as a partial hedge against the translation exposure of the Group's overseas profits into Sterling. When surplus cash is generated in overseas subsidiaries this is used to repay debt interest and principal in the same currency, therefore effecting a further natural hedge. Due to this extensive natural hedging, the Group does not currently hold any derivative financial instruments to hedge foreign exchange exposure.</p>



“Over 2,000 customers per month are taking the opportunity to rate us on the quality of the experience we provide.”

**+** Meet one of our customers:  
Antony Comyns, e-commerce manager  
at Hawes & Curtis discusses the benefits  
to his business.  
[www.ar2009.sage.com](http://www.ar2009.sage.com)

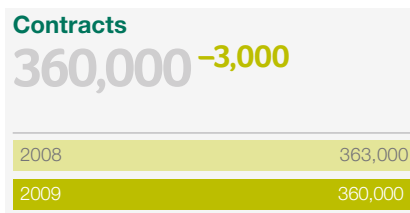
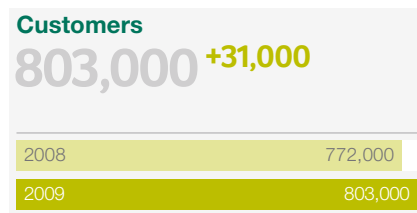
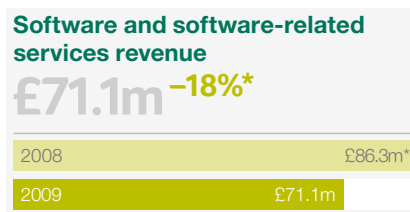
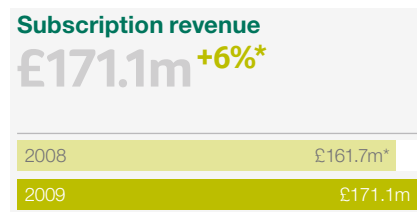
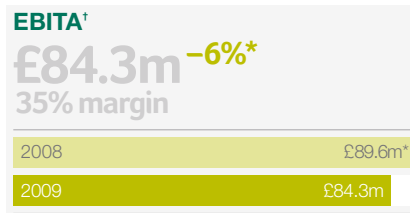
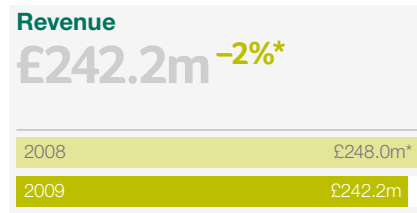




# Regional reviews

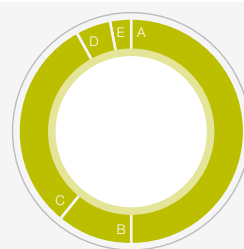
## UK & Ireland

Including:  
**United Kingdom | Republic of Ireland**  
CEO:  
**Paul Stobart**



**Revenue by sector**

A	Accounting	50%
B	Industry-specific	11%
C	HR and payroll	31%
D	CRM	5%
E	Payment processing	3%



**Sage Pay**  
During the year the infrastructure supporting the Sage Pay gateway was strengthened further, and the Protix brand name was changed to Sage Pay. We have begun to win more mid-market customers who have different needs to SME customers and we have had to make significant changes to the way in which we look after these accounts to meet their expectations. We now have more than 25,000 Sage Pay customers and are committed to a broader payments strategy to improve our competitive position within the next 12 months.



**Sage in the community**  
The UK team has completed over 817 hours of volunteer work in the local community on numerous projects to help charities and other community groups. This year the UK business also provided a call centre to help process donations for a national charity day "Comic Relief". Over 860 hours were worked by Sage volunteers on the phones through the evening and into the night to help collect donations on behalf of the charity.

## Performance

Total UK revenues declined by 2%\* to £242.2m (2008: £248.0m\*). Organic revenue declined by 3%\*, with organic subscription revenues growing at 5%\*, while organic software and software-related services revenues contracted by 19%\*.

Sage Pay (formerly Protix) delivered strong growth of 42% benefiting from growth in online purchasing, and Practice Solutions for accountants grew by 8%\* with a number of new product and service offerings. Our accounting and ERP products including Sage 50 contracted 5%\* reflecting the difficult economic conditions.

The EBITA<sup>†</sup> margin, including restructuring charges of £6.9m incurred in the year, was 35% (2008: 36%\*). Excluding restructuring charges, it was 38%.

## Marketplace

### Supporting customers through the downturn

Whilst our UK & Ireland customers were affected by the challenging market conditions, we acted swiftly to realign our business to support them during a significant change to UK taxation and also by the provision of value added products and services.

The strength of our decentralised business structure and our local customer support was demonstrated in December 2008 when the UK's Value Added Tax ("VAT") rate was decreased with less than a week's notice. This affected the majority of our customers, resulting in a surge in call activity and the need to update our software swiftly. However, we were able to leverage our resources to make these changes within the five working days notice we were given as well as support our customers through this considerable upheaval, further enhancing our position as a trusted business partner.

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

† EBITA is defined as earnings before interest, tax and amortisation of intangible assets.

The resilience of our support model and our focus on delivering services that customers value, trust and rely on was illustrated by the success of the *Sage Accountants Club Priority Link* (“ACPL”). This premium support service, which provides accountants with instant access to highly qualified technicians, has delivered exceptional service levels resulting in revenue growth for ACPL and our Accountants Club of 21% over the year.

## Longer term opportunities Preparing our business for growth

The Sage identity enjoys strong awareness in the SME market. This year our marketing campaign included sponsorship of a series of programmes called The Krypton Factor on ITV, a leading commercial television channel. The combination of the programmes which attracted an audience of seven million every week and the associated digital marketing have further increased awareness. By keeping our identity at the forefront of existing and potential customers’ minds, particularly during a period of economic downturn when many competitors are reducing their investment in this area, we are well placed to benefit when the upturn comes. We have renewed our sponsorship of The Krypton Factor for 2010 and intend to continue to maintain a relevant and contemporary Sage identity.

Providing products and services that are easy to use is essential. Therefore, our focus will be on improving the user experience rather than introducing more features into our product portfolio. We will also increase the flexibility of our licensing and pricing, automate and simplify deployment, ensuring products can be downloaded from the web and further improve product integration. Business advice services will become more tightly embedded into products ensuring customers get maximum value from their *SageCover* support contracts. SaaS and hybrid models will also become more prevalent as we integrate desktop products with web services. Finally, we will take a far more “open” approach to our software, meaning that we will make it much easier for third parties to integrate their offerings with ours.

## Customers

We spend a great deal of time assessing how well we look after our customers. An innovation this year was the introduction of the “Cust-o-Meter” which enables customers to give us real-time feedback on their experience of working with Sage. On completion of a short online questionnaire, a live feed updates a widget installed on all Sage employees’ PCs so we can see how we are performing, can improve our software and services and if necessary put in place a recovery call if a customer is not happy. Over 2,000 customers per month are taking the opportunity to rate us on the quality of the experience we provide.

Not only do we put significant resource behind our telephone based support – we handled over 1.8 million calls this year – but also we have expanded our online support offering with a knowledge base that now holds over 15,000 articles and receives approximately 20,000 visits per month. This commitment to providing an outstanding service has resulted in more than 87% of our customers being satisfied or better with the service we offer.

## People

Our people are fundamental to our success and despite the hard decisions we had to make this year in terms of redundancies we have continued to invest in our people’s development and skills, with approximately £450,000 spent on training in the UK. We also provide Educational Sponsorships and a training course website. Development programmes included “Aspire”, which was piloted during 2009 and is designed for new managers to Sage. It completes the trio of leadership programmes we have had under development in the last few years: “Aspire” for new managers, “Enable” for middle managers and “Inspire” for senior leaders.

Listening to our people is essential if we are to understand truly how they feel about the organisation and are to help bring to life their ideas and initiatives.

This happens informally on a continual basis but also through formal employee forums and an annual survey, “Engage”, which is designed to help measure employee engagement and job satisfaction. We received an 81% response rate and the feedback will help us to identify what we are doing well, as well as areas where we need to improve.

## Innovation

Encouraging innovation and creativity is essential, especially in the tough environment we have faced. We judge innovations on the benefits they bring to our customers. Therefore, this year we developed innovative software and services designed to help customers more efficiently manage their business and their cash flow. This included the introduction of free, downloadable invoicing software and free *Planning for Business* software which was launched as part of Lloyds TSB Commercial’s business banking package.

## Corporate responsibility

Our aspiration is to become a truly responsible business and embed this ethos into all that we do, behaving ethically, considering the environment and the impact of our business operations. In line with our Group-wide approach to corporate responsibility we focus on local initiatives and communities.

Part of our commitment to communities involves engaging with schools and universities that are local to our offices. This year we have piloted an education scheme where we send our people as Education Business Partners out into schools to run events and share their skills and experiences alongside local Young Enterprise Schemes. We have also been working on a National ICT Diploma to help people develop IT skills at an early age.

Having measured our carbon footprint, we are now working with our teams of environmental volunteers to reduce our impact and have launched a campaign called “It’s easy being green” to improve recycling, cut waste and energy usage and provide options such as a cycle to work scheme.



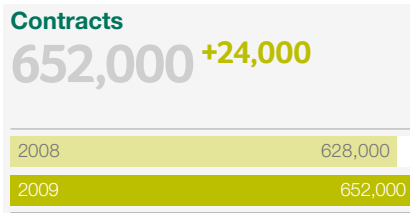
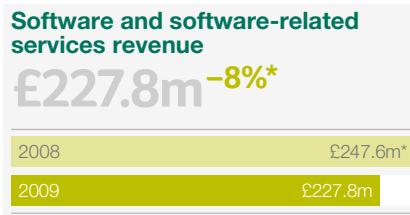
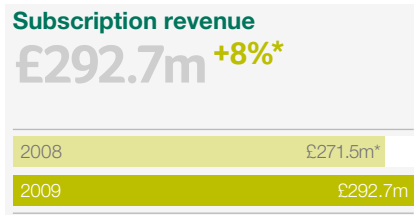
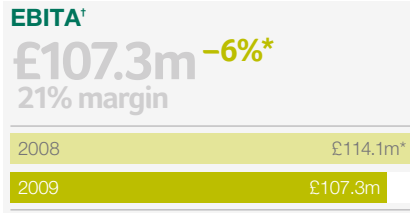
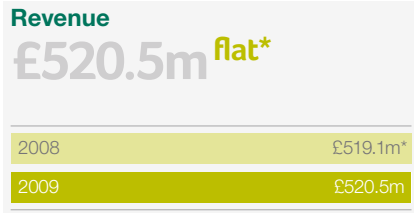
“There have been 100,000 downloads of *Ciel Auto Entrepreneur Facile*, a free accounts and invoicing solution.”

[+ Read more about our Mainland Europe business overleaf](#)

# Mainland Europe

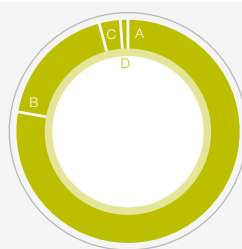
Including:  
**Austria | Belgium | France** (including subsidiaries in Brazil and Morocco) | **Germany | Poland** | **Portugal | Spain | Switzerland**

CEO:  
**Guy Berruyer**



**Revenue by sector**

A	Accounting	78%
B	Industry-specific	18%
C	HR and payroll	3%
D	CRM	1%
E	Payment processing	0%



## Performance

Total revenues in Mainland Europe were flat\* at £520.5m (2008: £519.1m\*). Organic revenue contracted 3%\*, reflecting the economic slowdown which became apparent in early calendar year 2009. Subscription revenues continued to show good organic growth of 5%\*, while software and software-related services revenues contracted organically by 13%\* after very strong growth in the prior year.

Revenues in our French business declined 2%\* organically in the year. The slowdown in France has had more impact on our vertical and CRM businesses than on our accounting and ERP businesses which still showed overall growth in the year. Spain experienced total revenue growth of 6%\*, reflecting the contribution of acquisitions in the current and prior year. As anticipated, organic revenue contracted 7%\*, reflecting the exceptional growth of 25%\* in the prior year resulting from the stimulus of major legislative change, and also the severe impact of the economic slowdown in Spain in 2009. German revenues were flat\* organically, with the benefit of increased renewal rates on support and continued growth in payroll and entry-level products offsetting general market weakness. Our smaller businesses in Mainland Europe, including Switzerland, Portugal and Poland declined 9%\* overall in slowing market conditions.

The EBITA<sup>†</sup> margin, including restructuring charges of £8.8m incurred in the year, was 21% (2008: 22%\*). Excluding restructuring charges, it was 22%.

### Change in accounting standards

Portugal will be adopting the International Accounting Standards ("IAS") on 1 January 2010. Capitalising on our experience of helping our Spanish customers through similar legislative change, we are providing training, a helpdesk and software to support Portuguese SMEs through this. We also conducted two events to educate businesses on the impact of the changes. These were so oversubscribed we had to repeat them, with over 4,000 people attending in total.

### Supporting North African customers

We have maintained our presence in North Africa, supporting our customers in these markets when some competitors have been reducing their investments. We have at least one business partner in every French speaking country in Africa and conducted a road show which toured six countries, meeting 850 Sage customers.

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

† EBITA is defined as earnings before interest, tax and amortisation of intangible assets.



## Marketplace

### Supporting customers through the downturn

In Spain, Sage's Small Business Division hosted road shows across the country to give business partners more information and assistance during the economic downturn. The road shows took place in seven of the largest cities in Spain and gave business partners practical assistance by providing a toolkit for them to help customers effectively with the new challenges they face. A series of initiatives to help business partners through the economic crisis were also launched at the road shows. These included full adaptation of all Sage products to the new VAT Law Reform in Spain, modifications to the business partner programme and the implementation of various financing solutions for SMEs to enable easier purchase of Sage software.

Sage Germany responded to customer needs by developing product bundle promotions to address their particular local points such as cash management or staff cost planning as well as business intelligence tools for those customers seeking to understand better their business relative to their competition.

### Longer term opportunities Preparing our business for growth

In France, Sage has a well established relationship with APCE ("Agence pour la creation d'entreprises"), the government body promoting business start-ups. In January 2009, new regulations were introduced incentivising people to create their own jobs – "Auto Entrepreneurs" – as a first step towards establishing new businesses. In response Sage launched *Ciel Auto Entrepreneur Facile*, a free accounts and invoicing solution dedicated to these aspiring business people. Available as a download from the APCE and *Ciel* websites this initiative reinforces our reputation as a trusted partner and generates long-term loyalty amongst these new customers.

It has also led to us becoming a key point of reference for French public authorities and national institutions when they need advice on issues affecting entrepreneurs. In the first year 240,000 people have become "Auto Entrepreneurs" and there have been 100,000 downloads of our software.

Demand for online services will continue to grow and we are investing in this area, for example through the development of web versions of our software and in Sage Germany the creation of a new business unit, Sage Online Services, to oversee the development of their SaaS offerings. More of our customers are operating and expanding internationally and, in response to this, *Sage ERP X3* was launched in Germany and so it is now available in all our main European markets.

## Customers

Listening to and acting on customer feedback is important for all of our businesses. In Germany, we launched an SME customer portal which provides opportunities for our customers to give feedback on our products and to rate their business partner. We also created a tool to encourage dialogue with people who visit Sage Germany's website – a window pops up and invites them to a website to enter an online chat about the product or service they are interested in.

## People

This year we have launched a wide range of initiatives for our people across Europe. In Poland, an intensive development programme was introduced to fast track young talent. In France a new compensation and benefits programme was published online, which includes a profit sharing plan, and in Germany more flexible working options, including a sabbatical programme, adaptation of working hours for single parents and home working were instigated.

## Innovation

Sage Germany launched *einfachLohn* – "simple payroll" – which is a new SaaS application for small businesses. It is designed to help them easily manage their payroll processes and automatically generates the associated legal documents for health insurance or tax purposes and submits them electronically to the appropriate institutions.

To create such an innovative new product, which took just nine months to develop from scratch, we put together a small team of experts at our Leipzig office. At their request the development took place in a separate unit outside the office. This allowed the team to work in secret, testing various delivery and development methods with prospective customers to ensure they created a product that truly met their needs. To ensure robust security, a group of external specialists and hackers were invited to simulate attacks on the live service, and they failed to break into the system. A creative, online marketing campaign, including an online community for potential users, supported the launch. Through the interaction with potential customers during the development phase we were able to generate 220 paying customers before the product officially came to market.

## Corporate responsibility

Corporate responsibility is driven locally to ensure it is meaningful to local communities. Consequently we supported a wide range of causes including, in France, a donation of €40,000 to "SOS Village d'enfants", a collection for "Secours Populaire Francais" of clothes and other essential items (together with donations of €6,900) and a strategy to help bring the business closer to local schools through events and participation in education. In Germany we provided financial support to "Die Tafel", an organisation that allocates food to homeless people in Frankfurt, Mönchengladbach, Leipzig and Stuttgart and to "Delhi House", a centre for homeless people. Sage Poland sponsors and organises the national "Accountant of the Year" competition which is the most admired competition in the profession.





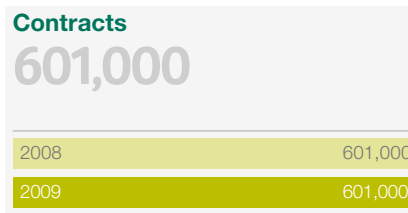
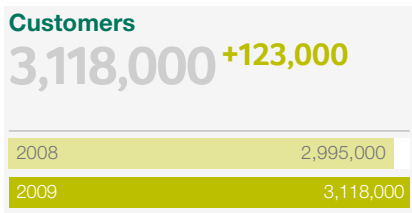
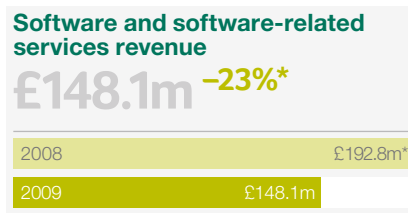
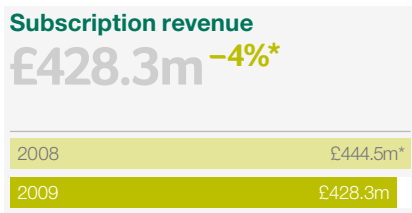
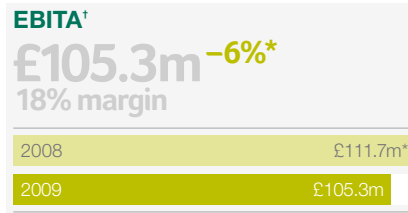
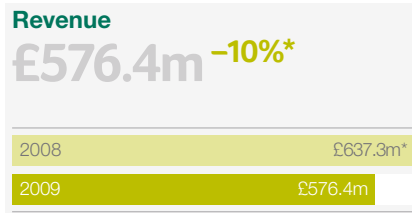
“To be successful, you’ve got to find ways to get the job done... that’s what I like about *Sage MAS 200*: plain and simple, it gets the job done.”

**Odom Dexter**  
Dexter’s Farm

## Regional reviews

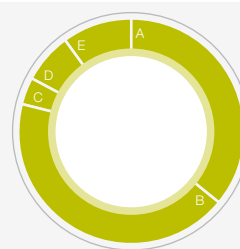
# North America

Including:  
**Canada | United States**  
CEO:  
**Sue Swenson**



**Revenue by sector**

A	Accounting	36%
B	Industry-specific	43%
C	HR and payroll	4%
D	CRM	7%
E	Payment processing	10%



### Simply Accounting education programmes

We are seeding our future through our education programmes across North America, where over 4,000 educational institutions use a Sage product (*Peachtree* or *Simply Accounting*) to teach the principles of accounting.



### Intergy Practice Portal

Our *Intergy Practice Portal* has equipped physician practices with patient self-serve features to accommodate their patients over the web, particularly around new patient registration, appointment scheduling and prescription refill requests. New functionality was introduced in FY09 to provide patients with additional connectivity including the ability to complete a medical health history questionnaire and create and maintain a personal health record. These innovations drive efficiencies, increase patient safety, and support the migration toward electronic health record management.

## Performance

Total revenues in North America contracted 10%\* to £576.4m (2008: £637.3m\*), reflecting the difficult economic conditions. Organic revenue contracted 8%\*. Organic subscription revenues declined 2%\*, while organic software and software-related services revenues declined 23%\*.

Phase 1 of the changes to our North American business has been successfully completed with the new management team in place and an appropriate reduction of the cost base. Operational improvements planned in Phase 2 are underway including reinvigoration of the channel, growth in premium support offers and several product launches. We are making good progress in these areas and have seen increases in customer satisfaction scores across our product lines.

Sage North America is organised into three divisions, Sage Business Solutions Division ("SBS"), Sage Payment Solutions Division and Sage Healthcare Division. SBS declined organically 11%\*, the downturn particularly impacting our mid-market accounting products, CRM products and *Sage Timberline Office* which serves the construction industry. Our entry-level accounting products (*Peachtree* and *Simply*) delivered resilient performances with continued growth of *Peachtree Quantum*. Non-Profit Solutions performed well in the challenging market conditions and grew modestly. Sage Payment Solutions Division saw a 15% increase in the number of merchants served but lower volume per merchant leading to a fall in revenue of 4%\*. Payments revenue from cross-sell to our existing customers grew, from a small base, by over 100%\* in the year and we regard this as a substantial future opportunity for Sage.

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

† EBITA is defined as earnings before interest, tax and amortisation of intangible assets.

Sage Healthcare Division has improved its EBITA<sup>†</sup> margin in the year to 17% (2008: 8%\*). We have improved customer service levels and so reduced customer losses in our *Medical Manager* base. Although Healthcare revenues declined overall by 5%\*, revenue from the *Intergy* product line, including Electronic Health Records (“EHR”) capability, grew by 13%\* to £71.2m. *Intergy*, with its accredited, market-leading EHR solution, is well positioned to benefit from incentives within the American Recovery and Reinvestment Act for the adoption of EHR.

The EBITA<sup>†</sup> margin of Sage North America, including restructuring charges of £10.7m incurred in the year, was 18% (2008: 18%\*). Excluding restructuring charges, it was 20%.

## Marketplace

### Supporting customers through the downturn

Our North American customers felt the full impact of the downturn in mid to late calendar year 2008. To help them through this we introduced various payment and financing packages, free and low cost options as well as solutions to help them better manage their cash flow.

These included *Peachtree by Sage* which launched a six month instalment plan in December 2008. Approximately 20% of *Peachtree* upgrades are now sold with this option. *MAS 90* introduced a monthly payment option for service contracts which has benefited over 1,000 customers. *Simply Accounting by Sage* rolled out a free downloadable version of its entry-level product, *Simply Accounting First Step*. So far approximately 3,000 businesses have downloaded this version. Further, a *MAS 90* credit card processing module was given away for free to customers that also sign up for our merchant services. This “cash flow bundle” is positioned to help customers collect cash and 300 *MAS 90* customers have taken advantage of it this year.

## Longer term opportunities

### Preparing our business for growth

The US Healthcare market represents a significant opportunity for growth. Our market-leading, industry-accredited products position us well to leverage future demand for EHR solutions. This is primarily being driven by funding for adoption of EHR in the American Recovery and Reinvestment Act. We are actively pursuing opportunities presented by the Act, concentrating on building brand awareness, sales effectiveness and the development of strategic relationships with purchasing organisations and government agencies.

Within our Payment Solutions Division, we are actively diversifying our current customer base, shifting from a high concentration of merchants in the retail space by selling merchant services to existing North America customers in other sectors. As the economy recovers it is likely we will see an increase in processing volumes from our merchant base as consumer confidence rebounds.

Emphasis is being placed on enhancing our premium support offerings to provide additional value to our customers while also growing average revenue per customer. Initiatives are underway to increase the penetration of support contracts into our customer base and expand our offerings to include other premium components such as business advice and extended hours support.

We have enhanced our channel partner compensation structure to drive and reward growth, are leveraging detailed partner segmentation models to identify better individual partner performance and are seeking to expand the channel in key areas to ensure appropriate geographical coverage and capacity to serve future demand.

## Customers

Our North American support organisation is being reshaped to ensure we resolve customer requests quickly and accurately while also continuing to increase the calls we make to our customers. A Customer Service Council has been created to focus on making it easier for customers to do business with Sage. Tangible improvements include the introduction of a live answer for our main “toll free” 800 number which gets customers to the right place the first time. A training programme called “Voice of Sage” has been rolled-out to our customer support staff, emphasising the key attributes that create a more satisfying and consistent customer experience.

Over the year significant investment was made in online customer communities. This included the launch of SageSpark and MyBizCounts – online communities which provide business owners and those considering starting a business with tools, education and community support. Sage North America also launched online communities for *Sage MAS ERP* and *Sage FAS Fixed Assets* customers, adding to more than a dozen other customer communities the company hosts.

## People

The passion, expertise and ideas of our people are one of our key strengths. We actively seek to leverage this, for example through employee surveys and round table sessions hosted with employees from all levels of the organisation. One such idea resulted in the development of “Ask Me”, a programme designed to share knowledge more effectively and answer customer questions about different parts of the business, as well as improve the cross-selling of our solutions.

We have created a “top down” coaching programme to provide leaders with a common approach to developing employees. This has been delivered to more than 60 senior leaders and will be rolled out to different levels of management over the coming year.

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

† EBITA is defined as earnings before interest, tax and amortisation of intangible assets.

Our North American leadership team has also been strengthened through the recruitment of a Chief Technology Officer, Chief Information Officer and Presidents of SBS and our Payment Solutions Division. All bring industry expertise and experience to the business and will help ensure we are well positioned for the future.

## Innovation

The most significant innovations this year were the introduction of two free online services focused on helping new entrepreneurs. The first is a community site, [www.SageSpark.com](http://www.SageSpark.com), where small businesses can tap into advice from experts and fellow entrepreneurs. The site provides free access to invaluable tools and services to help businesses save time and money. While on the site, members can also take advantage of fee-based services such as payment processing, live computer support and web page creation and promotion. The second is *Billing Boss*, a free online invoicing tool designed for small businesses and freelancers to create, send and track invoices helping them get paid faster and better manage their cash flow.

## Corporate responsibility

Sage North America continues to be focused on its local community. The business hosted an annual event celebrating Sage Day, where we partnered with other Sage locations around the world in support of charitable giving. Sage North America centred their activity on a theme of "Change One Thing". During this event a food drive was conducted for Hunger Task Forces across the US and Canada with food donations totalling more than 17,000 pounds or 7,700 kilograms.



## Rest of World

Asia – region includes:  
**China | Dubai | India | Malaysia  
Saudi Arabia | Singapore**

CEO Asia:  
**Guy Berruyer** (left)

Southern Hemisphere – region includes:  
**Australia | Botswana | Namibia | South Africa**

CEO Southern Hemisphere:  
**Ivan Epstein** (right)



### Revenue

**£100.2m** +1%\*

2008	£99.6m*
2009	£100.2m

### Subscription revenue

**£44.7m** +14%\*

2008	£39.4m*
2009	£44.7m

### Customers

**545,000** +44,000

2008	501,000
2009	545,000

### EBITA<sup>†</sup>

**£23.8m** -8%\*  
24% margin

2008	£25.8m*
2009	£23.8m

### Software and software-related services revenue

**£55.5m** -8%\*

2008	£60.2m*
2009	£55.5m

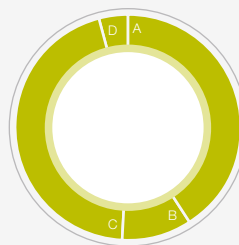
### Contracts

**166,000** +12,000

2008	154,000
2009	166,000

### Revenue by sector

A	Accounting	41%
B	Industry-specific	10%
C	HR and payroll	45%
D	CRM	4%
E	Payment processing	0%



### Innovation

Dressta Asia Pacific Pte. Ltd, a Sage Accpac ERP customer in Singapore, provides heavy machines and parts to 20 distributors in Asia, Australia and New Zealand. When a machine breaks down it is important for Dressta's partners to provide a quick quote and information on availability. Sage developed web and SMS applications that integrate with Sage Accpac ERP enabling direct enquiries online or via mobile phones, saving time and money in the ordering and replacement of parts.

**Sage Accpac ERP**

### Sage in the community

Softline, Sage's business in South Africa, continues to sponsor the Thuthuka programme, which is a scheme to support the advancement of previously disadvantaged students at school level. The focus is on accountancy, maths and science and 60 state schools took part in the programme this year.

## Performance

Total and organic revenue in Rest of World grew by 1%\* to £100.2m (2008: £99.6m\*). Organic subscription revenues showed strong growth of 14%\*, while organic software and software-related services revenues contracted by 8%\* after excellent growth in the prior year.

South Africa showed organic revenue growth of 9%\*, with both accounting and payroll solutions performing well. However, the impact of the recession began to be experienced in the fourth quarter of the financial year. Australia declined 3%\* organically, reflecting the slowing economy, and our Asian businesses, with relatively less mature service offerings declined 15%\*.

The EBITA<sup>†</sup> margin was 24% (2008: 26%\*), reflecting the difficult market conditions in Asia.

## Marketplace

### Supporting customers through the downturn

Our businesses in Rest of World cover a diverse geographic region with differing market conditions. For example, in South Africa there was a lag effect relative to the world economic recession, with the financial problems in the Western world being felt later in 2009 and particularly affecting the manufacturing and export sectors. As with many of our businesses this presented us with the challenge of maintaining service excellence whilst at the same time managing our costs.

We achieved this by concentrating on providing software and service solutions that give clear benefits to our customers. These ranged from SaaS applications, to instalment payment options and web-based training on issues directly affecting businesses, such as retrenchment processes.

\* Foreign currency results for the prior year ended 30 September 2008 have been retranslated based on the average exchange rates for the year ended 30 September 2009 of \$1.54/£1 and €1.14/£1 to facilitate the comparison of results.

† EBITA is defined as earnings before interest, tax and amortisation of intangible assets.



We also successfully introduced new software into these markets, such as *Sage ERP X3* in South Africa which was well received by customers due to its combination of excellent functionality and low total cost of ownership.

In Malaysia we launched a variety of tools to help customers face the challenging times including end-to-end electronic payment solutions designed to save time and improve cash management, credit assessment tools, mobile solutions and integrated CRM and accounting systems.

## Longer term opportunities

### Preparing our business for growth

The support, guidance and training we give is especially important in developing economies, such as South Africa, where there is a continually evolving legislative landscape particularly in respect to payroll. There is also a significant shift occurring in this market from manual to electronic tax submissions as well as a move to monthly tax submissions which is being phased in over the next three years. This will place a strain on our customers, who will increasingly look to Sage to support them through these changes and provides us with an opportunity to enhance further our position as an invaluable and trusted partner of their business.

Our investment in products and services continues and we will expand our online offerings, introducing new products in 2010. We will also make further progress with *Sage ERP X3* as our flagship upper mid-market product suite in both South Africa and Australia. In the latter, we plan to expand our payroll and HR solutions to meet the needs of larger organisations with more complex requirements and introduce employee services portals to provide a more cost effective offering for our smaller customers.

Our Indian business is developing *Sage Pocket Payroll* to make it a mass proposition at the entry-level as well as setting up strategic alliances with key partners, such as systems integrators and consulting firms, to accelerate market penetration. We will also continue to invest in infrastructure, such as our telephone system in Singapore, to improve the experience our customers receive.

## Customers

Our local approach is well suited to meeting the needs of our diverse range of customer in this region. We deliver locally developed solutions as well as leveraging existing global solutions such as our CRM products, *Sage Accpac ERP* and *Sage ERP X3*. Whichever solution our customers choose, they are supported locally, either through our business partner network or directly via Sage.

We continually look for ways to share expertise and experience around the region. This was demonstrated by our Singapore business which has replaced its basic support plan with a tiered offering of Basic, Standard and Premium contracts, reflecting the model we use in some of our more mature markets. This has provided our customers with greater choice and has improved our response rate from less than 30% to above 70%.

## People

The Sage Leadership Standard has been embraced in the region. Initiatives designed to embed this within the business ranged from formal discussions to informal cross team activities. The Sage Guiding Principles are fundamental to how we conduct our business and we have developed an award programme for demonstrating these in the workplace. We have introduced an online employee reward system, which also enables employees to contribute to charitable causes at the click of a button, long service awards and management development programmes.

## Innovation

Softline Pastel launched its first online, or SaaS, accounting system this year. *Pastel My Business Online* is aimed at the SME market and was designed from scratch specifically for business owners who are starting out with very little bookkeeping knowledge and require a basic system. Accessible online, it is a multi user system that is also integrated to the iPhone, giving our customers mobility as well as allowing their accountant to log on, enabling them to work seamlessly with their client. Innovations such as this demonstrate our commitment to delivering software and services that utilise the latest technology where it adds clear value to our customers.

## Corporate responsibility

Each of our businesses throughout Rest of World selects its own charities and community projects to support. In South Africa we have prioritised educational initiatives and where possible target the field of IT education and training for young people. In Malaysia we support a local Cheshire Home, and have restored their dragon fruit farm which is a key source of income for them, whilst our Australian employees raised money and donated blood to help victims of the February bushfires.



**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.**

**We established this policy in 2008 and it has continued to apply during 2009. The policy has four areas of focus – industry, people, community and environment. These initiatives, and some examples, are illustrated here but please visit our website ([www.sage.com](http://www.sage.com)) to read our full Corporate Responsibility Report, which includes many more examples of our policy in action.**

## Industry

With over six million customers, most of which are small to medium-sized businesses, Sage is in a unique position to have a positive impact on the world of industry and commerce and we have focused on two key areas this year; supporting SMEs through the recession and developing the entrepreneurs of tomorrow.

# Making a difference

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

## People

Our focus on people remains unchanged. We continue to work hard to develop talent, improve leadership and raise engagement levels. It has been a challenging year as we have had to make some jobs cuts and impose recruitment freezes in some parts of our business in response to difficult market conditions. However, we have introduced development programmes at a local and global level to improve the quality of leadership, extended local programmes to recognise exemplary employee performance and celebrated successes and enhanced local internal communication in many countries. We continue to survey our employees regularly to understand our strengths and weaknesses as an employer and action improvements in response.

Regular business briefings are held by senior managers to inform our people of the financial performance of the business and the economic factors which impact our industry. These include face-to-face meetings, videos hosted on our intranet, podcasts and newsletters, especially around our half and full-year financial results.

## Community

One of our strengths is the fact that we are not a homogenous organisation. Sage designs, develops, sells and supports the vast majority of its products locally, which means that the jobs we generate are local, supporting the local economy. Our people naturally choose to support and give back to the communities in which we work and Sage supports this activity in a myriad of ways.

## Environment

We are not in an industry considered to be a high energy consumer. Nevertheless it is responsible practice to understand better the impacts we have on our environment and the opportunities we have to reduce this. Our work this year has focused on improving our approach to measurement of the carbon emissions resulting from use of electricity and gas at our offices (our “scope 1 and scope 2” emissions) and this includes both serviced and owned properties. We have also continued our work to reduce packaging in our products using electronic downloads where possible.

## Industry

Sage's decentralised structure helps us to remain close to customers and their issues as our teams are working in local markets with people in business every day. This unique perspective has ensured that we are close to the problems and issues our customers feel everyday.

### Supporting SMEs in challenging times

In the last 12 to 18 months we have witnessed unprecedented levels of economic turbulence. The impact of the banking crisis and resulting lack of credit has affected SMEs in many of our markets. We have taken a number of tangible steps to help our customers manage their businesses through these difficult times.

#### Providing practical help

We have amended our pricing and introduced new payment terms as well as free offerings to provide customers with more flexibility to manage their cash flow. We have also developed services to provide help in managing their businesses more efficiently. For example Sage in Germany launched a new module in its *HWP 2009* construction software designed to help its customers assess the health of their businesses. The online questionnaire, called *Auftrags-Schnellcheck*, is helping customers to analyse what they need to do to combat decreasing order books, for example by analysing whether their company is putting enough resources into marketing and customer retention.

Following the healthcheck, customers can then download free guides from Sage on marketing and customer retention.

#### Legislative impacts

The rapid destabilisation of the economy has led to intervention by governments in a number of countries and in some cases this has resulted in changes in legislation which affects business.

In many countries we have helped our customers navigate through these changes. For example, Sage Portugal launched a new website designed to help SMEs understand the changes surrounding the implementation of the new International Accounting Standards that will come into effect in Portugal in January 2010. The website, [www.sncpt.com](http://www.sncpt.com), contains information for SMEs on the implications of the new regulations and details of potential difficulties in transferring from existing accounting systems to a new compliant one. Sage Portugal is providing a conversion tool which will help an estimated 80,000 Sage customers prepare for this new legislation.

### Developing the entrepreneurs of tomorrow

The values on which Sage was founded (Simplicity, Trust, Integrity, Innovation, Agility) capture the spirit of entrepreneurship and are the lifeblood of business. Helping to create the entrepreneurs of tomorrow is something we are passionate about.

#### The next generation of entrepreneurs

Softline, Sage's business in South Africa, has sponsored the Life College Xchange programme to promote the development of entrepreneurial skills amongst the Life College students. The Xchange is a trading floor for ideas and opportunities which these young entrepreneurs can use to interact with prospective investors.

In Poland, Sage has been granted Association of Chartered Certified Accountants ("ACCA") Approved Employer status to recognise the support it gives to ACCA members for continuing professional development and to trainers studying towards their ACCA status.

#### Helping people start out in business

Each year, Sage France interviews 60,000 companies, including customers and non customers, to find out more about their views on the current business climate. Following these surveys Sage France decided to set up the Sage Institute to provide SMEs with additional support and tools to thrive. The Sage Institute will work by providing entrepreneurs and SMEs with a chance to interact, both face to face and online through [www.institut-sage.com](http://www.institut-sage.com).

Web portals have also been developed in North America for the start-up community, including [www.SageSpark.com](http://www.SageSpark.com) which has numerous free tools such as *Billing Boss*, an easy to use web-based invoicing tool, as well as many advice papers and a community forum where entrepreneurs can exchange ideas.

## People

### Building a stronger Sage team

At Sage, we continue to focus on building a strong successful team through careful talent management, development of people and leadership and by improving engagement. This has been challenging in a year when it has been necessary to cut jobs or freeze recruitment in some markets most affected by the economic downturn. Where this has been necessary we have focused on delivering clear and concise communication so our people know what to expect and when.

### Engaging with customers and the business community

[www.sncpt.com](http://www.sncpt.com) (right) contains information for SMEs in Portugal on the implications of new regulations and advice on migrating to new compliant accounting systems.

In France, we set up the Sage Institute which will provide entrepreneurs and SMEs with a chance to interact, both face to face and online through [www.institut-sage.com](http://www.institut-sage.com) (far right).





**Developing talent**

As we continue to shape our strategy and look to our future we have continued to focus on leadership in Sage and develop the leadership qualities we need to be successful. Last year a team of global leaders developed an aspirational leadership standard against which all of our current leaders and emerging talent are now benchmarked. The new standard sets out our vision for what successful leadership looks like in Sage and defines the behavioural and cultural attributes we need and expect.

**Communication and engagement**

All of our major operating companies now undertake an employee survey which highlights strengths in Sage as an employer and areas for improvement. The findings differ from one region to another and some of this is driven by cultural differences. However, the results would suggest that in many countries the Sage business is more highly rated overall than the benchmark standard.

However, this is not the case in all regions and work will continue in 2010 to work to raise engagement levels in the areas where the greatest gaps lie.

**Reward and recognition**

This year our focus has been on getting the building blocks in place to align more closely reward with the strategic performance of the business. The Group Reward Policy has been clarified and expanded to ensure more robust processes are in place for target-setting, determining pay budgets and managing bonus structures. This has already begun to introduce consistent principles and parameters in reward practice at all employee levels.

In addition, a review of leadership reward has been undertaken to determine how this may be more closely linked to business performance and the attainment of future strategic goals. The changes in the policy on the allocation of awards under the Performance Share Plan (“PSP”) implemented this year reflect that, and participation in the PSP itself is now linked to our talent management process.

**Community**

**Supporting our local communities**

Our people have a long history of actively supporting a wide range of charities and community organisations that are most meaningful to them locally. Activities like fundraising, sponsorship and volunteering are very common in Sage offices around the globe. Some examples are shown below but these are just a sample of the great work our people have undertaken to support their local communities during the course of the year.

**Royal Recognition**

Our commitment to our local communities starts at the very top. In recognition of his work in the community, Paul Walker, Sage Group Chief Executive, was awarded the position of North East Ambassador of the Year 2009 for Business in the Community by His Royal Highness The Prince of Wales.

**UK & Ireland**

The team has a structured approach to volunteering and charity efforts and this year completed over 817 hours of volunteer work in the local community on numerous projects to help charities and other community groups.

Sage UK also provided a call centre to help process donations for a national charity day, “Comic Relief”. Over 860 hours were worked by Sage volunteers on the phones throughout the evening and into the night to help collect donations on behalf of the charity.

**Mainland Europe**

In Poland, Sage supports the “Iskierka” foundation which helps children suffering from cancer. Initiatives to raise money for the charity include an auction of art works by the children and a winter promotion of a 5% discount on our products forwarded as a donation for “Iskierka” foundation.

**North America**

In North America, we have expanded our community and charitable activity this year. Our Giving is Living charitable programme was extended to support a wider range of organisations. Through the programme, which encourages employees to donate to charities of their choosing, Sage provides a 50% match to donations. In 2009 over \$175,000 was donated to charities through the programme.

**Rest of World**

Following the bushfires that raged across Australia, our people in Sage Australia decided to work together to raise funds for those who had been affected. Our people also donated much needed blood to the Australian Blood Bank to help burns victims. In total, the 270 employees in Australia raised AUD9,000 which was matched by Sage resulting in an AUD18,000 donation to the Australian Red Cross.

**Community work in UK**

Sage UK once again acted as a call centre for Comic Relief and employees gave up their own time to take calls from those who wished to donate to the charity.



Stacey Rodgers of Sage UK wins the North East Volunteer of the Year award.



**BP Sustainability Awards**

In 2009 The Sage Group plc alongside The Sage Gateshead won the prestigious BP Sustainability Award which celebrates successful collaboration between business and the arts.





## Environment

### Understanding our environmental impacts

Sage is an office-based organisation and as such our environmental impacts are less than those of many other industries. In fact, whilst it is difficult to quantify the savings made, our role in automating business processes helps organisations reduce their environmental impacts by the use of electronic transactions.

Last year, for the first time, we started to measure the carbon footprint from energy use in our main offices. Our work this year has focused on improving our approach to measurement of the carbon emissions ("scope 1 and scope 2") from energy use in all offices with more than 25 Sage employees and developing a consistent and robust system for gathering and reporting this data. We believe we have made significant steps in establishing this system and have learnt a lot from the process. Next year we hope to improve this process further and use the data to target energy efficiency opportunities and therefore take positive steps to reduce our footprint.

We have continued our work to reduce packaging in our products by using electronic downloads where possible. We have also begun work to capture levels of waste and recycling across our organisation but we need to continue to embed our reporting systems before we can begin to report meaningfully on this.

#### Carbon emissions

Last year we introduced carbon emissions reporting across our businesses through a six-month pilot data capture process.

This year, we are pleased to be able to publish the carbon footprint for offices with more than 25 people in the countries shown (see diagram below).

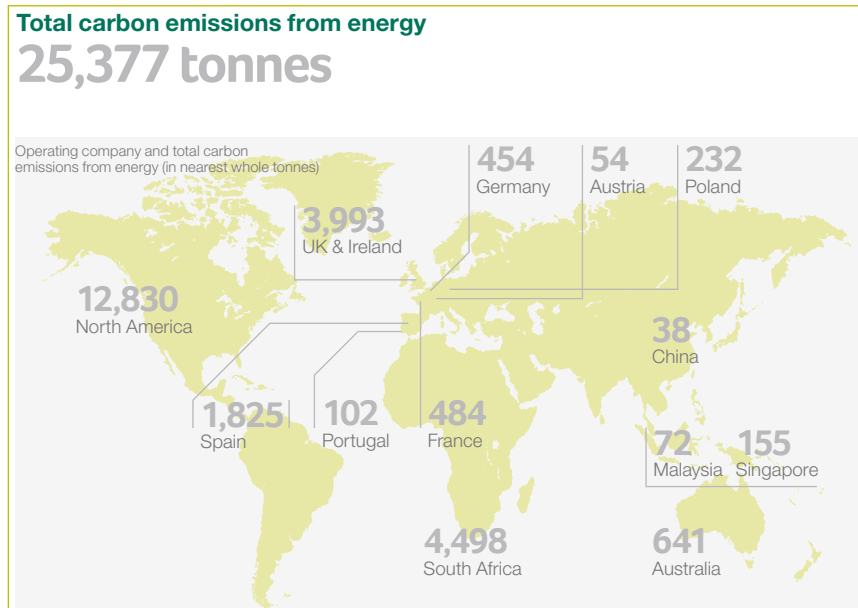
As a large proportion of our offices are serviced we have chosen the ambitious target of including the carbon emissions from serviced offices where available, and have chosen to make sensible estimates for the consumption of offices where we are still working with landlords to establish a regular reporting process. In total, 6% of our energy use has been estimated using equivalent office data.

We plan to continue developing these reporting systems in future years to improve the completeness and timeliness of this data.

We have also updated our carbon calculations process this year to take account of the new international emissions factors provided by the UK's Department for Energy and Climate Change ("DECC"), although we have chosen only to report carbon dioxide emissions for all countries rather than a broader collection of greenhouse gases for those countries where such data is available. This helps provide comparability between the footprints of our various businesses which will help us to see opportunities for reduction in energy consumption.

#### Energy awareness and reducing consumption

Our operating companies are encouraged to seek ways to minimise impact through employee education and awareness. On Sage Day 2009 we launched a campaign called "Change One Thing" which focused on educating employees on climate change and how small changes in personal behaviour can make a difference. Through our global intranet we encouraged employees to share personal stories of commitment to change and these ideas were captured in an electronic booklet which was made available to all Sage countries for translation and electronic distribution.



### *Reducing waste*

Sage UK has taken a further step in its recycling initiatives by removing individual bins at desks and providing central bins alongside office recycling stations. This has resulted in an average increase of 48% in recycled waste per month.

### *UK preparation for Carbon Reduction Commitment ("CRC")*

We have appointed an external service provider to assist us in preparing for the CRC. This three-year partnership will help us not only to fulfil our legal requirements but also to develop and implement strategies to reduce our UK carbon footprint. As part of this preparation we are working with the Carbon Trust to gain the Carbon Trust Standard in the UK.

## **Governance, risks, opportunities and CR**

### *Leadership and CR*

Corporate Responsibility matters are reviewed on a quarterly basis by the Group Executive Committee. Application of the CR policy is led by the CR Steering Committee which is led by the Group Director of Human Resources and Corporate Communications and includes Board representation through the presence of the Company Secretary.

### *Governance*

In some countries the economic crisis has led to concerns about how large businesses are managed and run. Sage continues to work towards the highest standards of governance and more details on this can be found in the section "Corporate Governance" within the annual report.

To support this, we have embedded our Code of Ethics in all operating companies and have extended our channels by which employees can anonymously report any concerns about fraud, bribery or corruption.

### *Risks*

It is expected that legislation surrounding the area of environmental reporting will increase over forthcoming years as governments look to fulfil their carbon reduction commitments. Currently we are planning for the anticipated changes in UK legislation in this area and our approach this year to check and improve our carbon accounting process will help us prepare for any changes in legislation that do emerge. The UK business is expecting to report under the UK's CRC scheme and is preparing to do so.

Climate change may also represent a risk to organisations. None of our operations are in a geographical location associated with significant risk although long-term changing weather patterns as part of global climate change could impact on any of our locations. All of our locations operate business continuity plans in order to ensure we would be able to continue to provide a quality service to our customers should a site be affected. We believe this approach is part of good business planning.

Whilst climate change and increased energy costs represent long-term risks to our business, like many other office-based businesses these are limited. These risks include:

- Increased energy costs/energy restrictions and regulation;
- Increased supplier costs (due to their increasing energy costs);
- Increased oil/petrol costs influencing employee travel habits which may affect the target recruitment market or impact on other employment policies such as home working;
- Water restrictions; and
- Rising cost of business travel.

These may apply across all of our operating companies. The processes to identify and manage the key risks to the success of the Group are an integral part of the internal control environment. To this end, to ensure that risks are identified and monitored, the Group has formed a Risk Committee consisting of the Group Chief Executive, Group Finance Director, Group Risk Director, Company Secretary and certain other members of the Group Executive Committee.

### *Opportunities*

Increasing legislation and a likely increase in carbon reporting does present an opportunity for Sage to help provide businesses with software and services to manage these business processes. Business owners and software users are also looking for ways to minimise their impacts and using Sage software can help. People increasingly wish to minimise waste and energy use. We have already done a great deal of work to support electronic transaction processing within and between our products and with government agencies and banks.

This has huge potential to reduce the amount of printing that is necessary within the average SME and will be very attractive to SMEs to simplify processes, limit their own environmental impact and improve their waste management activity. This area continues to grow steadily.

Electronic processing and transactions are now further supported through our payment processing services. This electronic network is, in some areas, extending to suppliers who can transact electronically through a developing Sage ecosystem.

## 38 Board of directors and advisers

### Tony Hobson

**Chairman, non-executive director**

Age 62



Chairman

Tony is the Chairman of Northern Foods plc and a non-executive director of Glas Cymru (Welsh Water) and esure. He is also the Chairman of the Trustees of Changing Faces, the UK's leading disfigurement charity. Tony is a chartered accountant and an MBA and he was previously the Group Finance Director of Legal & General Group plc for 14 years, retiring in 2001. He joined the Board in June 2004, becoming Chairman in May 2007.



### Paul Walker

**Chief Executive**

Age 52

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

**Finance Director**

Age 45

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

**CEO, UK & Ireland**

Age 52

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

**CEO, Mainland Europe and Asia**

Age 58

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

**Group Strategy and Mergers and Acquisitions Director**

Age 52

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

**Independent non-executive director**

Age 49



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 Almeida Theatre.



## Tim Ingram

**Independent non-executive director**

Senior Independent Director

Age 62



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

**Independent non-executive director**

Age 56



Chairman

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

**Independent non-executive director**

Age 47



Ian joined the Board on 1 November 2007. After working with McKinsey & Co. and The 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

**Independent non-executive director**

Age 51



Chairman

After qualifying as a chartered accountant with Coopers and Lybrand, Mark joined Gallaher Group plc in 1986, where he was Finance Director for seven years retiring in 2007. He is also a non-executive director of Hornby plc and Barratt Developments plc and Chairman of Lane, Clark and Peacock LLP. He joined the Board on 1 December 2007.



### Committee membership

- A** Audit Committee
- N** Nominations Committee
- R** Remuneration Committee

### 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 Markets  
Black Horse House  
Sandyford Road  
Newcastle upon Tyne  
NE99 1JW

**Registrars**  
Equiniti  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

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



## 40 Directors' report

For the year ended 30 September 2009

The directors present their report and the audited financial statements for the year ended 30 September 2009.

### 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 £267.4m on revenue of £1,439.3m.

The Companies Act 2006 requires us to present a fair review of the Group's business and a description of the principal risks and uncertainties facing the Group. The information that fulfils the requirements of the Business review is provided in the sections of this Annual Report headed Performance overview, Chairman's statement, Chief Executive's review, Financial review, Principal risks and uncertainties, Regional reviews and Corporate Responsibility on pages 6 to 37, all of which are incorporated into this report by reference.

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.

### 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 61. Dividends paid and proposed are set out on page 75. The Board proposes a final dividend of 4.93p per share (2008: 4.78p per share) taking the proposed full year dividend to 7.43p per share (2008: 7.21p per share).

### Research and development

During the year, the Group invested £174.6m (2008: £139.7m) 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 37.

### Charitable contributions and political donations

During the year, within the UK, charitable contributions totalling £91,000 were made, which included £30,000 to The Tyne and Wear Community Foundation, £12,500 to The Community Foundation for Greater Manchester, £12,500 to The Berkshire Community Foundation, and a total of £36,000 in smaller contributions to numerous charities. The rest of the Group made charitable contributions totalling £208,000. No political donations were made in the year.

### Post balance sheet event

On 30 October 2009 the Group disposed of Sage Pro-Concept S.A. for £6.5m.

### 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 49 to 60. 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 (which are qualifying third party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the directors of the Company and the former directors of the Company who held office during the year ended 30 September 2009, 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 and a long-term performance share plan. Further details of employment policies are given on pages 34 and 35.



## 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 to ensure that suppliers are aware of those terms and that payments to suppliers are made promptly in accordance with these terms. Creditor days for the Group have been calculated at 46 days (2008: 40 days). The Company has no trade creditors (2008: £nil).

## Substantial shareholdings

At 17 December 2009, 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	–	–	130,287,263	9.92	130,287,263	9.92
Baillie Gifford & Co	–	–	58,488,202	4.46	58,488,202	4.46
Legal & General Group plc	52,217,411	3.97	–	–	52,217,411	3.97

## Future developments

The Group's future developments are described in the Business review on pages 6 to 37.

## 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 2 March 2010, 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 2 March 2010 are set out in the Notice of Annual General Meeting.

#### Dividends and distributions

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

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

#### Liquidation

If the Company is in liquidation, the liquidator may, with the authority of a special resolution of the Company and any other authority required by the Statutes (as defined in the 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 3 March 2009) to buy-back up to 130,955,755 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 2 March 2010. 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 2006 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 Act 2006) 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 Act 2006 and any ordinary resolution of the Company.

### Shares held in the Employee Benefit Trust

The trustee of the Sage Group plc Employee Benefit Trust ("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 US\$264,000,000 multi-currency revolving 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.

By Order of the Board

### M J Robinson

Secretary  
17 December 2009

## 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 (June 2008) on Corporate Governance issued by the Financial Reporting Council (the "Combined Code").

### 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](http://www.sage.com).

The directors' biographies appear on pages 38 and 39. These demonstrate that the directors have a range of experience and are of sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group. All directors are subject to re-election at least every three years.

The Board is responsible to shareholders for the proper management of the Group. Where it is considered appropriate, training is made available to directors and training needs are assessed as part of the evaluation procedure of the Board referred to below. A statement of the directors' responsibilities in respect of the accounts is set out on page 48. 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](http://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 six occasions. All directors in office at the time attended all of these Board meetings other than Ms T Ingram, who was unable to attend one meeting.

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. The questionnaires cover a range of issues relating to the Board's role and its responsibilities, the conduct of Board meetings and the structures in place to ensure that the Board has the opportunity to debate fully areas of concern, the leadership and culture of the Group. The questionnaires also consider Board communications, governance and the performance of the Committees and their members. The completed questionnaires are reviewed and considered by the Chairman and by the Board as a whole. The Chairman follows this review with meetings with individual directors. The Company Secretary also raises the areas covered by the questionnaires for discussion with key executives who support the Board and the Committees and key advisors and reports their views to the Chairman. This year's review identified new themes and topics for inclusion in the Board agenda for next year; and a need to increase the time available for Board meetings.

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.

Under the Companies Act a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Articles of Association give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with.

At the commencement of each Board meeting, the Board consider a register of interests and potential conflicts of directors and give, when appropriate, any necessary approvals.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

## 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](http://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 all independent non-executive directors (other than the Chairman of the Board) are members of all Board Committees, 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](http://www.sage.com).

## Remuneration Committee

The Group's Remuneration Committee is chaired by Ms R Markland who became its chair in March 2009 following the annual general meeting. The other members of the Committee are the Chairman of the Board, Mr A J Hobson, and the other independent non-executive directors, Ms T Ingram, Mr T C W Ingram, Mr I Mason and Mr M E Rolfe. 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 two further meetings 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 and Ms T Ingram who was unable to attend one meeting. The Chief Executive may, by invitation of the Committee, attend meetings (except when his own performance or 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 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 49 to 60, together with further details of the Remuneration Committee.

## Audit Committee

The Audit Committee is chaired by Mr M E Rolfe. Its other members are independent non-executive directors, Mr T C W Ingram, Ms R Markland, Ms T Ingram and Mr I Mason. Mr Rolfe is a Fellow of the Institute of Chartered Accountants in England and Wales and is considered by the Board to have the recent and relevant financial experience required for the provisions of the Combined Code. The other members of the Committee have a wide range of business experience, which is evidenced in their biographies on pages 38 and 39. 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. Having reviewed the composition of the Committee in the year under review, the Board is satisfied that the Committee has the resources and expertise to fulfil effectively its responsibilities, including those relating to risks and controls.

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.

In order to fulfil its duties referred to above, the Committee receives sufficient, reliable and timely information from management as referred to below. The terms of reference of the Committee are reviewed on an annual basis and are available at [www.sage.com](http://www.sage.com). Following its most recent review, the Committee is satisfied that the terms enable the Committee to fulfil its responsibilities and determined that no material changes were necessary.



## 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 (other than Ms T Ingram who was unable to attend one meeting) 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 annual 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 scope, fee, performance and independence of the external auditor are 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 (with the next change taking place in the year to 30 September 2010). 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 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, with 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 in the year are anticipated to exceed a certain sum, the prior approval of the Audit Committee is required.

In the year to 30 September 2009 the audit fee was £1.7m. The Company's auditors, PricewaterhouseCoopers LLP, also perform non-audit services for the Group (principally tax advice) over and above the external audit. The fees in relation to these services were £1.9m of which £1.7m was attributable to tax services and tax compliance work and £0.2m to other non-tax compliance services (which include interim review costs and are therefore closely associated with the audit). Further details of fees paid to auditors are set out on page 74.

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 and the factors referred to above, the Committee has determined to recommend to the Board the reappointment of the auditors at the Annual General Meeting in March 2010. In reaching this decision, the Committee also had regard to the likelihood of a withdrawal of the auditor from the market. The current external auditors were appointed to that role in 1988. The Committee has determined that, providing the work of the external auditors remains entirely satisfactory, formal consideration of a tender process will be undertaken every five years, around the time that the audit partner is normally changed.

The next change of audit partner will occur in the year to 30 September 2010 and therefore, formal consideration of an audit tender process will take place during the course of that year.

### 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 and Mr M E Rolfe. 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. Two meetings of the Committee took place in the year under review at which all the members of the Committee in office at the time were present other than on one occasion when Ms T Ingram 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 and undertook a review of this area in the year under review. The Secretary acts as secretary to the Committee.

### Relations with shareholders

Communication with shareholders is given high priority. The Business review on pages 6 to 37 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](http://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 is managed on a day-to-day basis by the Group Risk Director and 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 conclusions of the Risk Committee are reported on a regular basis 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. Processes for the confidential reporting of concerns have been introduced in France and the Group is considering the introduction of further telephone hotlines where local legislation permits. The Audit Committee receives regular reports on any matters raised through these services and monitors their use throughout the Group. The Board considers that it receives, as a result, adequate information for the identification and assessment of risk.

### Financial reporting

In addition to the general internal controls and risk management processes described above, the Group also has specific internal controls and risk management systems to govern the financial reporting process. The requirements for producing financial information are governed by the Group Accounting Manual, against which the Group's external auditors review the financial statements. Financial control requirements are set out in a detailed Financial Controls Policy, which is subject to internal audit reviews on an annual basis. Any part of the Group not subject to a specific internal audit review of financial controls in any given year is required to self assess on the effectiveness of their financial control environment. Management representations covering the compliance with relevant policies and the accuracy of financial information are also collated on an annual basis.

### 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 organisational 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.

### Directors

The information about the appointment and replacement of directors and the powers of directors required to be included in this statement can be found on page 42 of the Directors' Report.

### Articles of Association

The information about making amendments to the articles of association required to be included in this statement can be found at page 42 of the Directors' Report.

### 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.

## Information on share capital and other matters

The information about share capital required to be included in this statement can be found on page 41 of the Directors' Report.

## Statement by the directors on compliance with the provisions of the Combined Code

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"). 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 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are listed in the Board of directors and advisers section on pages 38 and 39, 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 418 of the Companies Act 2006.

By Order of the Board

**M J Robinson**

Secretary

17 December 2009

# Remuneration report

This report sets out the remuneration policy and remuneration details of the executive and non-executive directors of the Company. The report has been prepared in accordance with the Companies Act 2006 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](http://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 Ms R Markland (Chair from March 2009), Mr T C W Ingram (Chair until March 2009), Mr A J Hobson, Ms T Ingram, Mr I Mason and Mr M E Rolfe.

All the members of the Committee have been members of the Committee throughout the year.

### 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, an independent firm of remuneration consultants appointed after consultation with the Board. The terms of engagement of Deloitte are available on request from the Secretary. Deloitte were appointed by the Committee and provide no services to the Group other than advice on executive remuneration to the Remuneration Committee and advice to the Group's North American business on a software implementation programme. 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, at the invitation of the Committee, attended certain meetings (but were not present at any meeting when any matter relating directly to their own remuneration was discussed).

## 2 Remuneration policy

### 2.1 General remuneration policy

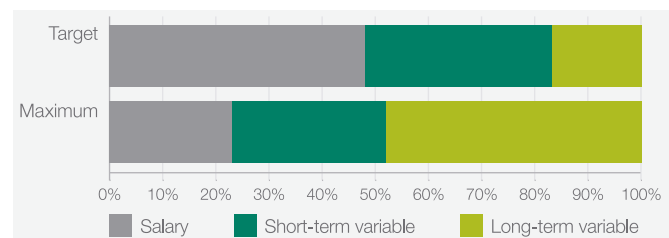
The Remuneration Committee, in setting remuneration policy, recognises the need to be competitive in an international market. The Committee's policy is to set remuneration levels which ensure that the executive directors are fairly and responsibly rewarded in return for high levels of performance. Remuneration 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. In setting remuneration levels for the executive directors, the Committee takes account of the remuneration policy and practice applicable to other Group employees, and received information on bonus levels and base salary reviews for other managers around the Group.

The components of remuneration for executive directors are base salary (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. 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.

The chart below illustrates the anticipated mix between fixed and variable pay for Executive Directors under Sage's current remuneration policy.

Around 75% of each executive's total compensation value is delivered through performance-related incentives, and is therefore 'at-risk' if stretching performance targets are not achieved. At 'target' levels of performance, more than 50% of the package remains performance-related.



## 2.2 Policy on salary of executive directors

It is the policy of the Committee to pay base salaries to the executive directors at broadly market rates compared with those of executives of companies of a similar size and international scope (in particular those within the FTSE 50–150 with more than 50% of revenue derived from overseas), whilst also taking into account the executive directors' individual performance and the performance of the Group. In light of economic circumstances, and also the position of the wider employee population in Sage, in the year ending 30 September 2010 salaries of executive directors have not been increased from those disclosed in this report, with the exception of Paul Harrison, whose salary will be increased by 7% to move him towards a market competitive range.

## 2.3 Policy on fees of non-executive directors

Remuneration policy for the non-executive directors is determined by the Board (excluding the non-executive directors). The fees of the non-executive directors are reviewed every two years. For the two financial years ending 30 September 2010, the basic fee is £55,000. Committee membership fees are not paid. The chairmanship fees are £13,000 and £17,000 for the Remuneration and Audit Committees respectively. The payment to the Senior Independent Director is £10,000.

In relation to the Chairman of the Board, remuneration is positioned by reference to 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).

Executive directors with no specific divisional responsibility have 75% of their bonus based on Group profit before tax and amortisation. The remaining 25% is 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. The Committee has discretion to make suitable adjustments to reported financial measures to ensure that financial performance for bonus purposes reflects underlying business performance.

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.

The bonuses paid to the executive directors in relation to the year under review are set out on page 55 and are considered to be appropriate in the context of the maximum bonus opportunity.

In respect of performance for the year ended 30 September 2009, the Committee considered financial performance over the full financial year and reviewed the impact of one-off items. The Committee concluded that financial performance measured prior to one-off Group restructuring costs provided a better measure of the Group's overall performance and strength of the business. At the same time, the Committee also exercised its discretion to align Group executive bonus payments with those determined for the individual business units.

In determining the individual strategic element of the bonus the Committee considered a range of factors and measures including the level of customer support and the retention of support contracts, and the achievement of strategic milestones against a background of an evolving long-term strategy.

No deferred shares were awarded for the year ended 30 September 2009, as the bonus payment was below the target level.



## 2.5 Policy on long-term incentives

In the previous financial year the Committee established the current long-term incentives structure consulting widely with shareholders to establish a motivational and performance-orientated structure that focuses on the creation of shareholder value. Executive share options have not been granted under the 1999 Executive Share Option Scheme ("ESOS") since June 2008 (January 2008 for executive directors).

Long-term incentive awards are made under the Performance Share Plan ("PSP") and now vest on the following basis:

A sliding scale based on EPS is used. 25% of the award vests 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 vests at that time only if RPI is exceeded in that period by 27% (an average of 9% per year). Between those targets, awards vest on a straight-line basis, and if those targets are not met there is no opportunity for re-testing.

Awards are also subject to a TSR 'multiplier' whereby the level of vesting based on EPS achievement is 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%, 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 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 2010 for TSR purposes will comprise the following companies:

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

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

PSP awards to executive directors for the year to 30 September 2010 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). The Remuneration Committee considers that this grant level is appropriate, taking into account the challenging performance criteria and recognising the increased competition for senior executives in the industry. The individual limit in the Plan is 300% of salary. However, the Committee would expect to consult with shareholders if awards were to be made routinely above current levels.

For the financial year to 30 September 2010, PSP awards will be made following the AGM in March 2010.

Shareholder approval to operate the ESOS will expire in December 2009.

## All-employee share schemes

UK based executive directors are entitled to participate in The Sage Group Savings-Related Share Option Plan (the "SAYE Scheme") which is an all-employee plan. 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.

## 2.6 Policy on pensions

All the executive directors' pension arrangements are defined contribution. 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.

## 2.8 Policy on service contracts

In relation to contracts with executive directors, the Remuneration Committee aims to set notice periods that are no longer than 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 £75,000 in the case of Mr P A Walker, £42,000 in the case of Mr P L Stobart and £62,000 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. Except in exceptional circumstances where approved in advance by the Chairman of the Committee, if an executive director holds non-executive positions at more than one listed company then only the fees from one such company will be retained by the director. 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.

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 2009	Notice period under contract
<b>Executive directors</b>			
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
<b>Non-executive directors</b>			
A J Hobson	24 May 2007	8 months	12 months from the Company and/or individual
T Ingram	23 November 2007	1 year 3 months	6 months from the Company and/or 1 month from individual
T C W Ingram	3 March 2009	6 months	6 months from the Company and/or 1 month from individual
R Markland	13 September 2009	3 years	6 months from the Company and/or 1 month from individual
I Mason	31 October 2007	1 year 1 month	6 months from the Company and/or 1 month from individual
M E Rolfe	23 November 2007	1 year 2 months	6 months from the Company and/or 1 month from individual

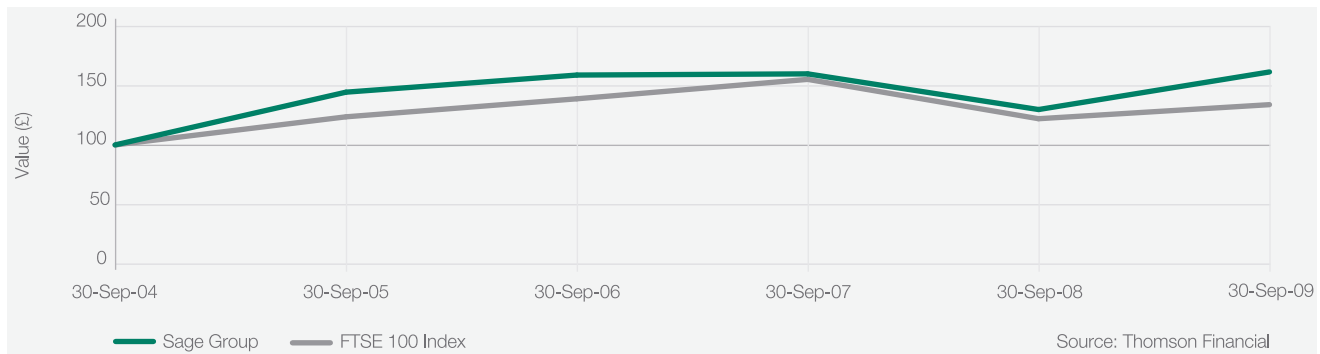
**Notes:**

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

## 4 Performance graph

### Total Shareholder Return ("TSR") against FTSE 100

The 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.



This graph shows the value, by 30 September 2009 of £100 invested in The Sage Group plc on 30 September 2004 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 2009 for PSP awards made to date was as follows:

- 2007 awards – TSR ranking of 5 out of 13 comparators
- 2008 awards – TSR ranking of 6 out of 19 comparators
- 2009 awards – TSR ranking of 7 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 8 of the Companies Act 2006.

### 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 <sup>2</sup> '000	Benefits in kind <sup>3</sup> '000	2009 Total '000	2008 Total '000	2009 Pension contributions <sup>4</sup> '000	2008 Pension contributions '000
<b>Executive directors</b>								
G S Berruyer	€655	€314	–	€7	€976	€1,204	–	–
D H Clayton	£350	£168	–	£18	£536	£603	£88	£84
P S Harrison	£350	£168	–	£18	£536	£604	£88	£84
P L Stobart	£445	£213	–	£18	£676	£634	£111	£106
R Verni <sup>1</sup>	–	–	–	–	–	\$632	–	–
P A Walker	£770	£370	–	£21	£1,161	£1,307	£193	£184
<b>Non-executive directors</b>								
A J Hobson	£250	–	–	–	£250	£250	–	–
T Ingram	£55	–	–	–	£55	£45	–	–
T C W Ingram	£65	–	–	–	£65	£62	–	–
R Markland	£68	–	–	–	£68	£52	–	–
I Mason	£55	–	–	–	£55	£48	–	–
M E Rolfe	£72	–	–	–	£72	£47	–	–

#### Notes:

- 1 Ceased to be a member of the Board, and contract terminated on 11 October 2007. Therefore, the prior year 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 No bonus has been deferred by the Company as an award under the Sage Group Deferred Bonus Plan.
- 3 Benefits in kind include the provision of car allowance and insurance.
- 4 Retirement benefits were accruing to four directors (2008: four). All pension contributions accrued under money purchase schemes.
  - 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 £4,329,000 (2008: £4,893,000).
  - 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 £1,354,000 (2008: £1,307,000).
  - In the table above exchange rates of \$1.54 /£1 and €1.14 /£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 2009 (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	5.6% used
10% of Group's share capital can be used for all share schemes	6.2% used

The Company has satisfied and intends to satisfy all awards under the Performance Share Plan through the market purchase of shares. If awards under the Performance Share Plan are removed from the calculations above then under discretionary share schemes the percentage becomes 4.1% and under all share schemes 4.6%.

### Executive share options

The Group's only current executive share option scheme is the ESOS. In the year under review, executive directors did not receive grants under this scheme. 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 2008 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2009 number	Date exercisable
G S Berruyer	329.75p	121,304	–	–	–	<b>121,304</b>	17 January 2004 – 17 January 2011
	171.00p	175,438	–	–	–	<b>175,438</b>	24 December 2006 – 24 December 2013
	198.00p	189,082	–	–	–	<b>189,082</b>	6 January 2008 – 6 January 2015
	258.50p	147,748	–	–	(25,118)	<b>122,630</b>	10 January 2009 – 10 January 2016
	270.00p	147,639	–	–	–	<b>147,639</b>	10 January 2010 – 10 January 2017
	214.00p	218,545	–	–	–	<b>218,545</b>	10 January 2011 – 10 January 2018
		<b>999,756</b>	<b>–</b>	<b>–</b>	<b>(25,118)</b>	<b>974,638</b>	
D H Clayton	214.00p	156,542	–	–	–	<b>156,542</b>	10 January 2011 – 10 January 2018
		<b>156,542</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>156,542</b>	
P S Harrison	721.00p	30,000	–	–	–	<b>30,000</b>	23 February 2003 – 23 February 2010
	329.75p	65,595	–	–	–	<b>65,595</b>	17 January 2004 – 17 January 2011
	134.00p	186,567	–	(186,567)	–	<b>–</b>	31 December 2005 – 31 December 2012
	171.00p	128,654	–	–	–	<b>128,654</b>	24 December 2006 – 24 December 2013
	198.00p	133,838	–	–	–	<b>133,838</b>	6 January 2008 – 6 January 2015
	258.50p	116,054	–	–	(19,730)	<b>96,324</b>	10 January 2009 – 10 January 2016
	270.00p	118,519	–	–	–	<b>118,519</b>	10 January 2010 – 10 January 2017
	214.00p	156,542	–	–	–	<b>156,542</b>	10 January 2011 – 10 January 2018
		<b>935,769</b>	<b>–</b>	<b>(186,567)</b>	<b>(19,730)</b>	<b>729,472</b>	
P L Stobart	329.75p	121,304	–	–	–	<b>121,304</b>	17 January 2004 – 17 January 2011
	134.00p	223,880	–	–	–	<b>223,880</b>	31 December 2005 – 31 December 2012
	171.00p	175,438	–	–	–	<b>175,438</b>	24 December 2006 – 24 December 2013
	198.00p	181,818	–	–	–	<b>181,818</b>	6 January 2008 – 6 January 2015
	258.50p	146,228	–	–	(24,859)	<b>121,369</b>	10 January 2009 – 10 January 2016
	270.00p	148,889	–	–	–	<b>148,889</b>	10 January 2010 – 10 January 2017
	214.00p	198,598	–	–	–	<b>198,598</b>	10 January 2011 – 10 January 2018
		<b>1,196,155</b>	<b>–</b>	<b>–</b>	<b>(24,859)</b>	<b>1,171,296</b>	

### Executive share options (continued)

Director	Exercise price per share	Shares under option at 1 October 2008 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2009 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	–	–	(43,142)	210,629	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
		<b>2,357,536</b>	<b>–</b>	<b>(440,000)</b>	<b>(43,142)</b>	<b>1,874,394</b>	
<b>Total</b>		<b>5,645,758</b>	<b>–</b>	<b>(626,567)</b>	<b>(112,849)</b>	<b>4,906,342</b>	

#### 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 became 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 which became exercisable on or after 6 January 2008 the performance criteria for exercise are based on 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. In respect of any share options which became 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:
  - P A Walker – 10 December 2008 was 179.90p.
  - P S Harrison – 22 June 2009 was 182.85p.
- The market price of a share of the Company at 30 September 2009 was 233.40p and the lowest and highest market price during the year was 148.40p and 233.40p respectively.
- Total gains on the exercise of share options were £285,365 (2008: £684,275), including £284,298 (2008: £684,275) on executive share options.
- Lapses during the year relate to performance conditions not having been met in full.

### 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 2008 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2009 number	Date exercisable
P S Harrison	184.00p	5,081	–	–	(5,081)	–	1 August 2009 – 31 January 2010
	149.00p	–	6,140	–	–	6,140	1 August 2012 – 31 January 2013
		<b>5,081</b>	<b>6,140</b>	<b>–</b>	<b>(5,081)</b>	<b>6,140</b>	
P L Stobart	184.00p	5,081	–	(5,081)	–	–	1 August 2009 – 31 January 2010
		<b>5,081</b>	<b>–</b>	<b>(5,081)</b>	<b>–</b>	<b>–</b>	
<b>Total</b>		<b>10,162</b>	<b>6,140</b>	<b>(5,081)</b>	<b>(5,081)</b>	<b>6,140</b>	

#### 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 2009 23,886 units were held by Mr G S Berruyer at a price of €2.426 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.
- For the options exercised in the year, the market price of the exercised shares at the date of exercise was 205.00p.

### 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 2008 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Awarded 30 September 2009 number	Vesting date
G S Berruyer	147,748	–	–	(147,748)	–	10 January 2009
	147,639	–	–	–	<b>147,639</b>	10 January 2010
	361,647	–	–	–	<b>361,647</b>	3 March 2011
	–	745,649	–	–	<b>745,649</b>	3 March 2012
	<b>657,034</b>	<b>745,649</b>	<b>–</b>	<b>(147,748)</b>	<b>1,254,935</b>	
D H Clayton	253,787	–	–	–	<b>253,787</b>	3 March 2011
	–	438,282	–	–	<b>438,282</b>	3 March 2012
	<b>253,787</b>	<b>438,282</b>	<b>–</b>	<b>–</b>	<b>692,069</b>	
P S Harrison	116,054	–	–	(116,054)	–	10 January 2009
	118,519	–	–	–	<b>118,519</b>	10 January 2010
	253,787	–	–	–	<b>253,787</b>	3 March 2011
	–	438,282	–	–	<b>438,282</b>	3 March 2012
	<b>488,360</b>	<b>438,282</b>	<b>–</b>	<b>(116,054)</b>	<b>810,588</b>	
P L Stobart	146,228	–	–	(146,228)	–	10 January 2009
	148,889	–	–	–	<b>148,889</b>	10 January 2010
	321,969	–	–	–	<b>321,969</b>	3 March 2011
	–	557,245	–	–	<b>557,245</b>	3 March 2012
	<b>617,086</b>	<b>557,245</b>	<b>–</b>	<b>(146,228)</b>	<b>1,028,103</b>	
P A Walker	253,771	–	–	(253,771)	–	10 January 2009
	258,889	–	–	–	<b>258,889</b>	10 January 2010
	556,818	–	–	–	<b>556,818</b>	3 March 2011
	–	964,221	–	–	<b>964,221</b>	3 March 2012
	<b>1,069,478</b>	<b>964,221</b>	<b>–</b>	<b>(253,771)</b>	<b>1,779,928</b>	
<b>Total</b>	<b>3,085,745</b>	<b>3,143,679</b>	<b>–</b>	<b>(663,801)</b>	<b>5,565,623</b>	

**Notes:**

- No variations were made in the terms of the awards in the year.
- The market price of a share on 3 March 2009, the date of the awards made in the year ended 30 September 2009 was 162.10p.
- 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. For awards made prior to March 2008, 30% of shares vest for median TSR performance as compared to that group whilst all shares vest for upper quintile (top 20%) TSR performance. Between those points, shares will vest on a straight-line basis. Awards made in March 2008 have the same vesting schedule except that 25% of the award vests for median performance. The performance condition for awards made in March 2009 is set out in paragraph 2.5 above.
- In respect of the awards with a vesting date in 2009 the comparator group for TSR comprised: Blackbaud, Cap Gemini, Cegid, Exact, Intuit, iSoft, Microsoft, Misys, Oracle, Salesforce.com and SAP. For those vesting in 2010 the group comprised: Blackbaud, Cap Gemini, Cegid, Exact, Intuit, Lawson Software, Logica, Microsoft, Misys, Oracle, Salesforce.com and SAP. For those vesting in 2011 and 2012 the group comprised: Adobe Systems, ARIM Holdings, Autonomy, Blackbaud, Cap Gemini, Cegid, Dassault Systemes, Exact, Intuit, Lawson Software, Logica, Micro Focus International, Microsoft, Misys, Oracle, Salesforce.com, SAP and Software AG.
- For awards made in 2006, TSR performance was such that none of the shares originally awarded to executive directors vested.



#### 5.4 Deferred shares (audited information)

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

Director	Shares at 1 October 2008 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	Shares at 30 September 2009 number	Vesting date
G S Berruyer	11,736	–	(11,736)	–	–	10 January 2009
	10,815	–	–	–	<b>10,815</b>	10 January 2010
	14,714	–	–	–	<b>14,714</b>	10 January 2011
	–	12,716	–	–	<b>12,716</b>	10 December 2011
	<b>37,265</b>	<b>12,716</b>	<b>(11,736)</b>	–	<b>38,245</b>	
P S Harrison	8,418	–	(8,418)	–	–	10 January 2009
	10,187	–	–	–	<b>10,187</b>	10 January 2010
	11,495	–	–	–	<b>11,495</b>	10 January 2011
	<b>30,100</b>	–	<b>(8,418)</b>	–	<b>21,682</b>	
P L Stobart	3,524	–	(3,524)	–	–	10 January 2009
	3,878	–	–	–	<b>3,878</b>	10 January 2010
	8,401	–	–	–	<b>8,401</b>	10 January 2011
	<b>15,803</b>	–	<b>(3,524)</b>	–	<b>12,279</b>	
P A Walker	19,853	–	(19,853)	–	–	10 January 2009
	22,275	–	–	–	<b>22,275</b>	10 January 2010
	25,111	–	–	–	<b>25,111</b>	10 January 2011
	<b>67,239</b>	–	<b>(19,853)</b>	–	<b>47,386</b>	
<b>Total</b>	<b>150,407</b>	<b>12,716</b>	<b>(43,531)</b>	–	<b>119,592</b>	

#### Notes:

- Awards of shares will vest on the third anniversary of the date of grant. In the event that a director ceases to be an employee of the Group for reasons other than death, retirement, redundancy, injury, ill-health or disability before the third anniversary of the date of grant then the rights to the award will lapse, unless the Remuneration Committee recommend otherwise.
- Awards are not subject to further performance conditions once granted.
- No variations were made in the terms of the awards in the year.
- Shares awarded in the year relate to the deferred element of bonus awards in respect of the year ended 30 September 2008.
- The market price of a share on 10 December 2008, the date of the award, was 178.70p.

### 5.5 Interests in shares

The interests of each person who was a director of the Company as at 30 September 2009 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2009 number	Ordinary shares at 30 September 2008 number
G S Berruyer	239,549	301,836
D H Clayton	31,000	31,000
P S Harrison	46,324	41,065
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	10,000
M E Rolfe	10,000	10,000
P L Stobart	76,701	67,803
P A Walker	6,223,164	6,201,657
<b>Total</b>	<b>6,703,016</b>	<b>6,729,639</b>

**Notes:**

- There have been no changes in the directors' holdings in the share capital of the Company between 30 September 2009 and 17 December 2009.

### 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:

**R Markland**

Chairman of the Remuneration Committee  
17 December 2009

## Consolidated income statement

For the year ended 30 September 2009

	Note	2009 £m	2008 £m
<b>Revenue</b>	1	<b>1,439.3</b>	1,295.0
Cost of sales		<b>(108.8)</b>	(94.0)
<b>Gross profit</b>		<b>1,330.5</b>	1,201.0
Selling and administrative expenses		<b>(1,049.9)</b>	(933.6)
<b>Operating profit</b>	1,3	<b>280.6</b>	267.4
Finance income	2	<b>4.0</b>	3.8
Finance expenses	2	<b>(17.2)</b>	(30.2)
Net finance expenses	2	<b>(13.2)</b>	(26.4)
<b>Profit before taxation</b>		<b>267.4</b>	241.0
Taxation	4	<b>(77.9)</b>	(74.7)
<b>Profit for the year – attributable to equity shareholders of the parent</b>	22,23	<b>189.5</b>	166.3
<b>EBITA*</b>	1	<b>320.7</b>	299.8
<b>Earnings per share (pence)</b>			
– Basic	6	<b>14.46p</b>	12.73p
– Diluted	6	<b>14.42p</b>	12.69p

## Consolidated statement of recognised income and expense

For the year ended 30 September 2009

	Note	2009 £m	2008 £m
<b>Profit for the year</b>	22,23	<b>189.5</b>	166.3
Net exchange adjustments offset in reserves	21,23	<b>140.6</b>	117.1
Equity movement of deferred tax	17,23	<b>4.0</b>	(0.2)
Actuarial (loss)/gain on employment benefits	22	<b>(0.3)</b>	3.1
Cash flow hedges – net of tax	16,21	<b>(0.3)</b>	–
<b>Net gains not recognised in income statement</b>		<b>144.0</b>	120.0
<b>Total recognised income for the year – attributable to equity shareholders of the parent</b>		<b>333.5</b>	286.3

\*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.

## 62 Consolidated balance sheet

As at 30 September 2009

	Note	2009 £m	2008 £m
<b>Non-current assets</b>			
Goodwill	7	2,030.8	1,825.5
Other intangible assets	8	216.0	223.7
Property, plant and equipment	9	144.5	140.5
Deferred tax assets	17	7.5	5.2
		<b>2,398.8</b>	2,194.9
<b>Current assets</b>			
Inventories	10	5.2	5.4
Trade and other receivables	11	275.1	267.6
Cash and cash equivalents	12	59.4	70.1
		<b>339.7</b>	343.1
<b>Total assets</b>		<b>2,738.5</b>	2,538.0
<b>Current liabilities</b>			
Trade and other payables	13	(252.8)	(247.2)
Current tax liabilities		(62.1)	(69.2)
Financial liabilities			
– Borrowings	15	(18.8)	(13.9)
Deferred consideration		(2.3)	(2.6)
Deferred income	14	(391.1)	(352.2)
		<b>(727.1)</b>	(685.1)
<b>Non-current liabilities</b>			
Financial liabilities			
– Borrowings	15	(460.6)	(575.2)
Derivative financial instruments	16	(0.3)	–
Retirement benefit obligations	27	(11.8)	(3.9)
Deferred tax liabilities	17	(41.2)	(26.8)
		<b>(513.9)</b>	(605.9)
<b>Total liabilities</b>		<b>(1,241.0)</b>	(1,291.0)
<b>Net assets</b>		<b>1,497.5</b>	1,247.0
<b>Equity</b>			
Share capital	18	13.1	13.1
Share premium account	20	492.0	486.6
Other reserves	21	249.5	109.2
Retained earnings	22	742.9	638.1
<b>Total equity</b>	23	<b>1,497.5</b>	1,247.0

The consolidated financial statements on pages 61 to 104 were approved by the Board of directors on 17 December 2009 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 2009

	Note	2009 £m	2008 £m
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations	24	357.6	342.0
Interest received	2	4.0	3.8
Interest paid	2	(16.2)	(29.2)
Tax paid		(55.9)	(62.5)
<b>Net cash generated from operating activities</b>		<b>289.5</b>	254.1
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries (net of cash acquired)	25(f)	(13.8)	(81.1)
Disposal of subsidiary	25(d)	12.0	–
Purchase of intangible assets	8	(10.3)	(15.4)
Purchase of property, plant and equipment	9	(19.5)	(25.0)
Proceeds from sale of property, plant and equipment		0.2	1.8
<b>Net cash used in investing activities</b>		<b>(31.4)</b>	(119.7)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		5.4	8.5
Finance lease principal payments	24	(0.1)	(0.1)
Issue costs on loans		(0.7)	(0.3)
Repayment of borrowings		(323.9)	(233.5)
New borrowings		129.5	193.9
Dividends paid to shareholders	5	(95.1)	(106.2)
<b>Net cash used in financing activities</b>		<b>(284.9)</b>	(137.7)
<b>Net decrease in cash, cash equivalents and bank overdrafts (before exchange rate changes)</b>			
		<b>(26.8)</b>	(3.3)
Effects of exchange rate changes	24	8.9	7.8
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>		<b>(17.9)</b>	4.5
Cash, cash equivalents and bank overdrafts at 1 October		70.1	65.6
<b>Cash, cash equivalents and bank overdrafts at 30 September</b>	24	<b>52.2</b>	70.1



## 64 Notes to the accounts – Group

For the year ended 30 September 2009

### 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 24 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 2009.

#### 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 (“EU”).

The accounts are also prepared in accordance with International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as endorsed by the EU and with those parts of the Companies Act 2006 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 relate to share-based payment charges, pensions and derivative financial instruments which are measured at fair value.

#### *Standards, amendments and interpretations effective in 2009*

The following IFRIC interpretations and amendments have been adopted in the financial statements. None had any impact on the Group results or financial position:

- IFRIC 13, “Customer Loyalty Programmes”
- IFRIC 14, “IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”
- IFRIC 16, “Hedges of a Net Investment in a Foreign Operation”

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.

#### 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.

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 a relative fair value basis. 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.

Intangible assets arising on business combinations are stated at cost less accumulated amortisation and impairment losses if applicable.

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 |

Fully amortised intangible assets which are no longer in use are eliminated from the balance sheet and presented as a disposal within the notes to the accounts.

### h Intangible assets – other

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed seven years.

## Group accounting policies (continued)

### 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 on a straight-line basis. 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 on a straight-line basis 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 after making allowances for slow moving or obsolete items.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is calculated using the first-in-first-out method.

### l Cash and cash equivalents

For the purpose of preparation of the cash flow statement and the balance sheet, 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) (note n) and cash and cash equivalents in the balance sheet (note l).

### 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 non-interest-bearing and are stated at their nominal value.

## 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.

The Group uses derivative financial instruments to reduce exposures to interest rate risk. All derivatives are initially recognised at fair value, and are subsequently remeasured to fair value at each reporting date.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating interest rate risk, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Derivative instruments are used to manage the Group's exposure to changes in cash flows arising from movements in interest rates. The derivatives are designated as cash flow hedges, and hedge accounting is used where it has been shown that the hedge relationship is highly effective. Gains and losses on derivative financial instruments in a cash flow hedge relationship are recognised directly in equity and subsequently recognised in the income statement in the same period that the hedged item affects income.

When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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

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.

The Group also operates 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. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recognised in the income statement from equity.

## 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 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 Standards”.

### 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.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset’s useful life and the lease term.

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.

The Group also operates a small number of defined benefit pension and other retirement benefit schemes. 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 27.

#### 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 IFRS

At the date of approval of these financial statements, the following standards, interpretations and amendments were issued but not yet mandatory for the Group and early adoption has not been applied.

##### *IFRS*

- IFRS 1 (Revised), "First-time Adoption of IFRSs"
- IFRS 3 (Revised), "Business Combinations"
- IFRS 8, "Operating Segments"
- IAS 1 (Revised), "Presentation of Financial Statements"
- IAS 23 (Revised), "Borrowing Costs"
- IAS 27 (Revised), "Consolidated and Separate Financial Statements"

##### *IFRIC interpretations*

- IFRIC 12, "Service Concession Arrangements"
- IFRIC 15, "Agreements for Construction of Real Estates"
- IFRIC 17, "Distribution of Non-cash Assets to Owners"
- IFRIC 18, "Transfer of Assets from Customers"

## Group accounting policies (continued)

### y Adoption of new and revised IFRS (continued)

#### *Amendments to existing standards*

- Amendments to IAS 32 and IAS 1, “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, “Eligible Hedged Items”
- Amendment to IFRS 2, “Vesting Conditions and Cancellations”
- Amendments to IFRS 7, “Improving Disclosures about Financial Instruments”
- Amendment to IFRS 2, “Group Cash-settled Share-based Payment Transactions”
- Amendment to IFRS 1 for additional exemptions
- Amendment to IAS 32, “Presentation and Classification of Rights Issues”
- Improvements to IFRSs 2009

All the IFRSs, IFRIC interpretations and amendments to existing standards are endorsed by the EU at the date of approval of these consolidated financial statements with the exception of IFRS 1, IFRIC 17, IFRIC 18, the amendment to IAS 39, the amendment of IFRS 7, Improvements to IFRSs 2009, the amendment to IFRS 2, the amendment to IFRS 1 and the amendment to IAS 32.

IFRS 3 (Revised), “Business Combinations”, must be applied prospectively by the Group from 1 October 2009. The revised standard requires that all acquisition-related costs are to be expensed to the income statement in the period incurred. Furthermore, purchase accounting only applies at the point when control is achieved. This has a number of implications:

- Where the acquirer has a pre-existing equity interest in the entity acquired and increases its equity interest such that it achieves control, it must re-measure its previously held equity interest to fair value as at the date of obtaining control and recognise any resulting gain or loss in the income statement;
- Once control is achieved all other increases and decreases in ownership interest are treated as transactions among equity holders and reported directly within equity. Goodwill is not re-measured or adjusted.

The financial effect of the adoption of this standard will be dependent on the circumstances surrounding the future transactions to which they will apply, that are at present unknown.

With the exception of adoption of IFRS 3, (Revised), as referred to above, 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, the Group has to make judgements and best estimates about the fair value allocation of the purchase price. The Group seeks appropriate competent and professional advice before making any such allocations. The Group tests 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.

### A Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group’s financial performance. Examples of events that, inter alia, may give rise to the classification of items as exceptional are the restructuring of existing and newly-acquired businesses, gains or losses on the disposal of businesses or individual assets and asset impairments.

## 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, Dubai, 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 2009	Note	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
<b>The primary segment results were as follows:</b>						
Continuing operations						
Revenue		242.2	520.5	576.4	100.2	1,439.3
Segment operating profit	3	79.7	90.6	86.7	23.6	280.6
Finance income	2					4.0
Finance expenses	2					(17.2)
Profit before taxation						267.4
Taxation	4					(77.9)
<b>Profit for the year</b>						<b>189.5</b>

### The primary segment assets and liabilities were as follows:

Segment assets		407.8	741.5	1,459.5	129.7	2,738.5
Segment liabilities		(193.9)	(295.9)	(237.8)	(53.0)	(780.6)
Segment net assets		213.9	445.6	1,221.7	76.7	1,957.9
Unallocated liabilities						
– Corporate borrowings						(460.4)
<b>Total net assets</b>						<b>1,497.5</b>

### Other segmental information in respect of the primary segments was as follows:

Capital expenditure – property, plant and equipment	9	4.6	9.2	3.8	1.9	19.5
Capital expenditure – intangible fixed assets	8	0.1	1.6	8.6	–	10.3
Depreciation	9	7.5	6.3	6.5	2.0	22.3
Amortisation of intangible assets	8	4.7	18.5	22.5	0.2	45.9
Other non-cash expenses – share-based payments	19	3.6	2.3	0.2	0.6	6.7

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, deferred income, 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.

## 1 Segmental reporting (continued)

Year ended 30 September 2008		UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
<b>The primary segment results were as follows:</b>						
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)
<b>Profit for the year</b>						<b>166.3</b>

### 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)
<b>Total net assets</b>						<b>1,247.0</b>

### 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

Reconciliation of operating profit to EBITA* (Non GAAP measure)		2009 £m	2008 £m
Operating profit		<b>280.6</b>	267.4
Amortisation of acquired intangible assets		<b>39.5</b>	31.8
Net amortisation of software development expenditure		<b>0.6</b>	0.6
<b>EBITA*</b>		<b>320.7</b>	299.8

\*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.

### Secondary reporting format – business segment

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

	2009 £m	Revenue 2008 £m	2009 £m	Segment assets 2008 £m	2009 £m	Capital expenditure 2008 £m
Accounting	792.2	713.7	1,507.4	1,398.7	16.4	22.3
Industry-specific	369.5	314.6	703.0	616.6	7.7	9.8
HR and payroll	148.9	145.2	283.3	284.6	3.1	4.5
CRM	63.2	68.7	120.2	134.6	1.3	2.1
Payment processing	65.5	52.8	124.6	103.5	1.3	1.7
	<b>1,439.3</b>	1,295.0	<b>2,738.5</b>	2,538.0	<b>29.8</b>	40.4

	2009 £m	Revenue 2008 £m
<b>Analysis of revenue</b>		
Software and software-related services	502.5	509.3
Subscription	936.8	785.7
	<b>1,439.3</b>	1,295.0

## 2 Net finance expenses

	2009 £m	2008 £m
<b>Finance income</b> – interest income on short-term deposits	4.0	3.8
<b>Finance expenses:</b>		
Finance costs on bank borrowings	(16.2)	(29.2)
Amortisation of issue costs	(1.0)	(1.0)
	<b>(17.2)</b>	(30.2)
<b>Net finance expenses</b>	<b>(13.2)</b>	(26.4)



### 3 Operating profit

<b>The following items have been included in arriving at operating profit</b>	Note	<b>2009 £m</b>	2008 £m
Staff costs	26	<b>682.0</b>	595.5
Inventories			
– Cost of inventories recognised as an expense (included in cost of sales)	10	<b>29.7</b>	39.9
Depreciation of property, plant and equipment			
– Owned assets	9	<b>22.1</b>	18.3
– Under finance leases	9	<b>0.2</b>	0.2
Amortisation of intangible assets (excluding amortisation of development expenditure)	8	<b>45.3</b>	36.1
Amortisation of development expenditure	8	<b>0.6</b>	0.6
Loss on disposal of property, plant and equipment		<b>0.5</b>	–
Profit on disposal of intangible assets		<b>(3.3)</b>	–
Other operating lease rentals payable			
– Plant and machinery	9	<b>2.5</b>	0.7
– Property	9	<b>39.5</b>	27.5
Repairs and maintenance expenditure on property, plant and equipment		<b>6.8</b>	5.6
Net foreign exchange losses		<b>0.2</b>	0.4
Research and development expenditure		<b>174.6</b>	139.7

#### 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:

	<b>2009 £m</b>	2008 £m
Fees payable to the Company auditor for the audit of parent Company and consolidated accounts	<b>1.5</b>	1.5
Fees payable to the Company auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	<b>0.2</b>	0.2
<b>Total audit fees</b>	<b>1.7</b>	1.7
Other non-tax compliance services	<b>0.2</b>	0.2
<b>Total audit and assurance fees</b>	<b>1.9</b>	1.9
Tax services and tax compliance work	<b>1.7</b>	1.8
	<b>3.6</b>	3.7

The total audit fee for the Group, including the audit of overseas subsidiaries was £1.7m (2008: £1.7m). Other non-tax compliance 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 45 and 46.

#### Exceptional items

Included in selling and administrative expenses are £26.4m of exceptional restructuring costs (2008: £nil).

## 4 Taxation

<b>Analysis of charge in the year</b>	Note	<b>2009 £m</b>	2008 £m
<b>Current tax</b>			
– Current year		<b>80.7</b>	74.9
– Adjustment in respect of prior year		<b>(18.0)</b>	0.5
<b>Current tax</b>		<b>62.7</b>	75.4
<b>Deferred tax</b>			
– Origination and reversal of temporary differences		<b>6.5</b>	(0.7)
– Adjustment in respect of prior year		<b>8.7</b>	–
<b>Deferred tax</b>	17	<b>15.2</b>	(0.7)
<b>Taxation</b>		<b>77.9</b>	74.7

<b>Tax on items (credited)/charged to equity</b>	Note	<b>2009 £m</b>	2008 £m
Deferred tax (credit)/charge on share options	23	<b>(4.0)</b>	0.2
Current tax credit on exchange adjustments		<b>(4.3)</b>	(4.6)
<b>Total tax on items credited to equity</b>		<b>(8.3)</b>	(4.4)

**The tax for the year is higher (2008: higher) than the standard rate of corporation tax in the UK 28% (2008: 29%). The differences are explained below:**

	<b>2009 £m</b>	2008 £m
<b>Profit on ordinary activities before taxation</b>	<b>267.4</b>	241.0
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 28% (2008: 29%)	<b>74.9</b>	69.9
Effects of:		
Adjustment in respect of prior year	<b>(9.3)</b>	0.5
Adjustment in respect of foreign tax rates	<b>9.4</b>	5.8
Expenses not deductible for tax purposes and other permanent differences	<b>2.9</b>	(1.5)
<b>Total taxation</b>	<b>77.9</b>	74.7

## 5 Dividends

	<b>2009 £m</b>	2008 £m
<b>Final</b> dividend paid for the year ended 30 September 2008 of 4.78p per share (2008: final dividend paid for the year ended 30 September 2007 of 5.73p per share)	<b>62.5</b>	–
	–	74.5
<b>Interim</b> dividend paid for the year ended 30 September 2009 of 2.50p per share (2008: interim dividend paid for the year ended 30 September 2008 of 2.43p per share)	<b>32.6</b>	–
	–	31.7
	<b>95.1</b>	106.2

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2009 of 4.93p per share which will absorb an estimated £64.7m of shareholders' funds. It will be paid on 5 March 2010 to shareholders who are on the register of members on 5 February 2010. 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 2009, the performance criteria for the vesting of the awards under the incentive scheme had not been met in all cases 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:

### Basic EPS

	2009			2008		
	Earnings £m	Weighted average number of shares millions	Per share amount pence	Earnings £m	Weighted average number of shares millions	Per share amount pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	189.5	1,310.6	14.46	166.3	1,306.5	12.73
<b>Effect of dilutive securities</b>						
Options		3.7	(0.04)		3.8	(0.04)
<b>Diluted EPS</b>	189.5	1,314.3	14.42	166.3	1,310.3	12.69

### Adjusted EPS – Non GAAP measure

	2009			2008		
	Earnings £m	Weighted average number of shares millions	Per share amount pence	Earnings £m	Weighted average number of shares millions	Per share amount pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	189.5	1,310.6	14.46	166.3	1,306.5	12.73
<b>Non GAAP items:</b>						
Intangible asset amortisation excluding amortisation of computer software	40.1			32.4		
Taxation	(11.6)			(10.0)		
<b>Net adjustments</b>	28.5		2.17	22.4		1.71
<b>Adjusted basic EPS</b>	218.0	1,310.6	16.63	188.7	1,306.5	14.44
<b>Exchange adjustments</b>						
Exchange adjustments				41.4		
Taxation				(12.8)		
<b>Net exchange adjustments</b>				28.6		2.19
<b>Adjusted basic EPS (after exchange adjustments)</b>	218.0	1,310.6	16.63	217.3	1,306.5	16.63
<b>Effect of dilutive securities</b>						
Options		3.7	(0.04)		3.8	(0.04)
<b>Adjusted diluted EPS (after exchange adjustments)</b>	218.0	1,314.3	16.59	217.3	1,310.3	16.59

Exchange adjustments relate to the retranslation of prior year results to current year exchange rates as shown in the table on page 14 within the Financial review.

## 7 Goodwill

	Note	2009 £m	2008 £m
<b>Cost</b>			
At 1 October		<b>1,825.5</b>	1,567.0
Additions	25(g)	<b>7.3</b>	67.2
Disposals	25(d)	<b>(10.1)</b>	–
Exchange adjustments		<b>208.1</b>	191.3
<b>At 30 September</b>		<b>2,030.8</b>	1,825.5
<b>Aggregate impairment at 1 October and 30 September</b>			
		<b>–</b>	–
<b>Net book amount at 30 September</b>			
		<b>2,030.8</b>	1,825.5

Details of acquisitions in the year are shown in note 25. During the year, goodwill was reviewed for impairment in accordance with IAS 36. For the purposes of this impairment review, goodwill has been valued on the basis of discounted future cash flows arising in each relevant cash-generating unit.

### Goodwill impairment tests

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

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

	2009 £m	2008 £m
UK & Ireland	<b>212.4</b>	213.2
France	<b>293.6</b>	251.9
Germany	<b>28.8</b>	24.8
Switzerland	<b>38.6</b>	32.1
Poland	<b>7.4</b>	8.0
Spain	<b>142.3</b>	116.1
North America		
– Sage Business Solutions Division	<b>754.2</b>	695.6
– Sage Payment Solutions Division	<b>163.8</b>	141.8
– Sage Healthcare Division	<b>307.5</b>	266.3
South Africa	<b>36.3</b>	34.1
Australia	<b>26.6</b>	24.7
Asia	<b>19.3</b>	16.9
	<b>2,030.8</b>	1,825.5

## 7 Goodwill (continued)

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% (2008: 5.9%) to 10.7% (2008: 11.4%).
- 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 10% (2008: 8%) to 50% (2008: 47%).
- 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 1.3% (2008: 1.0%) to 5.7% (2008: 5.0%).

Goodwill impairment tests were conducted separately for each CGU.

### Sensitivity to changes in assumptions

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any unit to exceed its recoverable amount.

## 8 Other intangible assets

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
<b>Cost</b>							
At 1 October 2008	40.4	88.8	0.3	5.1	60.4	136.5	331.5
Additions	–	–	–	–	10.1	0.2	10.3
Acquisitions	–	1.4	–	–	0.1	1.4	2.9
Disposals	–	(1.5)	–	–	(6.3)	(2.2)	(10.0)
Exchange adjustments	5.3	10.5	0.1	0.5	7.1	15.5	39.0
<b>At 30 September 2009</b>	<b>45.7</b>	<b>99.2</b>	<b>0.4</b>	<b>5.6</b>	<b>71.4</b>	<b>151.4</b>	<b>373.7</b>
<b>Accumulated amortisation</b>							
At 1 October 2008	8.2	30.9	0.1	4.1	21.5	43.0	107.8
Charge for the year	5.1	14.5	0.1	0.6	5.8	19.8	45.9
Acquisitions	–	–	–	–	–	–	–
Disposals	–	(1.1)	–	–	(6.3)	(2.1)	(9.5)
Exchange adjustments	1.2	3.9	–	0.4	3.1	4.9	13.5
<b>At 30 September 2009</b>	<b>14.5</b>	<b>48.2</b>	<b>0.2</b>	<b>5.1</b>	<b>24.1</b>	<b>65.6</b>	<b>157.7</b>
<b>Net book amount at 30 September 2009</b>	<b>31.2</b>	<b>51.0</b>	<b>0.2</b>	<b>0.5</b>	<b>47.3</b>	<b>85.8</b>	<b>216.0</b>



	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
<b>Cost</b>							
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	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
<b>At 30 September 2008</b>	<b>40.4</b>	<b>88.8</b>	<b>0.3</b>	<b>5.1</b>	<b>60.4</b>	<b>136.5</b>	<b>331.5</b>
<b>Accumulated amortisation</b>							
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
<b>At 30 September 2008</b>	<b>8.2</b>	<b>30.9</b>	<b>0.1</b>	<b>4.1</b>	<b>21.5</b>	<b>43.0</b>	<b>107.8</b>
<b>Net book amount at 30 September 2008</b>							
	<b>32.2</b>	<b>57.9</b>	<b>0.2</b>	<b>1.0</b>	<b>38.9</b>	<b>93.5</b>	<b>223.7</b>

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

## 9 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
<b>Cost</b>				
At 1 October 2008	<b>93.3</b>	<b>142.5</b>	<b>47.3</b>	<b>283.1</b>
Additions at cost	<b>1.0</b>	<b>10.7</b>	<b>7.8</b>	<b>19.5</b>
Acquisitions	–	<b>0.3</b>	–	<b>0.3</b>
Disposals	–	<b>(21.2)</b>	<b>(3.0)</b>	<b>(24.2)</b>
Exchange adjustments	<b>2.2</b>	<b>14.5</b>	<b>7.1</b>	<b>23.8</b>
<b>At 30 September 2009</b>	<b>96.5</b>	<b>146.8</b>	<b>59.2</b>	<b>302.5</b>
<b>Accumulated depreciation</b>				
At 1 October 2008	<b>7.5</b>	<b>101.6</b>	<b>33.5</b>	<b>142.6</b>
Charge for the year	<b>1.0</b>	<b>13.8</b>	<b>7.5</b>	<b>22.3</b>
Acquisitions	–	<b>0.3</b>	–	<b>0.3</b>
Disposals	–	<b>(20.9)</b>	<b>(2.6)</b>	<b>(23.5)</b>
Exchange adjustments	<b>0.5</b>	<b>10.4</b>	<b>5.4</b>	<b>16.3</b>
<b>At 30 September 2009</b>	<b>9.0</b>	<b>105.2</b>	<b>43.8</b>	<b>158.0</b>
<b>Net book amount at 30 September 2009</b>				
	<b>87.5</b>	<b>41.6</b>	<b>15.4</b>	<b>144.5</b>

## 9 Property, plant and equipment (continued)

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
<b>Cost</b>				
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
<b>At 30 September 2008</b>	<b>93.3</b>	<b>142.5</b>	<b>47.3</b>	<b>283.1</b>
<b>Accumulated depreciation</b>				
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
<b>At 30 September 2008</b>	<b>7.5</b>	<b>101.6</b>	<b>33.5</b>	<b>142.6</b>
<b>Net book amount at 30 September 2008</b>	<b>85.8</b>	<b>40.9</b>	<b>13.8</b>	<b>140.5</b>

Depreciation expenses of £22.3m (2008: £18.5m) have been charged through selling and administrative expenses (note 3).

Lease rentals amounting to £2.5m (2008: £0.7m) and £39.5m (2008: £27.5m) relating to the lease of plant and machinery and property respectively have also been charged through selling and administrative expenses (note 3).

<b>Assets held under finance leases have the following net book amount:</b>	<b>2009 £m</b>	2008 £m
Cost	<b>0.9</b>	1.3
Accumulated depreciation	<b>(0.5)</b>	(0.5)
<b>Net book amount</b>	<b>0.4</b>	0.8

Included in assets held under finance leases are plant and equipment with a net book amount of £0.2m (2008: £0.5m) and vehicles £0.2m (2008: £0.3m).

## 10 Inventories

	<b>2009 £m</b>	2008 £m
Materials	<b>1.4</b>	1.2
Finished goods	<b>3.8</b>	4.2
	<b>5.2</b>	5.4

The Group consumed £29.7m (2008: £39.9m) 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

<b>Amounts falling due within one year:</b>	<b>2009 £m</b>	2008 £m
Trade receivables	<b>265.1</b>	255.0
Less: provision for impairment of receivables	<b>(31.4)</b>	(28.0)
Trade receivables – net	<b>233.7</b>	227.0
Other receivables	<b>20.7</b>	23.2
Prepayments and accrued income	<b>20.7</b>	17.4
	<b>275.1</b>	267.6

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.

<b>Trade and other receivables by geographical location:</b>	<b>2009 £m</b>	2008 £m
UK & Ireland	<b>75.5</b>	77.0
Mainland Europe	<b>107.2</b>	96.8
North America	<b>57.7</b>	62.0
Rest of World	<b>14.0</b>	14.4
	<b>254.4</b>	250.2

<b>Movements on the Group provision for impairment of trade receivables were as follows:</b>	<b>2009 £m</b>	2008 £m
At 1 October	<b>28.0</b>	25.8
Acquisition of subsidiaries	<b>(0.2)</b>	0.4
Increase in provision for receivables impairment	<b>14.0</b>	7.7
Receivables written-off during the year as uncollectible	<b>(9.0)</b>	(4.5)
Unused amounts reversed	<b>(5.3)</b>	(4.4)
Exchange adjustments	<b>3.9</b>	3.0
<b>At 30 September</b>	<b>31.4</b>	28.0

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 2009, trade receivables of £49.8m (2008: £52.5m) were either partially or fully impaired.

<b>The ageing of these receivables was as follows:</b>	<b>2009 £m</b>	2008 £m
Not due	<b>11.0</b>	7.5
Less than six months past due	<b>9.9</b>	25.0
More than six months past due	<b>28.9</b>	20.0
	<b>49.8</b>	52.5

## 11 Trade and other receivables (continued)

Trade receivables which were past their due date but not impaired at 30 September 2009 were £56.6m (2008: £65.4m).

	2009 £m	2008 £m
<b>The ageing of these receivables was as follows:</b>		
Less than six months past due	52.7	60.8
More than six months past due	3.9	4.6
	<b>56.6</b>	65.4

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

	2009 £m	2008 £m
Cash at bank and in hand	59.3	69.8
Short-term bank deposits	0.1	0.3
	<b>59.4</b>	70.1

The effective interest rate on short-term deposits was 1.1% (2008: 3.2%) and these deposits have an average maturity of 85 days (2008: 30 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

	2009 £m	2008 £m
Trade payables	66.0	66.5
Other tax and social security payable	70.5	71.6
Accruals	116.3	109.1
	<b>252.8</b>	247.2

## 14 Deferred income

	2009 £m	2008 £m
Deferred income	391.1	352.2

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

	2009 £m	2008 £m
<b>Current</b>		
Bank overdrafts	7.2	–
Bank loans – unsecured	11.4	13.6
Finance lease obligations	0.2	0.3
	<b>18.8</b>	13.9
<b>Non-current</b>		
Bank loans – unsecured	460.5	575.0
Finance lease obligations	0.1	0.2
	<b>460.6</b>	575.2

Bank loans are denominated in a number of currencies and principally are charged interest linked to LIBOR.

Included in loans above is £460.5m (2008: £575.0m) of unsecured loans (after unamortised issue costs) taken out in connection with acquisitions.

This is drawn down under £815.1m (2008: £850.0m) multi-currency revolving credit facilities, £650.0m (2008: £650.0m) expiring on 4 August 2011 and US\$264.0m or £165.1m (2008: £200.0m) expiring on 13 January 2011. During the year, the £200.0m facility was renegotiated, resulting in it being redenominated and reduced to a US\$264.0m facility.

In the table above, loans are stated net of unamortised issue costs of £0.2m (2008: £0.5m). The Group has incurred total issue costs of £8.3m (2008: £7.6m) 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 £81.7m (2008: £75.3m); US Dollar £229.3m (2008: £290.6m), Euro £148.1m (2008: £208.8m) and Swiss Franc £12.8m (2008: £13.9m) and currently bear interest at a rate of 0.35% (2008: 0.45%) above LIBOR, apart from £93.8m (2008: £nil) which bear an average fixed interest rate of 1.70% (excluding margin).

## 16 Financial instruments

Numerical financial instruments disclosures are set out below and also in note 24.

### 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.

	Note	2009		2008	
		Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Long-term borrowings</b>	15	<b>(460.6)</b>	<b>(460.6)</b>	(575.2)	(575.2)
<b>Fair value of other financial assets and financial liabilities:</b>					
Primary financial instruments held or issued to finance the Group's operations:					
Short-term borrowings	15	<b>(18.8)</b>	<b>(18.8)</b>	(13.9)	(13.9)
Trade and other payables excluding other tax and social security	13	<b>(182.3)</b>	<b>(182.3)</b>	(175.6)	(175.6)
Trade and other receivables excluding prepayments	11	<b>254.4</b>	<b>254.4</b>	250.2	250.2
Short-term bank deposits	12	<b>0.1</b>	<b>0.1</b>	0.3	0.3
Cash at bank and in hand	12	<b>59.3</b>	<b>59.3</b>	69.8	69.8
<b>Derivatives used for hedging:</b>					
Derivative financial instruments		<b>(0.3)</b>	<b>(0.3)</b>	–	–

### 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 24) 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 regularly reviews net debt and its ratio to earnings before interest, tax, depreciation and amortisation (EBITDA) to ensure that it does not exceed the covenant contained within the Group's banking facilities being 3.0 times. 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.



## 16 Financial instruments (continued)

### Liquidity risk

The Group manages its exposure to liquidity risk by regularly reviewing net debt and forecast cash flows to ensure that current cash resources are available to meet its business objectives. The Group also regularly monitors its compliance with its debt covenants. During the financial year, all covenants have been complied with. 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 optimising 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:

	2009			Total £m
	Borrowings £m	Trade and other payables £m	Derivative financial instruments £m	
In less than one year	18.8	252.8	1.4	273.0
In more than one year but not more than two years	466.6	–	1.4	468.0
In more than two years but not more than five years	–	–	0.8	0.8
	<b>485.4</b>	<b>252.8</b>	<b>3.6</b>	<b>741.8</b>

	2008			Total £m
	Borrowings £m	Trade and other payables £m	Derivative financial instruments £m	
In less than one year	13.9	247.2	–	261.1
In more than one year but not more than two years	0.2	–	–	0.2
In more than two years but not more than five years	639.9	–	–	639.9
	654.0	247.2	–	901.2

### 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:

	2009 £m	2008 £m
Expiring between one and two years	354.5	–
Expiring in more than two years	–	274.6
	<b>354.5</b>	<b>274.6</b>

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. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility.

### 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 2009, the Group had drawn down £460.6m (2008: £575.4m) from its committed revolving credit facilities. It is the Group's policy to regularly review interest rates and forecast debt to monitor its interest rate exposure. The profile of fixed and floating interest rates is then managed accordingly using interest rate swaps or other hedging instruments approved by the Board. At 30 September 2009, the Group had fixed the interest rate on £93.8m of borrowings (2008: £nil) using interest rate swaps, with all other outstanding debt 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 2009 was £227.9m (2008: £290.6m), the Euro borrowings £148.1m (2008: £203.5m) and Swiss Franc borrowings £12.8m (2008: £13.9m). The foreign exchange loss of £71.3m (2008: loss of £71.7m) 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 2009 and 30 September 2008, these exposures were immaterial to the Group.

### Derivative financial instruments

	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Interest rate swaps – cash flow hedge:</b>				
Current	-	-	-	-
Non-current	-	(0.3)	-	-

The fair values of derivatives have been calculated using market rates prevailing at the balance sheet date. Their designation depends on the contractual maturity of the derivative.

The notional principal amount of the outstanding interest rate swap contracts at 30 September 2009 was £93.8m (2008: £nil).

At 30 September 2009, the average fixed interest rate is 1.70%, (excluding margin) (2008: n/a) and the main floating rates are 0.35% above LIBOR.

Losses recognised in the hedging reserve in equity (note 21) on interest rate swap contracts as of 30 September 2009 will be continuously released to the income statement until the repayment of the bank borrowings.

### Sensitivity analysis

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.

## 16 Financial instruments (continued)

	2009		2008	
	Income gains/(losses) £m	Equity gains/(losses) £m	Income gains/(losses) £m	Equity gains/(losses) £m
1% increase in market interest rates	(5.2)	(5.2)	(6.0)	(6.0)
1% decrease in market interest rates	5.2	5.2	6.0	6.0
10% strengthening of Sterling versus the US Dollar	4.0	51.9	8.2	78.2
10% strengthening of Sterling versus the Euro	5.9	24.0	9.2	18.3
10% weakening of Sterling versus the US Dollar	(4.4)	(57.1)	(8.9)	(86.0)
10% weakening of Sterling versus the Euro	(6.5)	(26.4)	(10.1)	(20.1)

	2009 Total £m	2008 Total £m
<b>The minimum lease payments under finance leases fall due as follows:</b>		
Not later than one year	0.2	0.3
Later than one year but not more than five years	0.1	0.2
	0.3	0.5
Future finance charges on finance leases	–	–
<b>Present value of finance lease liabilities</b>	<b>0.3</b>	<b>0.5</b>

## 17 Deferred tax

Deferred tax has been calculated at 28% (2008: 28%) in respect of UK companies (being the prevailing corporation tax rate) and at the prevailing rates for the overseas subsidiaries.

	2009 £m	2008 £m
<b>The movement on the deferred tax account is as shown below:</b>		
At 1 October	(21.6)	(5.9)
Acquisition of subsidiary	–	(6.2)
Transfer to/(from) current tax liabilities	0.3	(8.2)
Income statement (charge)/credit	(15.2)	0.7
Exchange differences	(1.2)	(1.8)
Share options	4.0	(0.2)
<b>At 30 September</b>	<b>(33.7)</b>	<b>(21.6)</b>

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

	Intangible assets £m	Other £m	Total £m
<b>Assets</b>			
At 1 October 2008	(0.3)	5.5	5.2
Income statement credit	–	0.5	0.5
Reclassification from deferred tax liability	–	0.6	0.6
Exchange differences	–	1.2	1.2
<b>At 30 September 2009</b>	<b>(0.3)</b>	<b>7.8</b>	<b>7.5</b>
<b>Liabilities</b>			
At 1 October 2008	(33.1)	6.3	(26.8)
Income statement charge	(2.3)	(13.4)	(15.7)
Deferred tax on intangible assets	(0.8)	–	(0.8)
Reclassification from deferred tax asset	–	(0.6)	(0.6)
Acquisition of subsidiary	–	0.8	0.8
Exchange differences	(4.5)	2.1	(2.4)
Share options	–	4.0	4.0
Transfer to current tax liabilities	–	0.3	0.3
<b>At 30 September 2009</b>	<b>(40.7)</b>	<b>(0.5)</b>	<b>(41.2)</b>
<b>Net deferred tax (liability)/asset at 30 September 2009</b>	<b>(41.0)</b>	<b>7.3</b>	<b>(33.7)</b>

	Intangible assets £m	Other £m	Total £m
<b>Assets</b>			
At 1 October 2007	6.6	1.7	8.3
Income statement credit	–	1.0	1.0
Reclassification (to)/from deferred tax liability	(6.9)	3.0	(3.9)
Exchange differences	–	(0.2)	(0.2)
<b>At 30 September 2008</b>	<b>(0.3)</b>	<b>5.5</b>	<b>5.2</b>
<b>Liabilities</b>			
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 to/(from) 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 from current tax liabilities	–	(8.2)	(8.2)
<b>At 30 September 2008</b>	<b>(33.1)</b>	<b>6.3</b>	<b>(26.8)</b>
<b>Net deferred tax (liability)/asset at 30 September 2008</b>	<b>(33.4)</b>	<b>11.8</b>	<b>(21.6)</b>

The deferred tax liability due after more than one year is £40.7m (2008: £33.1m).

## 18 Share capital

<b>Authorised</b>	<b>2009 £m</b>	2008 £m
1,860,000,000 (2008: 1,860,000,000) ordinary shares of 1p each	<b>18.6</b>	18.6

<b>Issued and fully paid</b>	<b>2009 shares</b>	<b>2009 £m</b>	2008 shares	2008 £m
At 1 October	<b>1,309,557,557</b>	<b>13.1</b>	1,304,160,154	13.0
Allotted under share option schemes	<b>3,409,399</b>	–	5,397,403	0.1
<b>At 30 September</b>	<b>1,312,966,956</b>	<b>13.1</b>	1,309,557,557	13.1

### 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	<b>2009 number</b>	2008 number
16 December 1998	136.00p	16 December 2001 – 16 December 2008	–	614,370
7 June 1999	204.50p	7 June 2002 – 7 June 2009	–	766,500
11 February 2000	275.50p–467.60p	11 February 2000 – 6 January 2010	<b>35,212</b>	62,987
23 February 2000	721.00p	23 February 2003 – 23 February 2010	<b>31,250</b>	31,250
24 May 2000	542.50p	24 May 2003 – 24 May 2010	<b>19,037</b>	19,037
10 January 2001	301.00p	10 January 2004 – 10 January 2011	<b>1,821,676</b>	2,220,944
17 January 2001	329.75p	17 January 2004 – 17 January 2011	<b>459,833</b>	459,833
16 May 2001	264.00p	16 May 2004 – 16 May 2011	<b>1,385,648</b>	1,588,503
2 January 2002	228.50p	2 January 2005 – 2 January 2012	<b>2,740,223</b>	3,191,187
31 December 2002	134.00p	31 December 2005 – 31 December 2012	<b>1,798,420</b>	2,293,237
12 May 2003	147.00p	12 May 2006 – 12 May 2013	<b>542,953</b>	772,578
24 December 2003	171.00p	24 December 2006 – 24 December 2013	<b>5,202,139</b>	6,701,339
24 May 2004	172.00p	24 May 2007 – 24 May 2014	<b>230,234</b>	252,051
6 January 2005	198.00p	6 January 2008 – 6 January 2015	<b>3,010,315</b>	3,769,565
12 May 2005	206.00p	12 May 2008 – 12 May 2015	<b>1,639,524</b>	1,830,784
10 January 2006	258.50p	10 January 2009 – 10 January 2016	<b>3,469,517</b>	5,047,073
10 January 2007	270.00p	10 January 2010 – 10 January 2017	<b>5,339,143</b>	6,986,236
20 June 2007	248.00p	20 June 2010 – 20 June 2017	<b>129,956</b>	195,530
10 January 2008	214.00p	10 January 2011 – 10 January 2018	<b>8,063,504</b>	9,668,002
17 June 2008	219.25p	17 June 2011 – 17 June 2018	<b>246,209</b>	246,209
			<b>36,164,793</b>	46,717,215

Under the above scheme, 2,920,353 1p ordinary shares were issued during the year for aggregate proceeds of £4.6m.

Under the Group's long-term incentive plan for certain senior executives approved by shareholders on 3 March 2005 and amended at the Annual General Meeting on 3 March 2009, the following awards have been made:

Date of award	Vesting date	<b>2009 number</b>	2008 number
10 January 2006	10 January 2009	–	1,989,958
10 January 2007	10 January 2010	<b>2,136,092</b>	2,347,292
20 June 2007	20 June 2010	<b>33,000</b>	33,000
3 March 2008	3 March 2011	<b>4,644,041</b>	5,107,983
17 June 2008	17 June 2011	<b>333,148</b>	333,148
3 March 2009	3 March 2012	<b>11,962,924</b>	–
		<b>19,109,205</b>	9,811,381



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	2009 number	2008 number
1 March 2002	180.40p	1 March 2009 – 31 August 2009	–	6,575
1 March 2003	112.00p	1 March 2010 – 31 August 2010	<b>13,312</b>	13,312
1 March 2004	140.00p	1 March 2009 – 31 August 2009	<b>678</b>	101,937
1 March 2004	140.00p	1 March 2011 – 31 August 2011	<b>32,348</b>	34,744
1 March 2005	157.00p	1 March 2008 – 31 August 2008	–	965
1 March 2005	157.00p	1 March 2010 – 31 August 2010	<b>87,988</b>	102,970
1 March 2005	157.00p	1 March 2012 – 31 August 2012	<b>16,918</b>	18,284
1 August 2006	184.00p	1 August 2009 – 31 January 2010	<b>249,897</b>	769,091
1 August 2006	184.00p	1 August 2011 – 31 January 2012	<b>130,845</b>	201,098
1 August 2006	184.00p	1 August 2013 – 31 January 2014	<b>21,928</b>	33,450
1 August 2007	203.00p	1 August 2010 – 31 January 2011	<b>263,007</b>	446,269
1 August 2007	203.00p	1 August 2012 – 31 January 2013	<b>75,005</b>	126,097
1 August 2007	203.00p	1 August 2014 – 31 January 2015	<b>22,334</b>	33,588
1 August 2008	177.00p	1 August 2011 – 31 January 2012	<b>471,032</b>	785,306
1 August 2008	177.00p	1 August 2013 – 31 January 2014	<b>206,528</b>	339,268
1 August 2008	177.00p	1 August 2015 – 31 January 2016	<b>10,250</b>	15,571
1 August 2009	149.00p	1 August 2012 – 31 January 2013	<b>1,347,158</b>	–
1 August 2009	149.00p	1 August 2014 – 31 January 2015	<b>343,512</b>	–
1 August 2009	149.00p	1 August 2016 – 31 January 2017	<b>62,289</b>	–
			<b>3,355,029</b>	3,028,525

Under the above scheme, 489,046 1p ordinary shares were issued during the year for aggregate proceeds of £0.8m.

The market price of the shares of the Company at 30 September 2009 was 233.40p and the highest and lowest prices during the year were 233.40p and 148.40p respectively.

## 19 Share-based payments

The total charge for the year relating to employee share-based payment plans was £6.7m (2008: £7.6m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £4.8m (2008: £5.2m). A reconciliation of share movements for options granted after 7 November 2002 to which IFRS 2, “Share-based Payment” is applicable is shown below.

### ESOS

There have been no grants of executive share options under the 1999 Executive Share Option Scheme (“ESOS”) since June 2008. Long-term incentive awards are made under The Sage Group plc Performance Share Plan.

The performance targets governing the vesting of existing 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.

## 19 Share-based payments (continued)

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	365	18	104	119	351	514	11	408	2
Shares under option	5,202,139	230,234	3,010,315	1,639,524	3,469,517	5,339,143	129,956	8,063,504	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:

	2009		2008	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	37,763	2.14	33,442	2.13
Granted	–	–	10,376	2.14
Forfeited	(5,862)	2.38	(2,920)	2.46
Exercised	(2,229)	1.65	(3,135)	1.64
<b>Outstanding at 30 September</b>	<b>29,672</b>	<b>2.13</b>	37,763	2.14
<b>Exercisable at 30 September</b>	<b>16,194</b>	<b>1.95</b>	16,543	1.83

Range of exercise prices	2009				2008			
	Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years		Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years	
			Expected	Contractual			Expected	Contractual
1.71 – 2.70	2.13	29,672	0.4	6.3	2.14	37,763	0.8	7.3

The weighted average share price during the period for options exercised over the year was 199.63p (2008: 211.02p).

## The Sage Group PSP

The Performance Share Plan (the "Plan") was approved by shareholders at the Annual General Meeting in 2005 and amended at the Annual General Meeting in 2009. 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.

Following the amendments to the scheme, annual awards under the Plan are limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors are limited to shares with a maximum value on award of 210% 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 on a sliding scale based on EPS. 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 are then 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.

### The comparator group for awards made in 2009 comprised the following companies:

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

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. 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.

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 2007	June 2007	March 2008	June 2008	March 2009
Share price at grant date	£2.72	£2.49	£2.00	£2.21	£1.62
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00
Number of employees	87	2	106	2	230
Shares under award	2,136,092	33,000	4,644,041	333,148	11,962,924
Vesting period (years)	3	3	3	3	3
Expected volatility	24%	22%	25%	27%	33%
Award life (years)	3	3	3	3	3
Expected life (years)	3	3	3	3	3
Risk free rate	5.1%	5.7%	4.0%	5.3%	1.5%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Fair value per award	£1.478	£1.041	£1.088	£1.254	£1.434

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.

## 19 Share-based payments (continued)

A reconciliation of award movements over the year is shown below:

	2009		2008	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	9,811	–	7,194	–
Awarded	12,045	–	5,568	–
Forfeited	(2,747)	–	(1,862)	–
Exercised	–	–	(1,089)	–
<b>Outstanding at 30 September</b>	<b>19,109</b>	<b>–</b>	<b>9,811</b>	<b>–</b>
<b>Exercisable at 30 September</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

	2009				2008			
	Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years		Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years	
			Expected	Contractual			Expected	Contractual
Range of exercise prices								
N/A	–	19,109	1.9	1.9	–	9,811	1.7	1.7

### The Sage Group Savings-related Share Option Plan (the “SAYE Plan”)

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

#### Eligibility

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

#### Employee contributions

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

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

#### Exercise price

An employee who applies for the grant of an option to acquire Shares will do so at a price (the “Exercise Price”) which is determined by the directors but which is not less than the greater of:

- 80% of the middle market quotation of a Share on the dealing day prior to the date of invitation as derived from the London Stock Exchange Daily Official List (or, if the directors so decide, 80% of the average of the middle market quotations over the three dealing days prior to the date of the invitation or 80% of the middle market quotations at such other time or times agreed in advance with HMRC), and;
- In the case of an option over unissued Shares, the nominal value of a Share.

### Grant of options

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

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

### Exercise of options

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

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

Grant date	March 2003	March 2004	March 2004	March 2005	March 2005	August 2006	August 2006	August 2006
Share price at grant date	£1.34	£1.93	£1.93	£2.06	£2.06	£2.28	£2.28	£2.28
Exercise price	£1.12	£1.40	£1.40	£1.57	£1.57	£1.84	£1.84	£1.84
Number of employees	1	2	9	27	5	144	54	9
Shares under option	13,312	678	32,348	87,988	16,918	249,897	130,845	21,928
Vesting period (years)	7	5	7	5	7	3	5	7
Expected volatility	52%	59%	54%	55%	54%	26%	42%	51%
Option life (years)	7	5	7	5	7	3	5	7
Expected life (years)	7	5	7	5	7	3	5	7
Risk free rate	4.0%	4.6%	4.7%	4.7%	4.7%	4.7%	4.7%	4.6%
Expected dividends expressed as a dividend yield	1.1%	0.9%	0.9%	1.6%	1.6%	1.6%	1.6%	1.6%
Fair value per option	£0.746	£1.135	£1.192	£1.092	£1.176	£0.706	£1.028	£1.255

Grant date	August 2007	August 2007	August 2007	August 2008	August 2008	August 2008	August 2009	August 2009	August 2009
Share price at grant date	£2.28	£2.28	£2.28	£1.98	£1.98	£1.98	£1.95	£1.95	£1.95
Exercise price	£2.03	£2.03	£2.03	£1.77	£1.77	£1.77	£1.49	£1.49	£1.49
Number of employees	222	38	7	297	65	6	556	73	17
Shares under option	263,007	75,005	22,334	471,032	206,528	10,250	1,347,158	343,512	62,289
Vesting period (years)	3	5	7	3	5	7	3	5	7
Expected volatility	22%	34%	45%	28%	27%	39%	33%	29%	35%
Option life (years)	3	5	7	3	5	7	3	5	7
Expected life (years)	3	5	7	3	5	7	3	5	7
Risk free rate	5.4%	5.3%	5.2%	4.8%	4.8%	4.8%	2.4%	3.1%	3.5%
Expected dividends expressed as a dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.5%	3.5%	3.5%
Fair value per option	£0.503	£0.750	£0.965	£0.476	£0.543	£0.746	£0.565	£0.580	£0.682

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.



## 19 Share-based payments (continued)

A reconciliation of option movements over the year is shown below:

	2009		2008	
	Number '000s	Weighted average price £	Number '000s	Weighted average price £
Outstanding at 1 October	3,022	1.82	2,841	1.79
Awarded	1,763	1.49	1,182	1.77
Forfeited	(267)	1.83	(175)	1.84
Surrendered	(676)	1.85	(384)	1.93
Exercised	(487)	1.76	(442)	1.44
<b>Outstanding at 30 September</b>	<b>3,355</b>	<b>1.65</b>	3,022	1.82
<b>Exercisable at 30 September</b>	<b>251</b>	<b>1.84</b>	1	1.57

Range of exercise prices	2009				2008			
	Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years		Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years	
			Expected	Contractual			Expected	Contractual
1.12 – 2.03	1.65	3,355	2.6	3.1	1.82	3,022	2.4	2.4

## 20 Share premium account

	£m
At 1 October 2007	478.2
Premium on shares issued during the year under share option schemes	8.4
At 1 October 2008	486.6
Premium on shares issued during the year under share option schemes	5.4
<b>At 30 September 2009</b>	<b>492.0</b>

## 21 Other reserves

	Translation reserve £m	Hedge reserve £m	Other reserve £m	Total other reserves £m
At 1 October 2007	(69.0)	–	61.1	(7.9)
Currency translation differences	117.1	–	–	117.1
At 30 September 2008	48.1	–	61.1	109.2
Currency translation differences	140.6	–	–	140.6
Cash flow hedges:				
– fair value losses in the period	–	(0.3)	–	(0.3)
<b>At 30 September 2009</b>	<b>188.7</b>	<b>(0.3)</b>	<b>61.1</b>	<b>249.5</b>

### 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.

### Hedge reserve

The hedge reserve records movements on derivative financial instruments designated as cash flow hedges.

### 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

	2009 £m	2008 £m
At 1 October	638.1	567.5
Profit for the year	189.5	166.3
Share-based payments	6.7	7.6
Dividends paid	(95.1)	(106.2)
Actuarial (loss)/gain on employment benefits	(0.3)	3.1
Equity movement of deferred tax	4.0	(0.2)
<b>At 30 September</b>	<b>742.9</b>	<b>638.1</b>

The actuarial loss of £0.3m (2008: gain of £3.1m) is made up of net gains of £0.1m (2008: gain of £2.8m) on post-employment benefits (note 27) and a loss of £0.4m (2008: gain of £0.3m) on other long-term employee benefits (note 27).

### 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 3,601,541 ordinary shares in the Company (2008: 3,648,697) at a cost of £10.1m (2008: £10.2m) and a nominal value of £36,015 (2008: £36,487). 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, 47,156 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 2009 was £8.4m (2008: £7.1m).

## 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	Total equity £m
At 1 October 2007	13.0	478.2	567.5	(7.9)	1,050.8
Exchange adjustments	–	–	–	117.1	117.1
New shares issued	0.1	–	–	–	0.1
Purchase of minority interest	–	–	–	–	–
Profit for the year	–	–	166.3	–	166.3
Equity movement of deferred tax	–	–	(0.2)	–	(0.2)
Share options	–	–	–	–	–
– proceeds from shares issued	–	8.4	–	–	8.4
– value of employee services	–	–	7.6	–	7.6
Actuarial gain on employment benefits	–	–	3.1	–	3.1
Dividends paid	–	–	(106.2)	–	(106.2)
At 30 September 2008	13.1	486.6	638.1	109.2	1,247.0
Exchange adjustments	–	–	–	<b>140.6</b>	<b>140.6</b>
Cash flow hedge	–	–	–	<b>(0.3)</b>	<b>(0.3)</b>
New shares issued	–	–	–	–	–
Profit for the year	–	–	<b>189.5</b>	–	<b>189.5</b>
Equity movement of deferred tax	–	–	<b>4.0</b>	–	<b>4.0</b>
Share options	–	–	–	–	–
– proceeds from shares issued	–	<b>5.4</b>	–	–	<b>5.4</b>
– value of employee services	–	–	<b>6.7</b>	–	<b>6.7</b>
Actuarial loss on employment benefits	–	–	<b>(0.3)</b>	–	<b>(0.3)</b>
Dividends paid	–	–	<b>(95.1)</b>	–	<b>(95.1)</b>
<b>At 30 September 2009</b>	<b>13.1</b>	<b>492.0</b>	<b>742.9</b>	<b>249.5</b>	<b>1,497.5</b>

## 24 Cash flow and net debt

	2009 £m	2008 £m
<b>Reconciliation of profit for the year to cash generated from continuing operations</b>		
Profit for the year	<b>189.5</b>	166.3
Adjustments for:		
Taxation	<b>77.9</b>	74.7
Finance income	<b>(4.0)</b>	(3.8)
Finance expenses	<b>17.2</b>	30.2
Amortisation of intangible assets	<b>45.9</b>	36.7
Depreciation of property, plant and equipment	<b>22.3</b>	18.5
Loss on disposal of property, plant and equipment	<b>0.5</b>	–
Profit on disposal of intangible assets	<b>(3.3)</b>	–
Equity-settled share-based transactions	<b>6.7</b>	7.6
Exchange movements	<b>1.7</b>	2.3
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
– Decrease in inventories	<b>1.0</b>	1.1
– Decrease/(increase) in trade and other receivables	<b>15.8</b>	(13.9)
– (Decrease)/increase in trade and other payables	<b>(13.5)</b>	3.5
– (Decrease)/increase in deferred income	<b>(0.1)</b>	18.8
<b>Cash generated from continuing operations</b>	<b>357.6</b>	342.0

	2009 £m	2008 £m
<b>Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)</b>		
<b>Decrease in cash in the year (pre-exchange movements)</b>	<b>(26.8)</b>	(3.3)
Cash outflow from decrease in loans, finance leases and cash collected from customers	195.2	40.0
<b>Change in net debt resulting from cash flows</b>	<b>168.4</b>	36.7
Loans acquired with subsidiaries	–	(0.9)
Non-cash movements	(1.0)	(1.0)
Exchange movements	(65.8)	(66.1)
<b>Movement in net debt in the year</b>	<b>101.6</b>	(31.3)
Net debt at 1 October	(541.0)	(509.7)
<b>Net debt at 30 September</b>	<b>(439.4)</b>	(541.0)

	At 1 October 2008 £m	Cash flow £m	Acquisitions £m	Other £m	Exchange movements £m	At 30 September 2009 £m
<b>Analysis of change in net debt (inclusive of finance leases)</b>						
Cash and cash equivalents	70.1	(19.6)	–	–	8.9	59.4
Bank overdrafts	–	(7.2)	–	–	–	(7.2)
Cash, cash equivalents and bank overdrafts	70.1	(26.8)	–	–	8.9	52.2
Loans due within one year	(13.6)	3.1	–	–	(0.9)	(11.4)
Finance leases due within one year	(0.3)	–	–	–	0.1	(0.2)
Loans due after more than one year	(574.3)	186.1	–	(1.0)	(71.3)	(460.5)
Finance leases due after more than one year	(0.2)	0.1	–	–	–	(0.1)
Cash collected from customers	(22.7)	5.9	–	–	(2.6)	(19.4)
<b>Total</b>	(541.0)	168.4	–	(1.0)	(65.8)	(439.4)

Included in cash above is £19.4m (2008: £22.7m) relating to cash collected from customers, which the Group is contracted to pay onto another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

## 25 Acquisitions and disposals

### a Acquisition of Aytos CPD, S.L.

On 20 November 2008 the Group completed the acquisition of Aytos CPD, S.L. (“Aytos”), for a consideration of £13.0m (inclusive of £0.3m related costs). Total goodwill arising on the acquisition is £7.8m.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2009 the acquisition contributed £7.6m to revenue and £2.3m to profit.

The net identifiable assets (including intangible assets) were recognised at their 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
<b>Purchase consideration:</b>	
– Cash paid	11.5
– Direct costs relating to the acquisition	0.3
– Deferred consideration	1.2
<b>Total purchase consideration</b>	<b>13.0</b>
– Fair value of net identifiable assets (see below)	(5.2)
<b>Goodwill</b>	<b>7.8</b>

## 25 Acquisitions and disposals (continued)

Goodwill represents the fair value of the assembled workforce at the time of acquisition, potential synergies and other potential future economic benefit that is anticipated from the integration of services already offered by Sage with existing product and service offerings with the Aytos business.

	Carrying values pre-acquisition £m	Fair value £m
<b>Aytos acquisition</b>		
Intangible fixed assets	0.1	<b>2.9</b>
Property, plant and equipment	0.3	<b>0.3</b>
Inventories	0.1	<b>0.1</b>
Trade and other receivables	2.9	<b>2.9</b>
Trade and other payables	(0.4)	<b>(0.4)</b>
Deferred income	(0.7)	<b>(0.7)</b>
Taxation – Current	(0.1)	<b>(0.1)</b>
Taxation – Deferred	–	<b>(0.8)</b>
Cash and cash equivalents	1.0	<b>1.0</b>
<b>Net assets acquired</b>	<b>3.2</b>	<b>5.2</b>
Goodwill		<b>7.8</b>
<b>Consideration</b>		<b>13.0</b>
<b>Consideration satisfied by:</b>		
Cash		<b>11.8</b>
Deferred consideration		<b>1.2</b>
<b>Consideration</b>		<b>13.0</b>
<b>The outflow of cash and cash equivalents on the acquisition of Aytos is calculated as follows:</b>		
		<b>£m</b>
Cash consideration		<b>11.8</b>
Cash acquired		<b>(1.0)</b>
<b>Net cash outflow</b>		<b>10.8</b>
<b>The intangible assets acquired as part of the acquisition of Aytos can be analysed as follows:</b>		
		<b>£m</b>
Customer relationships		<b>1.4</b>
Technology		<b>1.4</b>
Computer software		<b>0.1</b>
		<b>2.9</b>

Further details of these are given in note 8.



### b Other acquisitions made in the year

The following acquisitions, were made during the year:

- Certain trade and assets of Pocket India were acquired from Crystal Info Solutions (P) Ltd on 3 November 2008 for a cash consideration of £0.4m (including costs). The fair value of assets acquired was £nil resulting in goodwill of £0.4m.
- Certain trade and assets of Matrix Factory S.L. were acquired on 23 April 2009 for a cash consideration of £1.1m (including costs). The fair value of assets acquired was £nil resulting in goodwill of £1.1m.

Other acquisitions	Carrying values pre-acquisition £m	Provisional fair value £m
<b>Net assets acquired</b>	–	–
Goodwill		1.5
<b>Consideration satisfied by: Cash</b>		1.5

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	1.5
Cash acquired	–
<b>Net cash outflow</b>	1.5

### c Contribution of acquisitions

Had these acquisitions occurred at the beginning of the financial year, Group revenue would have been £1,439.8m and Group profit before taxation would remain unchanged.

### d Disposal of the Tax Compliance Services Division of Sage Software, Inc.

On 28 February 2009 the Group disposed of the Tax Compliance Services division of Sage Software, Inc. for £12.0m in cash.

Details of net assets disposed of and the gain on disposal are as follows:

Tax Compliance Services Disposal	Carrying value pre-disposal £m
Goodwill	10.1
Intangible fixed assets	0.5
Property, plant and equipment	0.1
Trade and other receivables	1.0
Trade and other payables	(0.1)
Deferred income	(0.8)
<b>Net assets disposed</b>	10.8

The gain on disposal is calculated as follows:	£m
Disposal proceeds	12.0
Net assets disposed	(10.8)
Cumulative translation differences	2.1
<b>Gain on disposal</b>	3.3

### e Other

During the year ended 30 September 2009 adjustments were made in respect of goodwill on prior year acquisitions of £2.0m, due to a reduction in deferred consideration of £0.1m and decrease in net assets of £1.9m following the finalisation of the fair value of assets and liabilities.

## 25 Acquisitions and disposals (continued)

### f Analysis of net outflow of cash in respect of acquisitions

The outflow of cash and cash equivalents on the acquisitions is calculated as follows:		£m
Aytos		10.8
Other acquisitions		1.5
Payment of deferred consideration		1.5
<b>Net cash outflow in respect of acquisitions</b>		<b>13.8</b>

### g Analysis of goodwill

The total additions to goodwill are calculated as follows:		£m
Aytos		7.8
Other acquisitions		1.5
Adjustments in relation to previous years' acquisitions		(2.0)
<b>Net movement in goodwill on acquisitions</b>		<b>7.3</b>

## 26 Employees and directors

Average number of people employed (including directors)	2009 number	2008 number
By territory:		
UK & Ireland	2,509	2,695
Mainland Europe	5,573	5,653
North America	4,501	4,939
Rest of World	1,769	1,752
	<b>14,352</b>	15,039

Staff costs (including directors on service contracts)	Note	2009 £m	2008 £m
Wages and salaries		551.0	492.6
Social security costs		110.5	86.5
Share-based payments	19	6.7	7.6
Other pension costs	27	13.8	8.8
		<b>682.0</b>	595.5

Key management compensation	2009 £m	2008 £m
Salaries and short-term employee benefits	6.5	6.3
Post-employment benefits	0.6	0.6
Share-based payments	3.1	2.1
	<b>10.2</b>	9.0

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee as shown on pages 12 and 13.

## 27 Retirement benefit obligations

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 pension schemes in Switzerland and another retirement benefit scheme in France. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The Group has previously included this potential liability within trade and other payables. This liability has been reclassified to be included with other retirement benefits obligations during the year ended 30 September 2009.

<b>Pension costs</b>	Note	<b>2009 £m</b>	2008 £m
Defined contribution schemes		<b>11.9</b>	7.4
Defined benefit plans		<b>1.9</b>	1.4
	26	<b>13.8</b>	8.8

### Defined benefit plans

The most recent actuarial valuations of the retirement benefit plans were performed by Ernst & Young in October 2009.

<b>Weighted average principal assumptions made by the actuaries</b>	<b>2009 %</b>	2008 %
Rate of increase in pensionable salaries	<b>0.50</b>	2.00
Rate of increase in pensions in payment and deferred pensions	<b>0.00</b>	0.50
Discount rate	<b>3.20</b>	3.50
Inflation assumption	<b>1.00</b>	1.50
Expected return on plan assets	<b>4.00</b>	4.00

### Pensions and other post-employment obligations

<b>Amounts recognised in the balance sheet</b>	<b>2009 £m</b>	2008 £m
Present value of funded obligations	<b>(31.7)</b>	(20.0)
Fair value of plan assets	<b>19.9</b>	16.1
<b>Net liability recognised in the balance sheet</b>	<b>(11.8)</b>	(3.9)

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.

<b>Major categories of plan assets as a percentage of total plan assets</b>	<b>£m</b>	<b>2009 %</b>	<b>£m</b>	2008 %
Bonds	<b>12.4</b>	<b>62.3</b>	7.6	47.2
Equities	<b>3.2</b>	<b>16.1</b>	1.5	9.3
Property	<b>1.1</b>	<b>5.5</b>	1.0	6.2
Other	<b>3.2</b>	<b>16.1</b>	6.0	37.3
	<b>19.9</b>	<b>100.0</b>	16.1	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 2010 are £1.5m.

<b>Amounts recognised in the income statement</b>	Note	<b>2009 £m</b>	2008 £m
Interest cost		<b>(1.0)</b>	(0.6)
Expected return on plan assets		<b>0.8</b>	0.6
Current service cost		<b>(1.7)</b>	(1.4)
<b>Total included within staff costs</b>	26	<b>(1.9)</b>	(1.4)

The entire cost is included within selling and administrative expenses.

## 27 Retirement benefit obligations (continued)

	2009 £m	2008 £m
<b>Changes in the present value of the defined benefit obligation</b>		
Present value of obligation – 1 October	(20.0)	(17.9)
Exchange movement	(5.0)	(3.6)
Service cost	(1.7)	(1.4)
Plan participant contributions	(2.9)	(0.7)
Interest cost	(1.0)	(0.6)
Benefits paid	4.3	0.7
Reclassification	(5.6)	–
Actuarial gain on benefit obligation	0.2	3.5
<b>Present value of obligation – 30 September</b>	<b>(31.7)</b>	<b>(20.0)</b>

	2009 £m	2008 £m
<b>Changes in the fair value of plan assets</b>		
Fair value of plan assets – 1 October	16.1	12.6
Exchange movement	3.3	2.5
Expected return on plan assets	0.8	0.6
Employer's contributions	1.4	1.1
Employee's contributions	2.9	0.7
Benefits paid	(4.3)	(0.7)
Reclassification	0.2	–
Actuarial loss on plan assets	(0.5)	(0.7)
<b>Fair value of plan assets – 30 September</b>	<b>19.9</b>	<b>16.1</b>

	2009 £m	2008 £m
<b>Analysis of the movement in the balance sheet liability</b>		
At 1 October	(3.9)	(5.3)
Exchange movement	(1.7)	(1.1)
Total expense as recognised in the income statement	(1.9)	(1.4)
Contributions paid	1.4	1.1
Reclassification	(5.4)	–
Actuarial (loss)/gain	(0.3)	2.8
<b>At 30 September</b>	<b>(11.8)</b>	<b>(3.9)</b>

The actual return on plan assets was £0.2m (2008: £0.1m).

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
<b>History of experience gains and losses</b>					
Present value of defined benefit obligation	(31.7)	(20.0)	(17.9)	(11.7)	(11.2)
Fair value of plan assets	19.9	16.1	12.6	9.6	8.8
<b>Deficit</b>	<b>(11.8)</b>	<b>(3.9)</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(2.4)</b>
<b>Experience adjustments on plan liabilities</b>	<b>(0.2)</b>	<b>(3.5)</b>	<b>(5.8)</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>Experience adjustments on plan assets</b>	<b>0.5</b>	<b>0.7</b>	<b>7.6</b>	<b>0.1</b>	<b>(0.1)</b>

	2009 £m	2008 £m
<b>Cumulative actuarial gains and losses recognised in equity</b>		
At 1 October	0.9	(1.9)
Actuarial (losses)/gains recognised in the year (before tax)	(0.3)	2.8
<b>At 30 September</b>	<b>0.6</b>	<b>0.9</b>

## 28 Operating lease commitments – minimum lease payments

	2009		2008	
	Property £m	Vehicles plant and equipment £m	Property £m	Vehicles plant and equipment £m
<b>Total future commitments under non-cancellable operating leases expiring:</b>				
Within one year	11.8	2.0	6.7	0.7
Later than one year and less than five years	61.6	4.9	62.2	3.7
After five years	132.0	–	93.7	–
	<b>205.4</b>	<b>6.9</b>	162.6	4.4

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.

## 29 Contingent liabilities

The Group had no contingent liabilities at 30 September 2009 (2008: none).

## 30 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.

## 31 Post balance sheet event

On 30 October 2009 the Group disposed of the entire share capital of Sage Pro-Concept S.A. for £6.5m in cash.

### Details of net assets disposed of and the loss on disposal are as follows:

	Carrying value pre-disposal £m
<b>Sage Pro-Concept S.A.</b>	
Goodwill	7.9
Intangible fixed assets	1.5
Property, plant and equipment	1.0
Trade and other receivables	4.1
Trade and other payables	(3.0)
Deferred taxation	(0.4)
Cash and cash equivalents	0.2
Deferred income	(1.1)
<b>Net assets disposed</b>	<b>10.2</b>

### The gain on disposal is calculated as follows:

	£m
Disposal proceeds	6.5
Net assets disposed	(10.2)
Cumulative translation differences	3.6
<b>Loss on disposal</b>	<b>(0.1)</b>

At 30 September 2009 the sale was not deemed as being highly probable under IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”.

## 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, LLC	US
Sage Software Canada Ltd	Canada
Ciel SAS	France
Sage SAS	France
Sage FDC SAS	France
Sage Holding France 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.L.	Spain
Sage Logic Control, S.L.	Spain
Sage sp. z.o.o.	Poland
Sage Portugal – Software S.A.	Portugal
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 2009 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 48, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 30 September 2009 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- The information given in the Corporate governance statement set out on pages 43 to 48 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A corporate governance statement has not been prepared by the parent Company.

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 48 in relation to going concern; and
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## Other matter

We have reported separately on the parent Company financial statements of The Sage Group plc for the year ended 30 September 2009 and on the information in the Remuneration report that is described as having been audited.

## Richard Pollard (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne  
17 December 2009

# 106 Company balance sheet

At 30 September 2009

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

	Note	2009 £m	2008 £m
<b>Fixed assets</b>			
Investments	2	<b>1,578.0</b>	1,544.1
		<b>1,578.0</b>	1,544.1
<b>Current assets</b>			
Debtors	3	<b>287.4</b>	257.7
Cash at bank and in hand		<b>-</b>	0.3
		<b>287.4</b>	258.0
<b>Creditors</b>			
Amounts falling due within one year	4	<b>(579.2)</b>	(499.1)
<b>Net current liabilities</b>		<b>(291.8)</b>	(241.1)
<b>Total assets less current liabilities</b>		<b>1,286.2</b>	1,303.0
<b>Creditors</b>			
Amounts falling due after more than one year	5	<b>(460.7)</b>	(574.9)
<b>Net assets</b>		<b>825.5</b>	728.1
<b>Capital and reserves</b>			
Called up share capital	6	<b>13.1</b>	13.1
Share premium account	7	<b>492.0</b>	486.6
Other reserve	7	<b>50.7</b>	50.9
Profit and loss account	7	<b>269.7</b>	177.5
<b>Total shareholders' funds</b>		<b>825.5</b>	728.1

The financial statements on pages 106 to 110 were approved by the Board of directors on 17 December 2009 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 2009

## Parent Company accounting policies

### a Basis of accounting

These financial statements have been prepared under the historical cost convention, except where noted below, and in accordance with the Companies Act 2006 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

Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at rates of exchange prevailing at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currencies are converted into Sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

### c Investments

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

### d Parent Company profit and loss account and cash flow statement

The amount of profit for the financial year before dividends within the accounts of the parent Company is £181.2m (2008: loss £79.5m). 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 408 of the Companies Act 2006.

### e 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.

### f Financial instruments and hedge accounting

The accounting policy of the Company for financial instruments and hedge accounting is the same as that shown in the Group accounting policies (accounting policy p). This policy is in accordance with FRS 26, "Financial Instruments: Recognition and Measurement".

## 1 Dividends

	2009 £m	2008 £m
<b>Final</b> dividend paid for the year ended 30 September 2008 of 4.78p per share (2008: final dividend paid for the year ended 30 September 2007 of 5.73p per share)	<b>62.5</b> –	– 74.5
<b>Interim</b> dividend paid for the year ended 30 September 2009 of 2.50p per share (2008: interim dividend paid for the year ended 30 September 2008 of 2.43p per share)	<b>32.6</b> –	– 31.7
	<b>95.1</b>	106.2

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2009 of 4.93p per share which will absorb an estimated £64.7m of shareholders' funds. It will be paid on 5 March 2010 to shareholders who are on the register of members on 5 February 2010. These financial statements do not reflect this dividend payable.

## 2 Investments

Equity interests in subsidiary undertakings are as follows:

	£m
<b>Cost</b>	
At 1 October 2008	1,544.1
Additions in year	33.9
<b>At 30 September 2009</b>	<b>1,578.0</b>
<b>Provision for diminution in value at 30 September 2008 and 2009</b>	<b>–</b>
<b>Net book value</b>	
<b>At 30 September 2009</b>	<b>1,578.0</b>
At 30 September 2008	1,544.1

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 2009, 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

	2009 £m	2008 £m
Amounts owed by Group undertakings	286.5	256.8
Other debtors	0.9	0.9
	<b>287.4</b>	257.7

## 4 Creditors: amounts falling due within one year

	2009 £m	2008 £m
Bank overdraft	0.3	–
Borrowings	1.3	–
Amounts owed to Group undertakings	576.4	498.3
Accruals	1.2	0.8
	<b>579.2</b>	499.1

## 5 Creditors: amounts falling due in more than one year

	2009 £m	2008 £m
Borrowings	460.4	574.9
Derivative financial instruments	0.3	–
	<b>460.7</b>	574.9

Bank loans are denominated in a number of currencies and principally are charged interest linked to LIBOR.

Loans shown above represent unsecured loans (after unamortised issue costs) taken out in connection with acquisitions.

This is drawn down under £815.1m (2008: £850.0m) multi-currency revolving credit facilities, £650.0m (2008: £650.0m) expiring on 4 August 2011 and US\$264.0m or £165.1m (2008: £200.0m) expiring on 13 January 2011. During the year, the £200.0m facility was renegotiated, resulting in it being redenominated and reduced to a US\$264.0m facility.

In the table above, loans are stated net of unamortised issue costs of £0.2m (2008: £0.5m). The Group has incurred total issue costs of £8.3m (2008: £7.6m) 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 £71.7m (2008: £75.3m); US Dollar £229.3m (2008: £290.6m), Euro £147.9m (2008: £208.8m) and Swiss Franc £12.8m (2008: £13.9m) and currently bear interest at a rate of 0.35% (2008: 0.45%) above LIBOR, apart from £93.8m (2008: £nil) which bear an average fixed interest rate of 1.70% (excluding margin).

## 6 Called up share capital

<b>Authorised</b>	2009 £m	2008 £m
1,860,000,000 (2008: 1,860,000,000) ordinary shares of 1p each	<b>18.6</b>	18.6

<b>Issued and fully paid</b>	2009 shares	2009 £m	2008 shares	2008 £m
At 1 October	<b>1,309,557,557</b>	<b>13.1</b>	1,304,160,154	13.0
Allotted under share option schemes	<b>3,409,399</b>	–	5,397,403	0.1
<b>At 30 September</b>	<b>1,312,966,956</b>	<b>13.1</b>	1,309,557,557	13.1

### 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

	Treasury shares £m	Merger reserve £m	Hedge reserve £m	Total other reserves £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 October 2008	(10.2)	61.1	–	50.9	486.6	177.5	715.0
New shares issued	–	–	–	–	5.4	–	5.4
Utilisation of treasury shares	0.1	–	–	0.1	–	(0.1)	–
Cash flow hedge	–	–	(0.3)	(0.3)	–	–	(0.3)
Retained profit/(loss) for the year	–	–	–	–	–	181.2	181.2
Dividends	–	–	–	–	–	(95.1)	(95.1)
Equity-settled transactions	–	–	–	–	–	6.2	6.2
<b>At 30 September 2009</b>	<b>(10.1)</b>	<b>61.1</b>	<b>(0.3)</b>	<b>50.7</b>	<b>492.0</b>	<b>269.7</b>	<b>812.4</b>

### 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 3,601,541 ordinary shares in the Company (2008: 3,648,697) at a cost of £10.1m (2008: £10.2m) and a nominal value of £36,015 (2008: £36,487). 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, 47,156 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 2009 was £8.4m (2008: £7.1m).

## 8 Operating lease commitments – minimum lease payments

The Company had no operating lease commitments during the year (2008: £nil).

## 9 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 September 2009 (2008: 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 2009 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 48, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 30 September 2009;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' report for the financial year for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

## Other matter

We have reported separately on the Group financial statements of The Sage Group plc for the year ended 30 September 2009.

## Richard Pollard (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

17 December 2009

## Financial calendar

<b>Annual General Meeting</b>	2 March 2010
<b>Dividend payments</b>	
Final payable – year ended 30 September 2009	5 March 2010
Interim payable – period ending 31 March 2010	June 2010
<b>Results announcements</b>	
Interim results – period ending 31 March 2010	5 May 2010
Final results – year ending 30 September 2010	1 December 2010

## 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](http://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

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

[www.shareview.co.uk](http://www.shareview.co.uk)  
Tel: 0871 384 2859  
(from outside the UK: +44 (0)121 415 7047)  
Fax: 0871 384 2100  
(from outside the UK: +44 (0)1903 698403)

## Information for investors

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

## Investor enquiries

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

### Andrew Griffith

#### Investor Relations

Tel: +44 (0) 191 294 3000  
Fax: +44 (0) 191 294 0002

The Sage Group plc  
Registered office:  
North Park  
Newcastle upon Tyne  
NE13 9AA  
Registered in England number 2231246

**Design and production**

Radley Yeldar | [www.ry.com](http://www.ry.com)

**Board photography**

Andy Wilson

**Print**

CTD

This Report has been printed on Cocoon Silk which is 100% recycled and FSC certified. This report was printed by an FSC and ISO 14001 accredited printer using vegetable oil and soya based inks.

FSC – Forest Stewardship Council. This ensures that there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

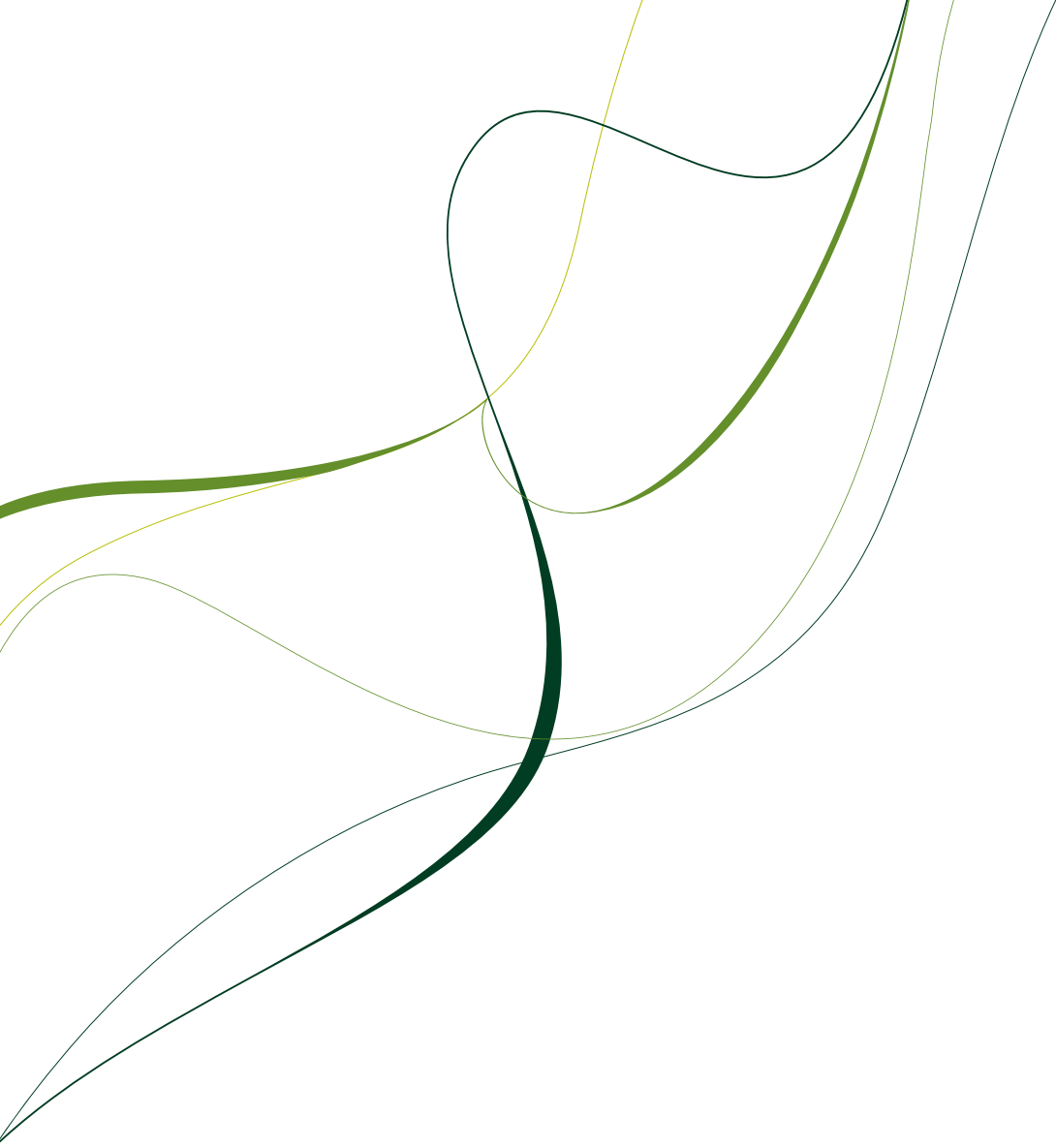
ISO 14001 – A pattern of control for an environmental management system against which an organisation can be credited by a third party.

The CO<sub>2</sub> emissions from the production and distribution of this report have been offset through the purchase of carbon credits in the Candelaria Hydroelectric Project in Guatemala. The project involves the generation of renewable energy through the installation of a run-of-river hydropower plant. The project is verified and certified to the Voluntary Carbon Standard.



**Recycled**  
Supporting responsible use  
of forest resources  
[www.fsc.org](http://www.fsc.org) Cert no. TT-COC-002142  
© 1996 Forest Stewardship Council





[www.sage.com](http://www.sage.com)

**The Sage Group plc**  
North Park  
Newcastle upon Tyne  
NE13 9AA