The Sage Group plc
Annual Report and Accounts 2010

13,000 minds

committed to the needs of 6.3 million businesses across the world

sage

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What we do

Sage's purpose is simple: to make it easier for small and medium-sized enterprises ("SMEs") to manage their processes through the provision of business management software, services and support.

We differentiate ourselves through our global scale and our local focus.

Our customers rely on us for what we do best: delivering high quality solutions with superior services and customer support.

The online version of this report offers a richer experience, enhanced content and provides PDFs of the report:

www.ar2010.sage.com

How we've performed

Good revenue growth momentum

We are pleased to report that the Group returned to organic# revenue growth in the second half of the year, with 3%* organic growth in the second half offsetting a contraction of 2%* in the first half, leaving us flat* for the year (2009: 5%* contraction).

£1,435.0m

Revenue (2009: £1,450.6m*)

Organic revenue flat* (+3%* growth H2 FY10)

Increased EBITA† margin

Further benefits from the cost reductions achieved in 2009 were realised in the year, with an increase in the EBITA† margin to 25% from 24%* (excluding FY09 restructuring costs). At the same time as increasing margins, we have continued to invest in key areas of the business, for example preparing our products for the web, and building an international team to support the sale of *Sage ERP X3* across Sage.

25%

EBITA† margin (2009: 22%*, 24%* excluding FY09 restructuring costs)

Growth in underlying EPS

Underlying EPS grew by 14%* to 19.22p. Excluding prior year restructuring costs, underlying EPS grew by 5%*.

+14%*

Underlying EPS 19.22p (2009: 16.82p*)

Continued strong cash generation

Cash generated from operations represented 117% of EBITA† reflecting the continued strong cash generation in the business.

117%

Cash generation from operations (2009: 112%)

£219.8m

Net debt reduced (2009: £439.4m)

Maintaining renewal rates on customer maintenance and support contracts

Support contract renewals, a key measure of the underlying performance of our business model, were maintained at 81% (2009: 81%) in line with the long-term average renewal rates.

81%

Renewal rates maintained (2009: 81%)

Maximising our future growth potential

We are looking to maximise the potential of long-term opportunities to ensure we are well positioned for future growth. Our people are committed to making this happen, with our focus centred around:

Building loyalty and reputation by supporting customers

Meeting market needs with innovation

Delivering profitable growth

Read more: **14–23**

Organic figures exclude the contributions of current and prior year acquisitions, disposals and non-core products.

* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of $1.56/£1 and €1.15/£1 to facilitate the comparison of results.

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

Chairman's statement

Dear Shareholder

Overview

Against a tough market background, our business model has proved robust. Our customers continue to rely upon us as a trusted partner in helping them to run their business and, over the past three years, 800,000 new customers have joined us. 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. This has helped us to navigate through these turbulent times and position Sage well for future growth.

We have traded well throughout this financial year and we have seen good growth momentum in the business. We produced 3%* organic revenue growth in the second half of the year, compared with a contraction of 2%* in the first half and a contraction of 5%* in the year ended 30 September 2009. Our subscription revenues continue to grow, with renewal rates maintained at 81% in the year ended 30 September 2010.

Our strong, reliable cash flows have enabled us to maintain a robust balance sheet, whilst allowing us both to pursue a progressive dividend policy and to continue to invest in customer service, new products and our web strategy. Our culture of innovation means our products and services are well positioned.

Financial strength

The international nature of Sage is a great strength and this year over 70% of revenue and profits were earned outside of the UK. Statutory pre-tax profit rose by 20% to £319.9m (2009: £267.4m), benefitting from a resilient business performance, tight cost control and currency movements.

The Group remains highly cash generative with operating cash flow of £428.7m (2009: £357.6m), which allowed us to reduce net debt to £219.8m (£439.4m at 30 September 2009). We refinanced our bank facilities during the year, raising US$300.0m of private placement loan notes and signing a new five year syndicated bank facility denominated US$271.0m and €214.0m (total £357.4m).

Dividend

Our consistently strong cash flows, robust balance sheet and recurring revenue streams provide a strong foundation for our progressive dividend policy, whilst ensuring that the Group can continue to maintain strong levels of organic and acquisition-led investment. As a result, we are increasing the full year dividend by 5% to 7.80p per share (2009: 7.43p per share), with a proposed final dividend of 5.22p per share (2009: 4.93p per share).

People

In last year's report, I stated that we had reduced our headcount in response to the then current and forecast economic environment. The decisions we took were difficult for all of our people and it is to their great credit that our business has responded so positively. Our employee engagement scores are at record levels and whilst we are in no way complacent, we believe that this reflects the focus we have upon our business values (Sage Guiding Principles). In addition, we have continued our efforts to bring The Sage Leadership Standard to life, a set of values which define clearly what we expect from our business leaders.

We have continued to invest heavily in our people agenda to ensure that we are well placed to take advantage of the economic recovery and have continued to make progress in improving our gender diversity at senior levels. Today, one third of our top 200 leaders are female.

In October 2010, Guy Berruyer succeeded Paul Walker as Chief Executive. Paul started at Sage in 1984 and was Chief Executive for 16 years, making him one of the longest serving Chief Executives in the FTSE 100. I would like to thank Paul for his huge contribution to Sage. He built Sage from a UK software business into the market leading international Group that it is today. Paul leaves a very strong management team and a resilient business, in good shape for the years ahead. We wish him well in his future endeavours.

Having gone through a rigorous selection process, I am delighted that Guy was offered the role of Chief Executive. During his 13 year career with Sage, Guy has led the successful growth of our business in Mainland Europe and, more recently, in Asia. He has a strong record of profit growth, both organically and through the successful acquisition and integration of companies. He has a clear and knowledgeable view of how Sage should develop and has great ambition for the Group. We are sure that he will succeed in driving Sage forward for the benefit of our customers, employees and shareholders.

On 1 December 2010, we announced changes to Sage's Executive Committee and these are described in the Chief Executive's review in this Report and Accounts. Our new structure leverages the experience of our current executives and brings through a new generation of international leaders for Sage. The appointment of Guy and his new management team will reinvigorate our business and position us well to deliver further shareholder value and outstanding software and services for our customers and partners.

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At the AGM in March 2011, Tim Ingram will stand down from the Board after nine years as a non-executive director. Tim has been a great colleague and wonderful contributor to the Board and the wider business. We will miss his wise counsel enormously.

UK Corporate Governance Code

The Sage Board has been heavily engaged this year in a range of very important business matters. As Chairman, I encourage an open and supportive approach to all Board discussions and challenge is encouraged and welcomed. Our Board reflects a wide range of experience and backgrounds, which I believe to be essential to the effective discharge of the Board's role and responsibilities.

We work hard to ensure that the Board has a full understanding of all our businesses throughout the world and, during the past year, a third of our Board Meetings were held outside the UK. There is regular evaluation of the performance of the Board and its members which, during the next year, will be facilitated by expert third parties. This year, all the Board will be offering themselves for re-election, as recommended by the new UK Corporate Governance Code.

The commitment and expertise of the Board was clearly demonstrated in the selection process for our new Chief Executive during the past 12 months. Succession planning is treated very seriously by the Board and the wealth of management talent, from which we had to select our Chief Executive and the new Executive Committee, is testament to the success of our preparation and processes.

Outlook

Whilst the economic outlook remains uncertain, we are seeing signs of improving markets for our customers, although there is variation by geography. These factors have contributed to the revenue momentum experienced in the second half of our financial year.

Our priorities are to improve organic revenue growth, particularly within our North American business; to continue to progress our web strategy; and in growing our margin in the medium term at the same time as investing in high growth initiatives, such as payment processing and *Sage ERP X3*. We have many good growth opportunities across our business, and we look forward with cautious optimism, whilst managing our costs prudently in these uncertain times.

Anthony Hobson
Chairman

High quality customer service and our culture of innovation means our products and services are well positioned in the market.

Overview of the year

We are pleased to report that the Group returned to organic revenue growth in the second half of the year, with 3%* organic revenue growth in the second half offsetting a contraction of 2%* in the first half, leaving us flat* for the year (year ended 30 September 2009: 5%* contraction).

For the year as a whole, we attracted 252,000 first time customers to Sage. Our customers continued to renew maintenance and support contracts at historical rates, reflecting the high quality of our maintenance and support.

Further benefits from cost reductions achieved in 2009 were realised in the year, with an increase in the EBITA† margin to 25% from 24%* (excluding FY09 restructuring costs). At the same time as increasing margins, we have continued to invest in key areas of the business, for example preparing our products for the web, and building an international team to support the sale of *Sage ERP X3* across Sage following its successful global launch in January 2010.

Key metrics

We saw an improving market for software and software-related services over the year with revenue contracting by 4%* organically compared to a 16%* contraction for the year ended 30 September 2009. 252,000 new customers purchased software solutions in the year, demonstrating the value that our products and services offer to SMEs. Organic subscription revenues grew by 2%* (year ended 30 September 2009: 2%*) with good demand for customer support.

Cash generated from operations represented 117% of EBITA† reflecting the continued strong cash generation in the business, and underlying EPS grew by 14%* to 19.22p. Excluding prior year restructuring costs, underlying EPS grew by 5%*.

Support contract renewals, a key measure of the underlying performance of our business model, were maintained at 81% (2009: 81%) in line with the long-term average renewal rates. Premium support continues to resonate with our customers, with premium contracts making up 68% of maintenance and support contracts (2009: 67%).

Our customers

In the same way that SMEs entered the recession later than larger businesses, they have lagged larger businesses in seeing confidence return to their markets. We are seeing signs of more optimism from SMEs, although this has to be balanced with lack of visibility over the economic recovery. SMEs are prepared to invest in business management products and services where they see real business benefits and we are pleased to report growth in software and software-related services revenues of 2%* in the second half of the year. This is the first period of growth in software and software-related services since the second half of 2007.

Our business partner channel remains highly relevant to SMEs, particularly in the mid-market, bringing their deep domain knowledge of SMEs' business processes to ensure our solutions are implemented and, if appropriate, customised in the most effective way. We have seen the trend of partner consolidation continue, and we have focused our resources and sales leads on high quality partners who are able to win new business in a competitive market. As well as Sage developing new and adapting existing products and services for the web, our partners also have adapted to bring the benefits of the web to customers and we consider our business partner channel will remain a key asset in the future.

The web

SMEs are increasingly looking at the business benefits of using the web in running their businesses. As a trusted partner to SMEs, through, for example 1.8 million maintenance and support contracts, we are well placed to deliver those benefits to SMEs.
Our approach to the web reflects our need to cater for our large installed base of customers, as well as our desire to attract new customers to Sage. We therefore have two strands to our web strategy. The first is to introduce web-based connected services into our existing products.
The second is to release online business solutions (including SaaS) which will appeal particularly to new customers. In addition to this strategy, the web is becoming an intrinsic part of all our products with, for example, auto updates and product usage feedback mechanisms increasingly being utilised within our standard products.

Connected services

Sage now offers a number of web-based services which extend the reach of our on-premise applications into the cloud. These are grouped within the categories of data services, mobile and remote access, e-Commerce, employee services, financial services, customer management (including CRM), and payment processing. Connected services offer the potential to increase average revenue per customer and average life of a customer due to the deepening of the customer's relationship with Sage.

A significant amount of R&D resource across the Group has been dedicated to the integration of products and allowing data to transfer seamlessly between connected services and applications. One example is *Sage Exchange*, a North American payment platform facilitating the exchange of payment data to and from business software and related applications. Whilst this was only launched in May 2010, it has been very well received by customers and industry analysts and Sage now has market leading functionality in this area.

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

Online business solutions (including SaaS)

Across our markets we see demand for SaaS being led by small and micro businesses who have relatively simple needs and, particularly for start-ups, have no existing on-premise infrastructure. Our SaaS launches are targeted at that segment of the market, with several products launched (such as *Contaonline* in Spain, *My Business Online* in South Africa and *Billing Boss* in North America), and a number of other releases planned in the future. Our SaaS offers include products targeting the small business payroll market, such as *einfachLohn* in Germany and *Ciel Paye* in France.

In the mid-market, our products can be hosted by Sage or by business partners and offered as a service. For example, *Sage Logic Class* in Spain now has over 200 mid-market customers hosted by Sage, and *SalesLogix Cloud* edition was launched in May 2010 to address this market. As part of this, the rental model for consuming software is increasingly being offered across our mid-market products.

In addition to being a connected service, our payment processing products may also be utilised by customers on a stand-alone online basis.

Board and management changes

On 1 October 2010 I took over as CEO from Paul Walker, who had been CEO for 16 years.

In addition, as separately announced on 1 December 2010, we are making the following changes to Sage's Executive Committee. All changes are effective as of 1 January 2011 unless otherwise stated.

Sue Swenson, President and CEO of Sage North America since March 2008, has decided to retire and will leave the business in mid 2011.

Pascal Houillon, currently CEO of Sage France, will succeed Sue Swenson upon her retirement, at which time he will also join Sage's Executive Committee.

Paul Stobart, Executive Director, and currently CEO of Sage UK and Ireland, will become CEO of Sage Northern Europe (encompassing UK, Ireland, Germany, Poland and Switzerland).

Álvaro Ramírez, currently CEO of Sage Spain, will become CEO of Sage Southern Europe (encompassing France, Spain, Portugal and Belgium), and will join Sage's Executive Committee.

Ivan Epstein, currently CEO for Africa and Australia, will also assume responsibility for the Middle East and Asian regions.

David Clayton, Executive Director, and currently Strategy and M&A Director, will become Director of Strategy and Corporate Development. David will spearhead the strategic development of new businesses, particularly in relation to the web, and will be responsible for the expansion of Sage Pay into Europe.

Paul Harrison's role as Executive Director and Group Finance Director will be expanded to encompass M&A responsibilities previously held by David Clayton.

We thank Sue for the significant contribution she has made to Sage. Against a difficult economic backdrop, she has consolidated the North American business after an intense period of acquisition, driven a significant improvement in margin and developed our connected services strategy in the region. She leaves the business on a firm footing for future growth, as demonstrated in our results for this year. We wish her well for a happy retirement.

Message from Paul Walker

I am proud to have served as CEO of Sage for 16 years and as an employee for 23 years in total, and in that time seen Sage grow into the market leading international business it is today. Our key assets of a large customer base, well known products and brands, strong channel and skilled and committed people, all remain as relevant as ever, and I leave a business which is well positioned for future growth.

Paul Walker
Retired Chief Executive

We are delighted that Pascal has agreed to lead the North American business after Sue. Under his leadership, Sage has grown rapidly to become a major force in France and the second largest business in the Group. Pascal is a great talent with an in-depth understanding of the small, mid-market and vertical sectors, an eye for innovation and the operational skills and vision to drive Sage North America to the next level of growth.

Concerning David Clayton's expanded corporate development role, as Sage looks to increase its share of revenues from connected services and online business solutions, there will be a stronger focus on developing web-based businesses that extend over multiple countries and are complementary to Sage's core accountancy and ERP business. These businesses are likely to operate under different business models to Sage's traditional business. They will therefore be ring-fenced, incubated and supervised centrally as they grow.

This structure leverages the experience of our current executives and also brings through a new generation of leaders. The new team better reflects the international and entrepreneurial nature of the business and exploits our operational expertise. It will enable us to collaborate better, to drive innovation and to maximise the opportunities we have to deliver outstanding software and services to our customers and partners.

Acquisitions

During the year we completed the acquisition of Netcash (Pty) Ltd, a business providing payment processing services in South Africa, for £8.5m consideration. With our substantial and growing customer base in South Africa, the acquisition offers Sage an attractive opportunity to extend integrated and secure transaction processing services to those customers.

We continue to evaluate acquisitions as part of our strategy. Acquisition opportunities lie in both existing and new geographical markets. They also lie in markets such as the provision of accounting and payroll software to SMEs and in new markets such as the provision of web-related products and services. We continue to apply rigorous discipline to the evaluation of these opportunities, with appraisal models clearly linked to shareholder value.

Outlook

Our commitment to high quality customer service and our culture of innovation means our products and services are well positioned in the market. While the economic outlook remains uncertain, we are seeing some signs of improving markets for our customers, although this varies by geography. Together, these factors have contributed to the revenue momentum we have seen in the second half of the year.

Our focus is on improving organic revenue growth, particularly in North America, in driving our web strategy, and in growing our margin in the medium term whilst continuing to invest in higher growth initiatives such as payment processing and *Sage ERP X3*. The new organisation structure announced on 1 December 2010 will enable us to capitalise fully on the many growth opportunities we have, and we look forward with cautious optimism, whilst managing our costs prudently in these uncertain times.

Guy Berruyer
Chief Executive (from 1 October 2010)

Financial review

Reconciliation of operating to statutory results

EBITA† to operating profit	2010 £m	2009 £m	Change %
EBITA†	**365.8**	324.3	13%
Impact of movements in foreign currency exchange rates		(3.6)	
	365.8	320.7	14%
Amortisation of acquired intangible assets	**(35.8)**	(40.1)	
Operating profit	**330.0**	280.6	18%

Underlying pre-tax profit to profit before taxation	2010 £m	2009 £m	Change %
Underlying pre-tax profit	**355.7**	311.1	14%
Impact of movements in foreign currency exchange rates		(3.6)	
	355.7	307.5	16%
Amortisation of acquired intangible assets	**(35.8)**	(40.1)	
Profit before taxation	**319.9**	267.4	20%

Underlying EPS to basic earnings per share	2010 pence	2009 pence	Change %
Underlying EPS	**19.22**	16.82	14%
Impact of movements in foreign currency exchange rates		(0.19)	
	19.22	16.63	16%
Amortisation of acquired intangible assets	**(1.93)**	(2.17)	
Basic earnings per share	**17.29**	14.46	20%

33 times

Our **interest cover** increased due to lower debt.

2009: 20 times

+3%*

H2 organic revenue growth. H1: –2%*.

2009: –5%*

+5%

Our **full year dividend** increased by 5% to 7.80p per share.

2009: 7.43p per share

+1%*

EBITA† margin increased to 25%.

2009: 24%* excluding restructuring costs

Overview

We saw improved organic revenue growth momentum in the second half of the year when the Group achieved organic revenue growth of 3%*. Overall, Group revenue for the year on an organic basis was flat* compared to prior year. Statutory revenue for the full year was flat at £1,435.0m (2009: £1,439.3m).

EBITA† increased by 13%* to £365.8m (2009: £324.3m*) and EBITA† margins improved to 25% (2009: 22%*). Statutory operating profit increased by 18% to £330.0m (2009: £280.6m).

Underlying pre-tax profit increased by 14%* to £355.7m (2009: £311.1m*). Statutory profit before taxation increased by 20% to £319.9m (2009: £267.4m). Underlying EPS increased by 14%* to 19.22p (2009: 16.82p*). Basic statutory EPS increased 20% to 17.29p (2009: 14.46p).

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

The financial results were impacted by movements in exchange rates. The average Euro exchange rate used to translate the income statement moved 1% from £1 = €1.14 to £1 = €1.15, and the average US Dollar exchange rate used to translate the income statement moved 1% from £1 = $1.54 to £1 = $1.56.

The closing exchange rate on the Euro was £1 = €1.15 (2009: £1 = €1.09) a movement of 5% against the prior year end rate. The closing exchange rate on the US Dollar was £1 = $1.58 (2009: £1 = $1.60) a movement of 1% against the prior year end rate. These changes in rates affected various balance sheet items, including valuation of our net debt.

Revenue analysis

Revenues contracted 1%* compared to prior year at £1,435.0m (2009: £1,450.6m*). Organic revenue was flat* compared to the prior year. Organic revenue contracted in the first half of the year by 2%*. However, in the second half, organic revenue grew by 3%*.

Organic revenue excludes the contributions of current and prior year acquisitions and disposals (0% of current year revenues) and non-core products (2% of current year revenues).

Total revenues for software and software-related services were £481.5m (2009: £509.5m*), which contracted organically by 4%*. Total subscription revenues were £953.5m (2009: £941.1m*) which grew organically by 2%*, benefitting 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 (45% of total revenues) and transaction services (9% of total revenues).

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

The Group remains highly cash generative with operating cash flow of £428.7m representing 117% of EBITA†.

EBITA†

EBITA† increased by 13%* to £365.8m (2009: £324.3m*). The Group's EBITA† margin increased to 25% (2009: 22%*). EBITA† in the prior year includes restructuring charges of £26.1m*. Excluding restructuring charges in the prior year, EBITA† grew 4%* and EBITA† margin was 24%* on this same basis for FY09.

Finance costs

Net finance costs of £10.1m (2009: £13.2m) were lower than the prior year. The average interest rate on borrowings during the year was 2.2% (2009: 2.2%).

The 2009 interest was greater due to a higher level of average borrowings during the year. Interest cover was 33 times, increasing from 20 times in the prior year.

Profit before taxation

Statutory profit before taxation increased by 20% to £319.9m (2009: £267.4m) and was impacted by amortisation of acquired intangible assets and net development expenditure of £35.8m (2009: £40.1m). Underlying pre-tax profit increased 14%* to £355.7m (2009: £311.1m*).

Income tax

The income tax expense of £92.6m (2009: £77.9m) was greater than the prior year reflecting the additional profits and gives an effective rate of 29% (2009: 29%).

EPS

Basic earnings per share for the year ended 30 September 2010 increased by 20% to 17.29p (2009: 14.46p). Diluted earnings per share increased by 19% to 17.23p (2009: 14.42p). Underlying earnings per share grew by 14%* to 19.22p (2009: 16.82p*).

Dividend

Our full year dividend is increased by 5% to 7.80p per share (2009: 7.43p per share), with a proposed final dividend of 5.22p per share (2009: 4.93p per share). The final dividend will be payable on 11 March 2011 to shareholders on the register at close of business on 11 February 2011.

R&D and capex

The Group spent £158.9m in the year ended 30 September 2010 on research and development (2009: £173.1m*). No expenditure was capitalised and £0.4m (2009: £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 2010 (including the purchase of third party software systems for internal use) was £35.5m (2009: £29.8m). The majority of this expenditure relates to IT infrastructure, both in new and replacement systems.

Goodwill

At 30 September 2010 goodwill was £2,031.1m (2009: £2,030.8m). 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.

£219.8m

Net debt balance at 30 September 2010.

2009: £439.4m

117%

Operating cash flow represents 117% of EBITA†.

2009: 112%

Capital structure	Assets £m	Liabilities £m	Net assets £m
Goodwill and intangible assets	2,210.2	–	2,210.2
Property, plant and equipment	149.6	–	149.6
Current assets and liabilities	280.4	(730.5)	(450.1)
Retirement benefit obligations	–	(11.3)	(11.3)
Deferred income tax	10.4	(39.6)	(29.2)
Total before net debt	2,650.6	(781.4)	1,869.2
Net debt	70.8	(290.6)	(219.8)
Total as at 30 September 2010	**2,721.4**	**(1,072.0)**	**1,649.4**
Total as at 30 September 2009	2,738.5	(1,241.0)	1,497.5

Capital structure

Our balance sheet at 30 September 2010 is summarised as set out in the table above. Net assets increased by 10% to £1,649.4m (2009: £1,497.5m) and net assets per share by 10% to 125p (2009: 114p). The main movements in the balance sheet items were in net debt (see further "Net debt" and "Cash flow" below).

Debt and facilities

Net debt

The Group has net debt of £219.8m at 30 September 2010 (2009: £439.4m). The balance sheet remains strong with net debt to EBITDA of 0.6 times. Over the year, strong cash generation reduced net debt by £211.3m 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 £7.5m have therefore been funded by debt financing.

Cash flow

The Group remains highly cash generative with operating cash flow of £428.7m (2009: £357.6m), representing 117% of EBITA† (2009: 112%). After interest, tax and net capital expenditure, free cash flow was £317.4m. The net outflow from acquisitions and disposals completed in the period was £0.1m.

After dividends of £98.6m and other movements of £0.9m, including exchange movements, net debt stood at £219.8m at 30 September 2010 (2009: £439.4m).

Facilities, cash management and gearing

The Group is funded through retained earnings and multi-currency revolving credit facilities totalling £357.4m (US$271.0m and €214.0m tranches), which expire in 2015. At 30 September 2010, £59.6m had been drawn under these facilities.

In addition the Group has US private placement loan notes at 30 September 2010 of £190.4m (US$300.0m), (2009: £nil). The Group continues to monitor opportunities to enhance and diversify its funding sources in the current capital market conditions. A rigorous counterparty evaluation process is maintained.

Treasury processes and treasury 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.

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

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.

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 2010 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 2010, the Group had drawn down £59.6m (2009: £460.6m) 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. At 30 September 2010 £50.8m of debt was fixed (2009: £93.8m) at an average interest rate of 2.88% (including margin) until 30 April 2012. At 30 September 2010, all remaining outstanding debt was held at variable rates apart from the US private placement loan notes of £190.4m (2009: £nil), which have an average fixed interest rate of 4.6%.

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 had US Dollar, Euro and Swiss Franc denominated borrowings which it 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 2010 and 30 September 2009, 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 financial statements.

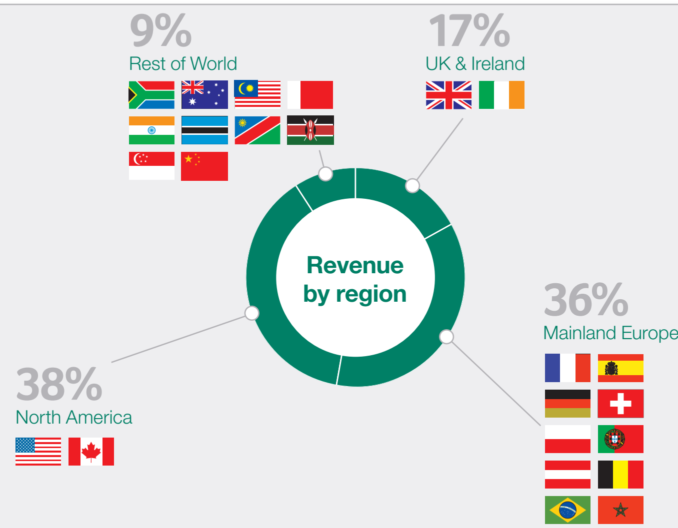
Paul Harrison
Group Finance Director

What we do and how we work

Our business

We are a market leading, global company with 13,400 people in 24 countries and products and services available in many more.

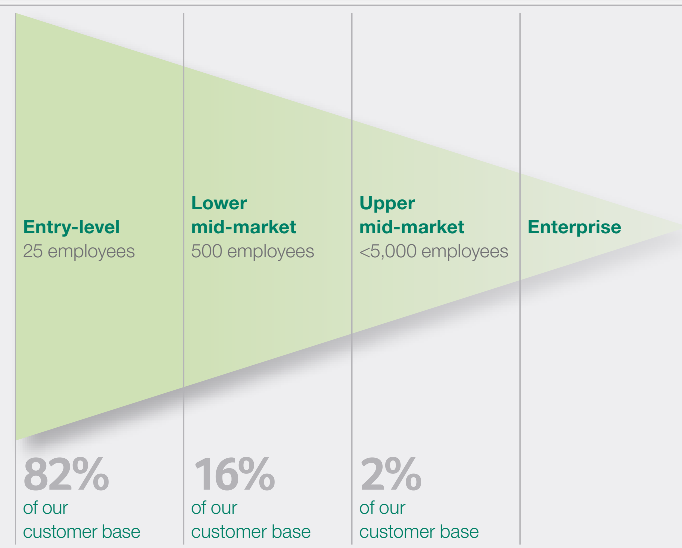
Across the world we help our customers take care of the critical functions that all businesses require to operate as easily, efficiently and cost-effectively as possible.



Our customers

6.3 million companies and organisations around the world now use Sage's software and services.

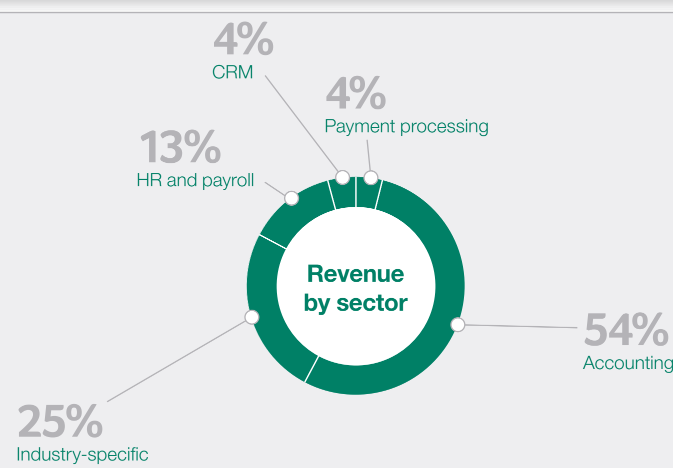
These range from small businesses to large organisations and divisions of multi-national corporations. Our customers are at the forefront of what we do, whether they are globally recognised businesses or belong to the large spectrum of local, smaller, entrepreneurial firms who look to Sage to meet their needs.



Our products and services

We provide our customers with a choice of high quality, easy to use and relevant business software, services and support to help them better manage the processes that are the core of their business.

The majority of our products are developed and sold locally to match local fiscal, legal and regulatory environments. Our products and services range from accounts, ERP and payroll software to payment processing, CRM and industry-specific solutions such as healthcare, manufacturing, non-profit and construction.

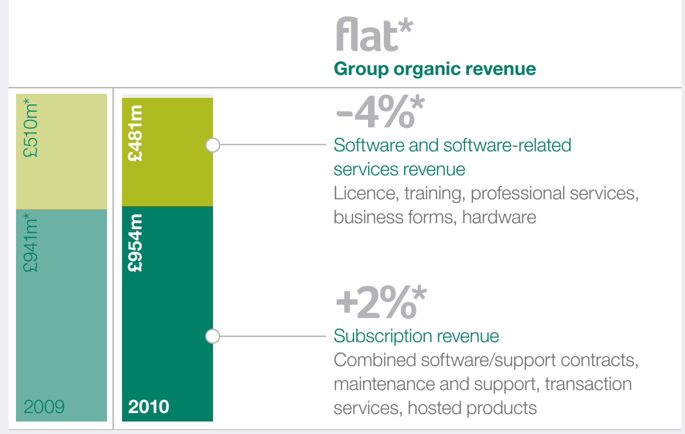


Our business model

We operate through a decentralised, locally focused business structure.

This gives real autonomy to our local operating companies, allowing them to keep in touch with their local customers and providing them with the freedom to deliver what these customers need. Additionally, it enables them to react swiftly to the particular characteristics of the local market. Our business model is underpinned by exceptionally strong cash flow, generated through a high level of recurring subscription revenues.

Headline revenue

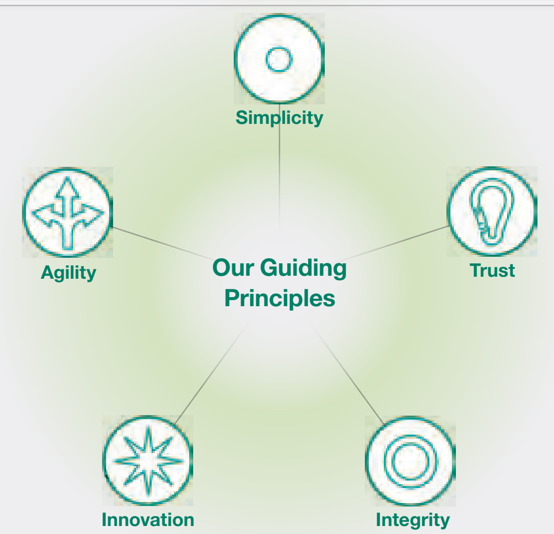


* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of $1.56/£1 and €1.15/£1 to facilitate the comparison of results.

Local innovation; global collaboration

Sage's decentralised business model allows local innovation to flourish.

At the same time we collaborate extensively to share common technologies, experience, expertise and resources and to support customers who require multi-country implementations. Much of this is done informally, but formal groups have also been established to facilitate collaboration in key areas including Global Technology and Product Marketing Committees, a Brand Marketing Team, a Customer Experience Team and international sales and professional services teams. Our decision making is guided by our Guiding Principles – Trust, Integrity, Innovation, Agility and Simplicity.



The Sage ecosystem

Our customers benefit from being supported by a global brand of nearly 30 years standing, belonging to a community of millions of entrepreneurs and an extensive and powerful ecosystem of business partners, software developers, accountants and other third parties.

This global community works with Sage to provide our customers with what they need, when and how they want it, whether it is add-on solutions, implementation and support or convenient access to our solutions.

Maximising our future growth potential – Our strategy

Our strategy

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.

Our long-term goals

Be a key leader in all markets of the world.

Develop products and services which 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.

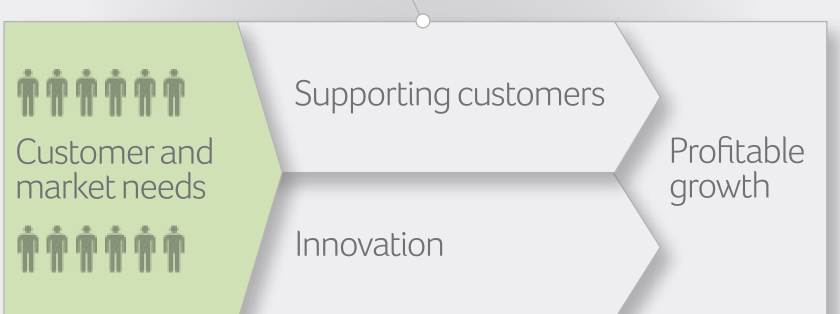
Experience superior organic revenue growth versus our peer group.

Be recognised as one of the most admired employers.

The key drivers for our approach are:

6.3 million

With 6.3 million customers around the world we are committed to delivering high quality, easy to use and relevant business software, services and support.



11%

We use technology to help customers solve their business problems and manage their business more effectively – we do this by embedding innovation into our culture and by investing 11% of our revenue in R&D.

25%

EBITA† margin

(2009: 24%* excluding FY09 restructuring costs)

* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of $1.56/£1 and €1.15/£1 to facilitate the comparison of results.

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

We are maximising our potential for future growth – over 13,000 minds committed to...

Keeping things on track – our Executive Committee

The Executive Committee oversees the sound running of all Sage operations and it comprises ten senior leaders from across The Sage Group plc, including the Chief Executive, Group Finance Director and the four CEOs from our regional businesses who manage the Group's operations on a regional level. The other members are the Group Chief Technology Officer, the Company Secretary and Group Legal Director, the Group Director of HR and Corporate Communications and the Director of Strategy and Corporate Development#.

The role of the committee is to assist the Chief Executive in the performance of his duties, including:

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.

Monitoring competitive forces in each area of operation.

The committee is also responsible for the consideration of all other matters not specifically reserved for consideration by the Board and approved by the Chief Executive.

From left to right:

Álvaro Ramírez
CEO, Southern Europe#
Formerly CEO, Spain

Ivan Epstein
CEO, AAMEA
(Africa, Australia, Middle East & Asia)#
Formerly CEO, South Africa & Australia

Pascal Houillon
CEO, North America (from mid 2011)
Formerly CEO, France

Karen Geary
Group Director of HR and Corporate Communications

Sue Swenson
CEO, North America (to mid 2011)

Paul Stobart
CEO, Northern Europe#
Formerly CEO, UK & Ireland

Paul Harrison
Group Finance Director

David Clayton
Director of Strategy and Corporate Development#
Formerly Group Strategy and Mergers and Acquisitions Director

Klaus-Michael Vogelberg
Group Chief Technology Officer

Guy Berruyer
Group Chief Executive

Michael Robinson
Company Secretary and Group Legal Director

From 1 January 2011.

…building loyalty and reputation by supporting customers…

Sage's founder was also our first customer. Today customers remain central to our thinking as we focus on solving their business problems.

A large part of Sage's success has been the recognition of how different doing business is in different countries. Therefore, we have always treated our customers as individuals and we have an enduring respect for these people who bring business to life. Our customers are supported locally so that they can talk to an in-country expert who speaks their language, understands their situation and is best placed to help them better manage the everyday tasks that are the lifeblood of their organisation. Our people, through their expert knowledge, provide advice that enables our customers not only to get the most from their software but also to deal with a wide range of critical business issues, whether it is HR advice or the effect of the latest business legislation in their market.

Across the Group over 40% of our people work in customer service, support or training roles. They help our customers face-to-face, online, through the 33,000 calls we manage per day or in collaboration with our global network of 40,000 accountants and 27,000 business partners.

This support offering is unique, helping us to build real relationships for the long-term, developing loyalty and establishing Sage as a trusted partner to our customers.

Customer experience

We aspire to deliver an extraordinary experience to our customers. This reflects our unconditional commitment to them and is the philosophy that drives everything we do. We believe it will set us apart from our competitors and help us to win in our markets. It is not an initiative or a programme as such but a constantly evolving state of mind and cultural attitude.

Our aim is to give every one of our customers confidence in our products, our services, the way we do business and of course our people. Seeing the world through their eyes helps us connect with them, their business, their passions and their software needs. It helps us get closer to them.

By demonstrating we understand their needs and by recognising the things they want at each stage of their individual journey with us, we will increase their loyalty to us and their levels of recommendation. This in turn will translate into increased customer numbers, increased revenue per customer and higher growth for Sage.

The aspiration to deliver such an experience touches all areas of our business. Customer support is one of the more obvious ways and indeed is a critical element of this. However, equally important is how easy our software is to install and to use, how easy we make integration and migration, how quickly we resolve customer enquiries, how we market ourselves, our customer billing processes, the web tools we provide, how efficient our internal systems are and the relationships we have with our partners.

Customer research

Whilst our operating companies conduct regular research with their local customers, this year for the first time we conducted multi-country research, which was originally piloted in Spain, across the UK, the United States, Canada and France to understand better how our customers and employees feel about their experience of Sage. The research analysed a range of touch points we have with customers. It identified what customers regard as important, the quality of experience they expect and how this compares to the actual experience they receive.

This was compared to what we at Sage assume is important to customers and how well we think we are delivering this. Consequently we are better able to identify what matters the most to customers, where we are exceeding, meeting or falling short of expectations and the opportunities we have to redesign and improve the experience. We judge our success in delivering an extraordinary customer experience through a number of measures including the likelihood of our customers recommending and promoting Sage to others.

Customer experience in action

Following the research many Sage operating companies have started initiatives to listen better to customers and employees and further improve the way they do business. Some examples are shown below.

In South Africa the *Softline Pastel Payroll* team revisited their renewals process from a customer perspective and identified several barriers to renewal associated with their existing Annual License Fee ("ALF") renewal process.




Customers were not being notified early enough in the process to ensure renewals were completed in a timely fashion, the processes varied in accuracy, were time-consuming and complicated and service levels were not at entirely acceptable levels. Therefore, the team re-engineered the process and implemented "Pastel Hold My Hand", with new in-product features such as automated renewal notices, ALF invoice generation and online payment gateways. These features combine to give customers a fully automated and invisible annual product renewal process for the first time. The project was completed in two months, implemented in time for the 2010 tax year end in South Africa and annual renewals have improved by 3%, to over 90%, with reduced cost in the renewals and registration team.

The *Sage Peachtree* team in the United States developed an in-product tool comprising a Product Enhancement Programme ("PEP") and an In-Product Advisor. The PEP collects information on actual usage and environmental data from the entire user community, allowing the *Peachtree* team to understand better how the software is being used and what issues are encountered during usage which in turn guides future development. The In-Product Advisor uses the PEP data to guide the user as they go about accomplishing their tasks and allows the software to recommend relevant help, customised for each customer based on actual usage patterns. This intelligence gathering tool has been particularly useful in improving *Peachtree* customers' start-up experience and daily use as well as helping us to make our sales and marketing activity more relevant to our customers. The technology will be delivered in more Sage products and has been included in *Simply Accounting 2011*.

In France Sage launched a new range of products, *Ciel Facile*, aimed at start-up and small businesses. After two years there were more than 20,000 active customers on those products. However, only 4% of these were using support services as they didn't meet their needs in terms of price and opening hours. Therefore, the team developed Claire, a virtual assistant sold as an online support contract. Claire stimulates an intelligent conversation with users, understanding and answering their questions and enabling Sage to offer 24/7 service at a competitive price.

Our Spanish business, in order to maximise the return on investment from a sales and marketing campaign, set up a group of Sage Ambassadors to visit partners to explain the campaign, advise the partners on how to maximise its effect and increase confidence in Sage. The Ambassadors visited over 500 partners in the first week and conducted over 7,000 visits during the course of the year.

Sage Germany completely redesigned their Software Quality Model to implement total quality management in their product strategy and development process. As a result customer surveys have identified an improvement in our product satisfaction ratings and the process was highly commended by the German Software Certification Institute (TUV). Also in Germany an initiative has been conducted, via a survey, to identify any dissatisfaction with our products or services and to then contact the dissatisfied customer in person to resolve their problem. The customers have been positively surprised about the contact and our commitment to helping them and this has led to a significant increase in our customer satisfaction levels.

There is also a wide range of internal activity taking place to understand better what we need to do to improve the experience we deliver to our customers. Online resource centres have been launched to promote best practice, competitions have been held to generate ideas and in a number of operating companies, employee performance goals have been changed to align performance and reward better with the customer experience they deliver.

For example, some operating companies are reviewing their emphasis on technical support key performance indicators away from "Average Handling Time" to "First Call Resolution", fundamentally moving the focus from how many calls are taken to the delivery of a higher quality customer experience. In addition, many of our businesses, including those in Spain, Germany, France, the UK and North America, have completed an extensive series of internal workshops to inspire our people to believe that this really matters and to help them discover and explore their unique role in delivering a better experience to both internal and external customers. In North America 267 workshops have been completed with 3,950 employees attending – almost 100% of the workforce.

...meeting market needs and trends through innovation...

Market trends

The technology environment continues to change rapidly with businesses' use of technology increasingly influenced by consumer trends. The use of the web and mobile access to information, via a wide range of constantly changing devices, is becoming pervasive. This makes collaborative working much easier and is driving ever more global business processes. Our customers remain pragmatic in their adoption of technology, insisting it must help solve their business problems and manage their business more effectively.

Sage's technology strategy

These trends present an enormous opportunity for Sage and our customers. We are pursuing a web strategy which has two core elements – "Connected services" and "Online business solutions". These leverage web and mobile technologies to deliver not only added value to our existing customers but also new software and services to the next generation of web native entrepreneurs.

"Connected services" bring the benefits of the web to existing customers, connecting and extending their predominantly desktop software and increasing their lifetime value. Where appropriate, we leverage the knowledge and specialist skills of third parties to deliver value to our customers.

"Online business solutions" have been developed to address a new way of working, either through new products designed purely for the web or adapting existing products to life online.

Sitting behind these core elements are a number of web-based technologies which our customers do not see but which are essential to enhancing the experience they receive. These include auto updates, product usage feedback mechanisms and SData, a technology which allows data exchange and interoperability between different Sage applications, third parties and the web.

This strategy combines the best of both worlds – the reach and convenience of the web with the richness, control and resilience of on-premise solutions and provides our customers with the choice of solution best suited to their business.

Unique position

Sage is uniquely positioned to deliver this strategy. Our global community of 6.3 million customers, our software assets, service culture, high level of subscription revenues and our trusted brand mean we are well placed to evolve and grow in this new world.

Technology strategy in action: Connected services

Mobile access

Many of our software and services are available via mobile services. All of our CRM solutions – *Sage ACT!*, *Sage CRM* and *Sage SalesLogix* – have already been extended, or are being trialled, to give users real-time access to their customer information via smart phones and handheld devices. This helps users increase sales and service effectiveness at every stage of the customer relationship.

In France *Sage Business Mobile* has been developed to allow users to access their accounting data and key business information via their mobile. Free to download and trial with test data, the paid for service is then available on a subscription basis. In the UK *Sage 50* and *Sage 200* are also accessible via mobile devices giving customers the power to make decisions no matter where they are.

Customer services

Our CRM and contact management customers can take advantage of an eMarketing service to enhance the productivity of their desktop software. *Sage eMarketing* is a cloud-based email marketing service that enables customers to execute sophisticated campaigns which utilise their existing customer information and are closely linked to their core CRM product. To date *Sage eMarketing for ACT!*, powered by Swiftpage, has more than 1,700 users. *Sage Business Info Services for ACT!* is another cloud-based service that gives customers seamless data export from Hoovers™, a provider of proprietary business information, into their contact and customer management product. This enables them to tap into a database of 85 million executives and 65 million companies to build prospect lists.

Employee services and financial services

A number of employee services and financial services are available to customers. Employee services include online contextual legal help in Spain, which in just a few months has attracted 1,000 customers, and Payroll Self-Service and HR Advice in the UK, a phone and web-based HR service for small businesses which is included as part of premium support contracts. Financial services include social, fiscal, and customs tax e-filing in France, through which our customers process 1.5 million forms per year and financial health checks.

Vertical offers

In North America *Sage Fundraising Online* is a flexible fundraising and event management service that helps non-profit organisations increase giving, participation and support by connecting more effectively with supporters online. The service enables customers to create multiple fundraising campaigns, customise these to reflect their needs and use social networking tools to expand their audience. *Sage Fundraising Online* integrates with Sage's desktop Not-for-Profit applications, competitor products and Sage Exchange, which allows users to accept payments through Sage's certified payments platform. In a short time 39 business partners have signed up to sell the service, 12 of whom are new to the not-for-profit business.

Technology strategy in action: Connected services (continued)

Payment services

We continue to expand into payment and transaction processing with a particular focus on integrating these with customers' accounting software. Not only can this help them get paid promptly but also it improves data accuracy and reduces time and money spent on administration.

In the UK *Sage Pay* has been integrated into *Sage Instant Accounts*, *Sage 50 Accounts*, *Sage 200* and *TAS*. The *Sage Instant Accounts* and *Sage 50* integration also gives customers the ability to generate electronic invoices with a secure "Pay Now" button, allowing them to get paid immediately with a credit or debit card.

In North America the Sage Payment Solutions Division has developed *Sage Exchange*, a versatile, secure, certified payments platform. *Sage Exchange* accepts credit and debit card payments and is being introduced through a series of releases to integrate with a wide range of Sage and third party business solutions, including *Sage Peachtree*, *Simply Accounting by Sage*, *Sage 50 Fundraising* and *Sage Intergy*, Sage's leading healthcare solution.

Online business solutions

Payments

Getting paid and managing cash flow are critical issues in any business, but even more so in small businesses.

Sage Pay, which now has more than 31,000 customers in the UK, allows customers to process securely "cardholder not present" credit card transactions.

In May 2010, Sage acquired Netcash in South Africa. Netcash specialises in providing secure, online transaction processing services for SMEs and has 4,000 customers.

SaaS Small Business Payroll

In Germany *einfachLohn* ("Simple Payroll") now has more than 7,500 test customers and over 1,800 paying customers. The service continues to redefine payroll for micro businesses, allowing community members to engage with their peers as payroll advisors and being fully usable via smart phone and hand held devices.

Ciel Paye Facile ("Easy Pay") was launched in France to supersede *Ciel ePaye*. The solution supports four unique roles, records holiday, sick leave and other employee information, manages payment and allows data to be sent through an online gateway to the relevant authorities. In less than a year the service has acquired more than 1,000 customers, in addition to the 1,000 customers migrated from *Ciel ePaye*.

SaaS Micro-Business Accounting

Pastel My Business Online, originally launched in South Africa, was made available in Australia towards the end of the year as *Sage My Business Online*, with a free version being offered to accountancy students. In South Africa it now has 1,000 active users.

There has been continued investment in the solution to enhance further the user experience, including the development of a dedicated accountants' area within the application to enable collaboration with their clients.

In North America *SageSpark* continues to grow with 10,000 registered users of the community portal which is designed to provide free and low cost services to small businesses. These include *Sage Billing Boss*, a free online and mobile invoicing tool and *Sage Payment Boss*, which allows small businesses to get paid anytime, anywhere by processing credit card payments through their 3G-enabled mobile phone. These integrate with *Sage Simply Accounting*, our market leading desktop accounting software in Canada, to reduce invoice processing time, limit the possibility of errors and help improve cash flow. Whilst *Payment Boss* is at an early stage of adoption *Billing Boss* gained 9,000 customers this year, taking its total customers to more than 12,000.

On-demand and managed services

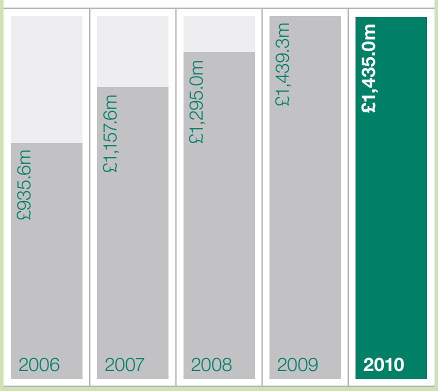
Sage SalesLogix Cloud Edition, and other solutions, have been deployed on the various hosting platforms, allowing these products to be delivered through the web. This brings many benefits of the online world to customers choosing this option, such as accessibility and availability, flexible payments and scalable storage and computing power. In addition it provides them with benefits more associated with on-premise software such as customisation and ownership and control of data. We also provide remote access to a number of our on-premise accounting solutions such as *Sage 50 Online* in the UK, *Intergy on Demand* in North America and *Sage Logic Class ERP* and *Payroll* in Spain, where the traditional desktop product is hosted in a data centre.

...which enables us to continue delivering profitable growth.

Five year history – financial highlights

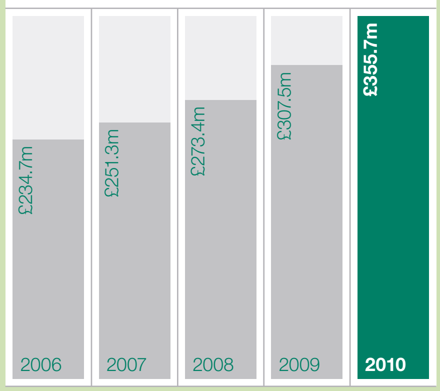
Revenue

£1,435.0m
flat



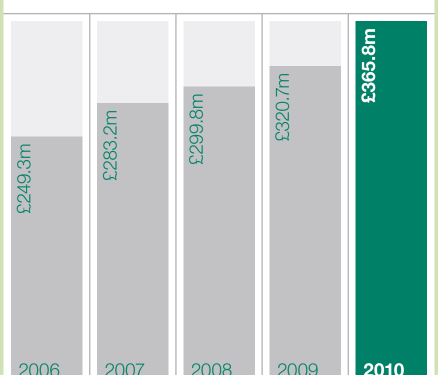
Underlying pre-tax profit

£355.7m
+14%**



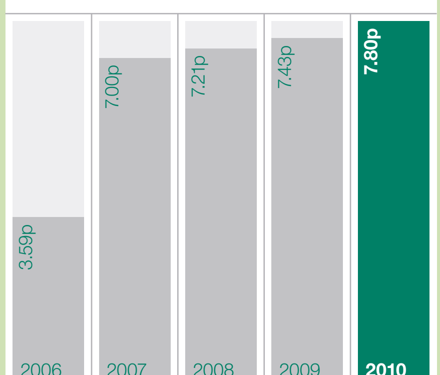
EBITA†

£365.8m
+13%**



Total dividend

7.80p
+5%



Notes:

1 A reconciliation of operating to statutory results is provided on page 8.

2 The results of all comparative years have not been retranslated to current year exchange rates.

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

** Growth has been calculated after the neutralisation of foreign exchange movements.

2010 performance in context

As summarised on page 14, our corporate strategy is focused on creating value and building a strong, sustainable business with high levels of customer satisfaction. We monitor our performance against a number of different benchmarks which allow us to measure the value we are creating for both our customers and our shareholders.

In selecting these KPIs, we have incorporated our strategic goals set out on page 14. 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.

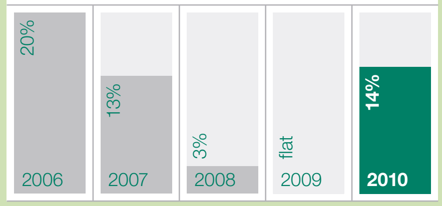
We also closely monitor the degree of customer satisfaction relating to our products and services. We take over eight million calls a year, or over 33,000 calls a day, from all over the world. This customer feedback helps us improve our products and services as well as providing a rich source of input 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 2010 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 28 to 35.

Key performance indicators ("KPIs")

Underlying EPS growth

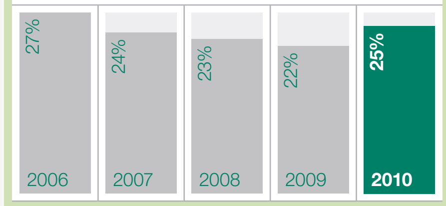
14%



Underlying EPS represents income for the financial year, prior to the amortisation of acquired intangible assets, divided by the weighted average number of ordinary shares in issue during the year. Underlying EPS growth rates are quoted on a currency neutral basis.

EBITA margin

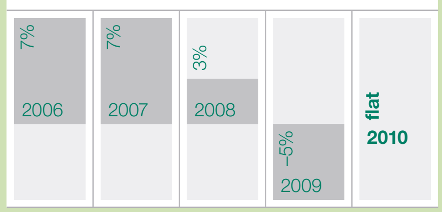
25%



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 of software development expenditure. The EBITA margin represents EBITA divided by revenue for the year.

Organic revenue growth

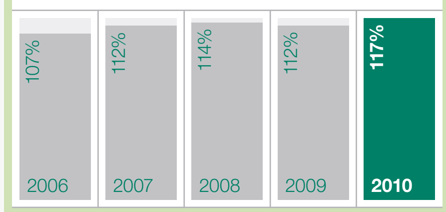
flat



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

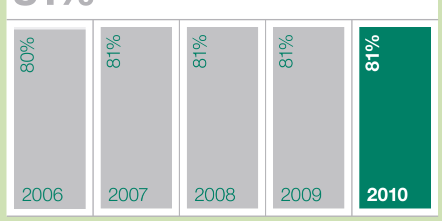
117%



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%



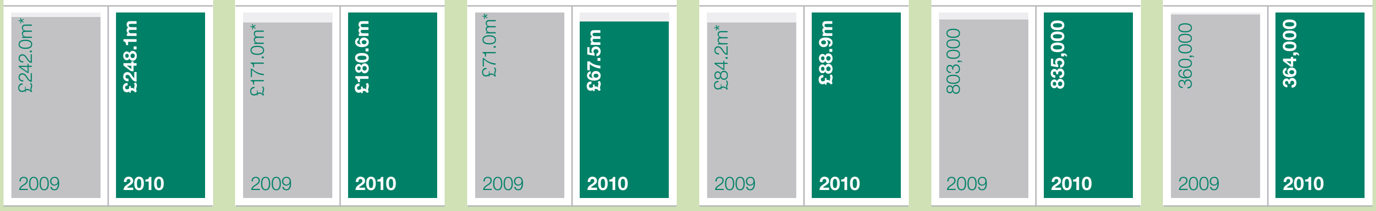
Customer retention is an important measure of competitiveness in the market. Renewal rates are calculated as the number of maintenance and support contracts which were renewed in the period divided by the number of contracts which were potentially renewable in the period.

UK & Ireland

Including: United Kingdom, Republic of Ireland

CEO: **Paul Stobart**

	Revenue	Subscription revenue	Software and software-related services revenue	EBITA†	Customers	Contracts
	£248.1m	**£180.6m**	**£67.5m**	**£88.9m** 36% margin	**835,000**	**364,000**
	+3%*	+6%*	–5%*	+6%*	+4%	+1%
2010:	£248.1m	£180.6m	£67.5m	£88.9m	835,000	364,000
2009:	£242.0m*	£171.0m*	£71.0m*	£84.2m*	803,000	360,000



Performance

Total and organic UK (including Ireland) revenues grew by 3%* to £248.1m (2009: £242.0m*), with organic growth of 5%* in the second half of the year. Organic subscription revenues grew at 6%* (2009: 5%*), while organic software and software-related services revenues contracted by 5%* (2009: 19%* contraction). In the second half of the year, organic software and software-related services revenues grew by 1%*, against a contraction of 11%* for the first half of the year.

Sage 50 revenue grew by 3%* with a positive reaction to the 2010 product release, and strong renewals of support contracts. The product now includes a number of connected services including payments functionality. *Sage Pay* delivered continued strong growth and products and services for accountants grew by 6%* with continued good demand for the premium *Priority Link* service.

Our HR, payroll, and construction vertical businesses continued to experience subdued customer demand, and Sage Ireland (reported within the UK region) continued to be severely impacted by the Irish economic downturn.

The EBITA† margin was 36% (2009: 35%*). The prior year margin excluding restructuring charges was 38%*.

Marketplace

Our UK business enjoys a market leading position and is committed to helping businesses survive and thrive. A number of events were held throughout the year, the highlight being Sage Connect, a free two day event for small businesses. This included seminars and workshops providing advice and inspiration for anybody looking to start or grow a business. Speakers ranged from a bomb disposal expert talking about working under stress through to some of the UK's most well known entrepreneurs sharing their experience.

The business also conducted a nationwide marketing campaign, including fully integrated online and print media advertising, to promote the fact that our customers are both small businesses and larger organisations. With the strap line, "Not just small business. All business" (www.sageallbusiness.co.uk) the campaign featured a number of our well known, larger customers in online videos recommending Sage as a software solution provider. The campaign also used key statistics to demonstrate the breadth of our customers, including the fact that over one-third of FTSE 100 companies use Sage to do business. The campaign has helped to increase Sage's credibility in the mid-market and has more than doubled the number of qualified sales opportunities for these solutions.

Mainland Europe

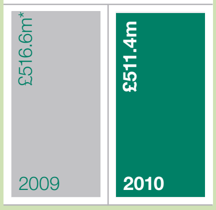
Including: France (including subsidiaries in Brazil and Morocco), Spain, Germany, Switzerland, Poland, Portugal, Austria, Belgium

CEO: **Guy Berruyer**

Revenue

£511.4m
–1%*

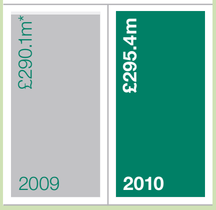
2010:	£511.4m
2009:	£516.6m*



Subscription revenue

£295.4m
+2%*

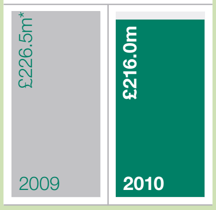
2010:	£295.4m
2009:	£290.1m*



Software and software-related services revenue

£216.0m
–5%*

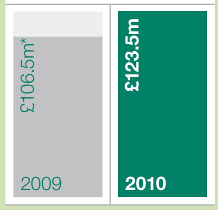
2010:	£216.0m
2009:	£226.5m*



EBITA†

£123.5m
24% margin
+16%*

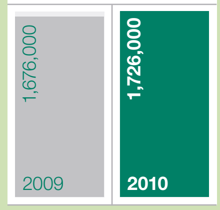
2010:	£123.5m
2009:	£106.5m*



Customers

1,726,000
+3%

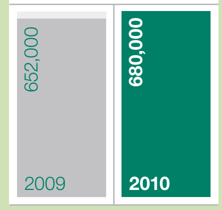
2010:	1,726,000
2009:	1,676,000



Contracts

680,000
+4%

2010:	680,000
2009:	652,000



Performance

Total revenues in Mainland Europe declined by 1%* to £511.4m (2009: £516.6m*). Organic revenue grew 2%* (2009: 3%* contraction), with organic growth of 5%* in the second half of the year. Subscription revenues continued to grow organically at 3%* (2009: 5%*), while software and software-related services revenues contracted organically by 1%* (2009: 13%* contraction). In the second half of the year, organic software and software-related services revenues grew by 5%*, against a contraction of 6%* for the first half of the year.

Revenues in our French business grew 3%* organically in the year with a good performance in our accountants and ERP markets, where changes in payment regulations and a strong product set helped to generate good increases in new licences. The market for our entry-level product and our auto dealer vertical business however remained challenging in France.

German revenues grew 2%* organically, with a good upgrade performance as well as strong growth from *Sage ERP X3* and HR and Payroll products, including our SaaS offer *einfachLohn*.

Spanish revenues declined 4%* in the year but grew 3%* in the second half with strong subscription revenues from the continued focus on premium support.

Our smaller businesses in Mainland Europe, including Switzerland, Portugal and Poland grew by 6%* organically, with both Switzerland and Portugal benefitting from legislative change.

The EBITA† margin was 24% (2009: 21%*). The prior year margin excluding restructuring charges was 22%*.

Marketplace

A significant development in the European market place has been the introduction of SEPA ("Single Euro Payments Area") and in France, EBICS ("Electronic Banking Internet Communications Standard"). EBICS is an electronic banking communication standard which will supersede the old corporate banking protocol in 2011. It is designed to carry the new SEPA payment format which will harmonise financial transfers between member states, replacing local standards across more than 30 countries.

All companies need to be compliant with EBICS if they wish to use electronic banking. Therefore, this has a significant impact on our customers, especially those with treasury products. For example, in France out of the 90,000 businesses using the old protocol, half are Sage customers. This is where Sage's decentralised business model comes to the fore, enabling us to react quickly, to use our local experts to guide our customers through the change and ensure they are compliant. We have introduced new versions of our products and have begun to migrate our customers, with a high proportion of them moving to a subscription payment model.

* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of $1.56/£1 and €1.15/£1 to facilitate the comparison of results.

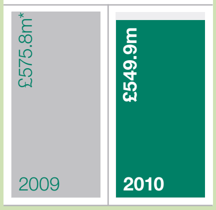
† EBITA is defined as earnings before interest, tax and amortisation of acquired intangible assets.

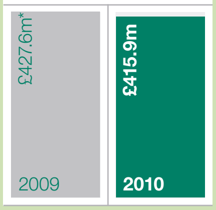
North America

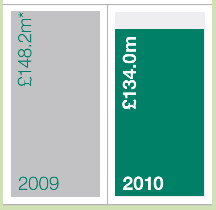
Including: United States, Canada

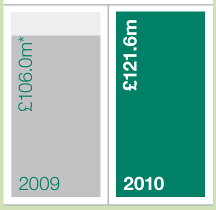
CEO: **Sue Swenson**

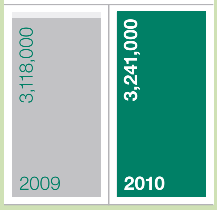
Revenue	Subscription revenue	Software and software-related services revenue	EBITA†	Customers	Contracts
£549.9m	**£415.9m**	**£134.0m**	**£121.6m** 22% margin	**3,241,000**	**633,000**
–4%*	**–3%***	**–10%***	**+15%***	**+4%**	**+5%**
2010: £549.9m	2010: £415.9m	2010: £134.0m	2010: £121.6m	2010: 3,241,000	2010: 633,000
2009: £575.8m*	2009: £427.6m*	2009: £148.2m*	2009: £106.0m*	2009: 3,118,000	2009: 601,000

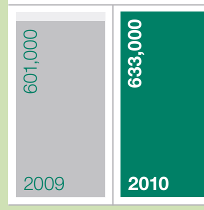












Performance

Total revenues in North America contracted 4%* to £549.9m (2009: £575.8m*). Organic revenues contracted 3%* (2009: 8%* contraction) with an organic contraction of 2%* in the second half of the year. Organic subscription revenues declined 2%* (2009: 2%* contraction), while organic software and software-related services revenues fell 9%* (2009: 23%* contraction). In the second half of the year, organic software and software-related services revenues contracted by 4%*, against a contraction of 13%* for the first half of the year.

Sage Business Solutions, our largest US division, declined organically by 3%* in the year, and by 1%* in the second half of the year. However, we did see good growth in the second half of the year in certain key products such as *Simply*, *ACCPAC* and *Sage ERP X3*. Our mid-market ERP products are well positioned in the market, with a number of compelling releases planned for 2011. Whilst the US entry-level market remains cautious, we have had success in building our position in the Accountants channel, and *Peachtree Business Care* premium support contracts now account for almost 50% of *Peachtree* subscription revenue.

Sage Payment Solutions Division saw growth in the number of merchants and spend volumes, but a continued competitive pricing environment. Revenues were therefore flat* in the year. With a flexible platform for integration into other Sage products, cross-sell revenues into the Sage base increased by over 70%* to £7.8m, and this remains a substantial future opportunity.

Sage Healthcare Division has continued to see growth in the *Intergy* product, and a contraction of the *Medical Manager* product giving an overall contraction of 5%* on an organic basis. We have made significant progress on our customer service, and we continue to see good customer wins for *Intergy*, although the impact of the American Recovery and Reinvestment Act ("ARRA") funding is not expected to have an effect until April 2011 onward. Sage Healthcare Division's EBITA† margin showed continued improvement to 20% (2009: 17%*).

The EBITA† margin was 22% (2009: 18%*). The prior year margin excluding restructuring charges was 20%*.

Marketplace

The business environment for SMEs in North America remains challenging, although we did see some improvement in confidence over the year. Within our North American business we have seen progress across a range of initiatives such as premium support and renewals, cross-sell of payments into our ERP base, the launch of several connected solutions, continued increase in our customer satisfaction and brand awareness scores, and the reinvigoration of our channel partners.

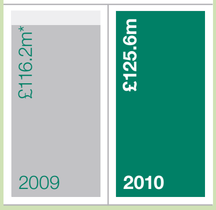
In North America, emerging businesses are seeking lowest cost start-up support while mature businesses are seeking both growth opportunities and more efficient operations through their existing technology investments. *Sage's Billing Boss* and *Payment Boss* solutions address the needs of emerging micro businesses, with online tools delivering the low cost and ubiquitous access they require. For more established and mature businesses Sage launched a series of connected services including eMarketing and ePhilanthropy (for non-profit organisations) which enable these companies to drive low cost business development through cloud computing integrated to back-office systems.

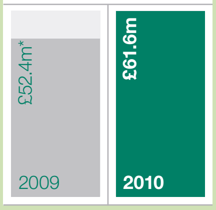
Rest of World

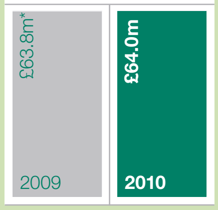
Including: South Africa (including businesses in Botswana, Namibia and Kenya), Australia, Singapore, Malaysia, Dubai, China, India

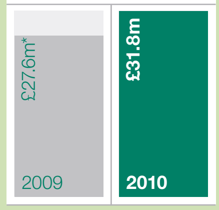
CEO: **Guy Berruyer (Asia), Ivan Epstein (Southern Hemisphere)**

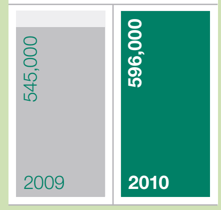
Revenue	**Subscription revenue**	**Software and software-related services revenue**	**EBITA†**	**Customers**	**Contracts**
£125.6m	**£61.6m**	**£64.0m**	**£31.8m** 25% margin	**596,000**	**185,000**
+8%*	**+18%***	**flat***	**+15%***	**+9%**	**+11%**
2010: £125.6m	2010: £61.6m	2010: £64.0m	2010: £31.8m	2010: 596,000	2010: 185,000
2009: £116.2m*	2009: £52.4m*	2009: £63.8m*	2009: £27.6m*	2009: 545,000	2009: 166,000

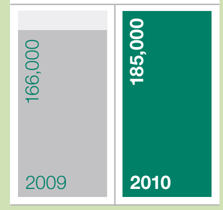












Performance

Total revenues in Rest of World grew by 8%* to £125.6m (2009: £116.2m*). Organic revenue grew 7%* (2009: 1%*) with organic growth of 10%* in the second half of the year. Organic subscription revenues showed strong growth of 15%* (2009: 14%*), while organic software and software-related services revenues were flat* compared to prior year (2009: 8%* contraction) with continued softness in the Asian markets. In the second half of the year, organic software and software-related services revenues grew by 5%*, against a contraction of 4%* for the first half of the year.

South Africa showed organic revenue growth of 11%*, with both accounting and payroll solutions performing well although the mid-market remains slow.

Australia grew 4%* organically, with a strong performance by Handisoft, our business providing tax and practice management software to accountants. Our smaller Asian businesses declined 3%*.

The EBITA† margin was 25% (2009: 24%*). There were no restructuring charges in the region in 2009.

Marketplace

In the South African market the use of the internet is growing significantly, with investment in infrastructure driving a 15% year on year increase in users. As a consequence, SMEs are increasingly using the web to manage their businesses and there is a growing demand for cost effective and secure internet-based services. To begin meeting this demand Sage launched *Pastel My Business Online*, a web-based accounting product, and also acquired Netcash, which provides online transaction processing services for SMEs.

The synergies between the two businesses are readily apparent. Both serve SMEs and the addition of Netcash's transaction services to Sage's family of products in the region, such as *Pastel Accounting*, *Pastel Payroll* and *VIP Payroll*, affords existing and future Sage customers a unique breadth of service offering under a single banner. The acquisition is an important step in fulfilling our South African businesses' vision to enable SMEs to carry out these transactions directly from their back-office and accounting applications.

* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of $1.56/£1 and €1.15/£1 to facilitate the comparison of results.

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

Our people

Our people are the lifeblood of our business. We are committed to delivering an extraordinary experience for them as an employer, to build their careers and harness their creativity, passion and knowledge to better serve our customers.

At 30 September 2010 Sage employed 13,400 people in 24 countries.

Our people continued to face a challenging environment this year as we balanced costs whilst maintaining our engagement levels and remaining committed to our vision to be an admired employer.

Our people work across multiple and diverse disciplines from software architecture and engineering through to technical support and facilities management. Across all of these disciplines our people receive training, development and support to enable them to advance in their chosen careers.

We remain focused on building our people engagement scores across Sage, ensuring that everyone who works here not only has the skills, tools and opportunities to perform their responsibilities successfully, but are also fully committed to and passionate about the roles they perform. We also regularly communicate with people via local and global intranets, webcasts, emails and other channels to keep them up to date with business performance and market conditions. During this period our engagement scores have increased to record levels with some of our locations achieving external recognition as a great place to work.

Succession

Our talent and succession strategies have proven to be robust this year as demonstrated through the successful appointment of Guy Berruyer, an internal appointment to the CEO role. The success of our executive development strategies during the past few years have also been demonstrated through the successful promotion of a number of internal candidates at the most senior of leadership roles. During 2010, for top leadership we made four key appointments, three of which were internal. Three out of four of these appointments were female executives. Additionally of the 530 promotions we made in total, 52% were male and 48% were female.

The employee experience

We are a company whose business depends on providing great software and services to our 6.3 million customers.

The only way to deliver this is through our people. The relationships they build with our customers and the support and expertise they then provide is invaluable in enabling our customers to leverage our software and services effectively. Investing in and inspiring our people to play such a pivotal role is therefore crucial to our success.

Our strategic employee goal is to **"create the environment that enables our people to deliver an Extraordinary Customer Experience"**.

The three pillars to our Employee Experience strategy are:

Environment

To ensure that our people have the tools to perform their roles successfully and to create the right culture and ethos within the organisation so that they feel inspired and proud to work at Sage.

Engagement

To continue to improve our survey engagement scores that demonstrate that our people are willing to go the extra mile for our customers and for Sage, to help us to be successful.

Talent

Development, retention and attraction of new talent continue to be a priority for the Group. A key measure of success is to demonstrate that Sage has a culture of accountability and opportunity.

Across Sage, local approaches to each one of these three pillars are the way in which we choose to drive our people strategy. To complement local work, there are also a number of Group led people initiatives that are embedded across all of our businesses.

Progress

Environment

During the period we have continued to invest in tools to enable our people to give their very best. The majority of investments have centred on IT improvements across Sage, for example a new online Annual Performance Review tool in the UK and in France. In Portugal employees attended a series of training courses to ensure they were aware of new Software Certification legislation, both so Sage could comply with the legislation and could help customers to do likewise.

At a leadership level, considerable investment has been made into defining the right behaviours and skills that are appropriate for our business and to ensure that our people continued to feel inspired and challenged.

The Sage Leadership Standard

This is focused on developing and encouraging behaviours that inspire others. In fact, its strapline is "Leaders Who Inspire an Extraordinary Customer Experience" demonstrating that we take our customer experience seriously at all levels of our business. The Sage Leadership Standard centres on six major attributes that clearly define the behavioural and cultural attributes we need and expect of our leaders. At a high level, these are:

1. Bring the Sage Vision to Life
2. Create the Conditions for People to Succeed
3. Be Passionate
4. Be Accountable
5. Be Collaborative
6. Be Enterprising

Engagement

All of our businesses undertake independently managed employee engagement studies and develop action plans based on the outputs to facilitate year-on-year improvement in engagement levels. This year, our businesses have shown significant improvement in engagement scores. Our VIP Payroll business in South Africa was awarded 2nd place in Deloitte's "Best Company to Work For" survey in the medium size category.

All businesses score favourably on items such as values and culture, social climate, job satisfaction, leadership, communication and commitment levels. Areas in which we aim to improve focus on policies and processes and tools to do the job, reflecting certain parts of the business who continue to integrate acquisitions.

Talent

On a global level, the harmonisation of executive reward has now been completed, representing a significant milestone in the history of the Group. More than 75 executives are now part of a common executive reward offering.

As Sage continues to innovate on a more global footing we have established more than ten collaborative working groups with the objective of using the very best talent to better leverage our scale. These collaborative groups are providing additional development and are helping to create a cadre of international talent across Sage.

The Global Leadership Performance Development Programme was successfully launched during 2010 and more than 50 executives attended this week long programme. The programme centred on discussing the implementation issues relating to Sage's strategy and goals, as well as working on how to bring the Sage Leadership Standard to life.

The programme is unique in its design and delivery, built in collaboration with external international leadership specialists (both practitioner and academic) and is facilitated by both executive directors and Executive Committee members with the support of external expertise. The programme is assisting the creation of a single leadership culture and focusing our leaders on business priorities.

There are many local talent initiatives taking place as well. In Poland our "Top Talents" project is an intensive course designed to develop employees on a number of different career paths, including technical, specialist or managerial.

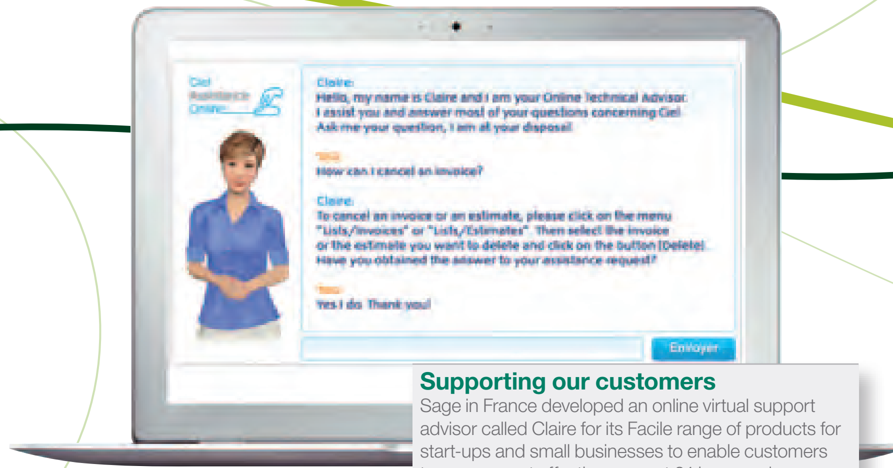
A new coaching programme was developed in North America which was delivered to more than 300 leaders across the business. The programme focused on providing a common approach to developing employees at all levels to support consistent career development across the business.

Our Guiding Principles

Sage's focus on "Extraordinary Employee Experience" supports the notion of helping people to be successful. At the heart of our culture at Sage we live and breathe five Guiding Principles which set out the foundations of how we behave towards our people, customers, suppliers and other stakeholders.

- Trust
- Integrity
- Innovation
- Agility
- Simplicity

Our people have embraced these principles with great enthusiasm worldwide and we have several ways of recognising individuals and teams for championing these principles.



Supporting our customers
Sage in France developed an online virtual support advisor called Claire for its Facile range of products for start-ups and small businesses to enable customers to access cost effective support 24 hours a day.

Sage remains committed to acting as a responsible corporate citizen, continuing to take a pragmatic approach to Corporate Responsibility ("CR") that builds on our activities in previous years. We continue to focus our commitment on areas that are most relevant to Sage, our people and our customers.

We established our CR policy in 2008 with four key areas of focus; industry, people, community and environment. Our approach remains flexible, in line with our business model, to enable our businesses to focus on the areas that are of most strategic importance to them locally.

We aim to measure our progress in all four areas, setting out to achieve best practice in the local context of every country in which we operate and sharing this across the Group for continuous improvement. Any standards established by local legislation will apply as a minimum.

Our four key areas of focus in CR are Industry, People, Community and Environment. Please find the information about our people activities in the Our people section of the report.

Industry

We look after the needs of more than six million businesses, many of them small to medium-sized, so we are well placed to have a positive impact on industry globally. We have focused on two key areas this year – helping our customers to make the most of their assets and developing the entrepreneurs of tomorrow.

Community

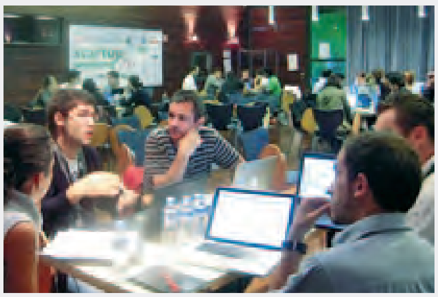
The localised nature of our business remains one of our strengths, especially when it comes to enabling our people to have a positive impact on the communities in which they live and work. Our continued focus on providing and supporting our software locally also means that the jobs we generate continue to benefit the local economies in which we operate.

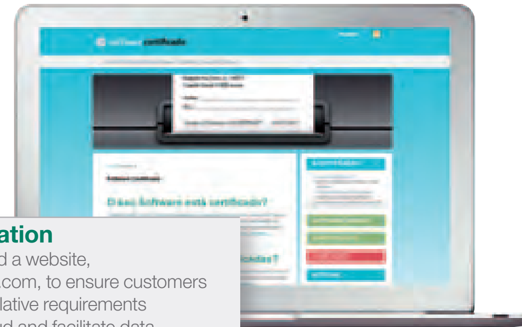
Environment

We continue to work on understanding our impact on our environment and what we can do to reduce this. Despite not being in an industry traditionally considered to be a high energy consumer, we remain committed to reducing our energy consumption and related emissions where possible as well as reducing our wider impacts such as resource use and waste to landfill.

Helping entrepreneurs get started

Sage in Spain sponsored Ellas 2.0 Startup Weekend, an event designed to enable entrepreneurs to get together and develop their business ideas before pitching them to a panel of potential investors.





Advising on legislation

Sage in Portugal launched a website, www.softwarecertificado.com, to ensure customers were up to date with legislative requirements introduced to prevent fraud and facilitate data exchange between businesses and tax authorities.

Industry

The decentralised business model at Sage helps us to remain close to our customers and the unique local environments in which they operate. This enables our teams to understand and support our customers with the issues and challenges they face.

Helping SMEs to make the most of their assets

As we emerge from a period of global economic instability, our customers are looking to maximise the assets they already have. We are uniquely placed to assist them with this process, helping them to streamline their business processes and better use their existing software and services to help them identify the areas in which their opportunities for growth lie.

Sage North America has expanded its relationship with TechSoup, the global leader in providing technological solutions to non-profit organisations. Through this Sage Payment Solutions Division now offers discounted merchant processing rates and a simplified application process to assist non-profit organisations in using the web to generate revenue. Since the start of Sage North America's partnership with TechSoup in 2008, more than 1,400 user licences have been donated by Sage to organisations across the United States.

Sage also continues to provide support to SMEs at a time of legislative change in a number of countries across the world. In Portugal, legislation has been developed to facilitate data exchange between tax authorities and taxpayers and to prevent fraud. Sage Portugal has sent employees on a training course to ensure they are up to date with the implications of these new requirements and has also developed a website, www.softwarecertificado.com, to advise SMEs on how to become compliant.

Developing the entrepreneurs of tomorrow

Developing future talent, both within our own business and in the wider business community remains important to our business and to our people. We continue to harness the Guiding Principles of Trust, Integrity, Innovation, Agility and Simplicity in the work that we do and in how we seek to help others.

In the UK, a number of students have been offered both long and short-term placements within Sage, to give them an understanding of the career paths open to them once they leave college or university.

In North America, Sage continues to provide free accounting software to schools across Canada, enabling students to become proficient in the use of the software to help them in their future careers.

In France, this year we have focused on developing partnerships with schools, to provide students with the opportunity to find out more about how to apply their learnings in a business environment. An example of this is our partnership with ESIAL, a specialist technology college in Lorraine, where more than 100 students benefit from the insight of Sage employees. We have also extended this partnership to three other schools, working on various projects related to leadership and entrepreneurship.

Softline in South Africa has continued its relationship with the Life College, a not-for-profit organisation which develops entrepreneurship in students across South Africa. Softline sponsors an annual event called The Life College Xchange, a competition which enables the students to pitch business ideas to established business leaders in South Africa, with the winners being awarded seed money to start their new businesses.

Sage in Australia launched its first online accounting product, *Sage My Business Online*, earlier this year. A version of this new product was made available free to accountancy students, enabling them to become familiar with how it worked in advance of starting their accounting careers.

Community

Supporting our local communities

Our local communities are important to us and to our people and we have a long history of actively supporting a number of charities and community organisations. Activities including fundraising, sponsorship and volunteering are very common in Sage offices around the world. Some examples are detailed below, but these are just a small selection of the great work our people have undertaken in the past year to support their local communities.

Mainland Europe

In Poland as well as continued sponsorship of Iskierka, a foundation which helps children suffering from cancer, this year we have also sponsored a national competition for young people to identify and reward gifted computer science and mathematics students across the country.

In France much of our charity fundraising has been linked to helping people with disabilities, as part of our overall strategy to assist more people with disabilities develop their careers at Sage. We have sponsored a disabled basketball team, for which one of our employees plays, and have raised money through charity runs in which teams of our employees have participated.

In Spain we have signed an agreement with the Recover Foundation to provide two hospitals in Cameroon with support as they computerise their processes for the first time. This is the first part of a long-term agreement where Sage will provide support to more hospitals as the project extends.

In Switzerland employees spent a day making Grittibaenze, a local baked delicacy, which were then sold to raise money for "Denk an mich", a Swiss charity dedicated to helping people with disabilities.

North America

In North America the Giving is Living charitable programme was expanded this year, giving employees more choice of charities which they can donate to. Any employee contribution is joined by a 50% match by Sage, which resulted in more than US$124,000 being donated this year.

Sage Day was once again a focus for charitable activities across our offices, with more than 21 charities benefitting from cash donations, employee volunteer time, and charity events.

UK & Ireland

The UK continued to work with local homeless charities under the leadership of Paul Walker, former Sage Group Chief Executive, in his remit as The Prince's Trust North East Ambassador of the Year 2009. Paul led a visit with other North East business leaders to a number of homeless charities across Newcastle, to see how businesses such as Sage could provide support to these charities in training previously homeless people so that they could get back into work.

The UK also delivered 945 hours of time to volunteer challenges and a further 683 hours to volunteering with schools and students. A team of Sage employees also undertook a trip to Nepal where they spent a week refurbishing a school in the Helambu Region as part of the Childreach International Futurebuilding Project. The team raised more than £33,000 to make this trip possible.

Rest of World

In Australia a number of Be Brave and Shave events in all of our Sage offices raised money for the Leukaemia Foundation. We also introduced a salary sacrifice scheme through Karma Currency, enabling employees to donate to a charity of their choice.

This was complemented by a donation to Karma Currency from Sage MicrOpay, with the blessing of employees as it was in lieu of a Christmas gift.

In South Africa a number of Pastel employees stepped in when a National Strike impacted State Hospitals. Employees spent time at the hospitals, volunteering to clean wards and look after babies in the maternity ward, as well as holding a collection drive to collect vital linens and other consumable materials.

Volunteering in Nepal

A team of Sage UK employees undertook a trip to Nepal where they spent a week refurbishing a school in the Helambu Region as part of the Childreach International Futurebuilding Project.

Working with local charities

In Switzerland, employees spent a day making Grittibaenze, a local baked delicacy that they then sold to raise money for "Denk an mich", a Swiss charity dedicated to helping people with disabilities.

Environment

Understanding our environmental impacts

Being an office-based organisation means that our environmental impacts are comparatively less than those of many other industries. We recognise that our greater impact can be made through our role in helping to automate business processes for our customers worldwide which helps to reduce their environmental impacts as well as our own. For example, we continue to work to reduce our packaging volumes through the increased provision of electronic downloads for both new and existing customers. We are also exploring cloud-based products which may reduce the energy usage through the use of our software products.

However, we also believe that it is important for us to manage our own in house activities to reduce our energy and other resource uses where practical to do so. Several of our local businesses continue to develop and run pilot initiatives to reduce waste and energy usage, including:

– A Water Efficiency Scheme and Green printing initiatives in the UK.
– Recycling of office supplies in Poland, France and Asia.
– Electronic payroll software updates in South Africa.
– Selection of suppliers based on their renewable energy credentials in Germany.

Carbon emissions

This is our second year of measuring our carbon footprint across the Group. To allow us to compare our energy usage and carbon emissions against last year, we have retained the same boundaries. We also use the Greenhouse Gas Protocol as a guide on how we capture our emissions and are currently evolving our measurement processes towards full compliance with this.

We continue to measure "scope 1 and scope 2" carbon emissions from the electricity and gas that we pay for and use the emissions factors provided by the UK's Department for Energy and Climate Change ("DECC") in order to calculate our carbon footprint from this usage.

We are considering expanding our boundaries to include employee travel as part of our measurement of emissions. However, we are aware that due to the diverse markets in which we operate, the maturity of data collation and governance systems around the travel figures may vary across regions making accurate analysis globally more challenging. We will work with our Group companies to improve this consistency before we report the data.

In line with our policy to report on offices with more than 25 Sage employees, we are reporting on emissions for Brazil and Switzerland for the first time this year.

We anticipate that we will report on more local businesses in coming years as the expansion of their employee numbers bring them within scope. Within countries, there have been changes in the estate and we have updated our reporting to reflect this. As a large proportion of our offices are in shared premises, we continue to work with our landlords to obtain accurate energy data. As in prior years, where this data was not available, we have estimated usage data and this currently represents approximately 6% of our energy usage.

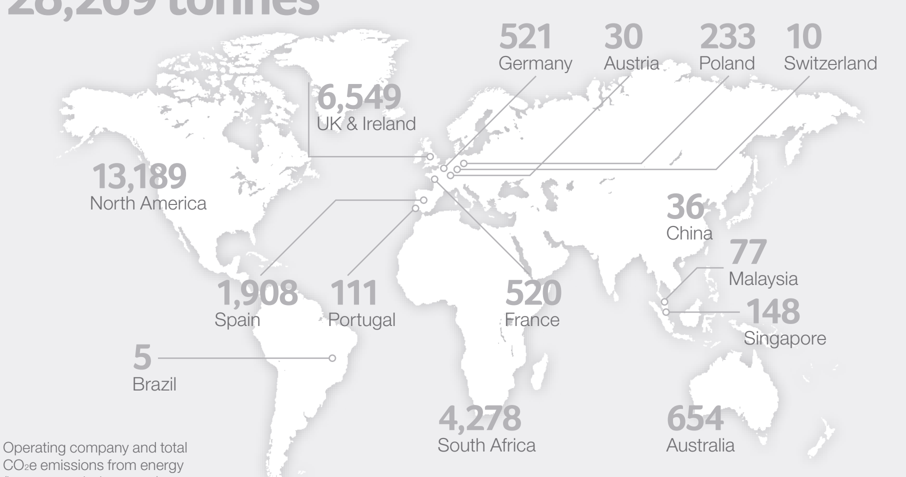
Energy awareness and reducing consumption

Our operating companies continue to seek ways to minimise their environmental impact through employee education and awareness.

There are several behavioural change programmes across our business, focusing on encouraging employees to be more energy efficient. This includes dedicated sections on Intranets in the UK, France and Portugal relating to how to live a greener lifestyle. There have also been a number of internal communications campaigns around energy efficiency, including across Asia and South Africa, focused on reducing energy consumption through PC use.

Total CO_2e emissions from energy

28,269 tonnes



Operating company and total CO_2e emissions from energy (in nearest whole tonnes)

In France, recent office relocation programmes have been guided by environmentally sound principles, with the new premises chosen being considered to be of a "High Environment Quality" standard.

Comparison of energy usage to prior year

We are primarily focused on the reduction in overall energy usage within the business as we feel this is a clearer reflection of the effect of business growth, capex and energy efficiency programmes.

Our energy usage in three of our largest businesses has increased marginally this year, in North America, the UK and France (see bar chart for comparisons). This was due to an extremely bitter winter, which particularly impacted on the UK energy usage, increasing it by 7% overall.

Energy usage in Other countries has also increased slightly, primarily due to the inclusion of Brazil and Switzerland.

In a number of countries we have piloted energy efficiency schemes to both raise awareness of our energy usage and actively reduce the impact we have.

The benefits of these schemes in North America and Europe were offset by the weather conditions during the year.

We intend on continuing to monitor our carbon and energy usage throughout the business to measure the effectiveness of any further energy efficiency schemes we implement and report on these in coming years.

The Carbon Reduction Commitment ("CRC") in the UK

In the UK, we continue to work towards compliance with the CRC, and have an external service provider working with us to develop and implement strategies to reduce our UK carbon footprint. This year, we successfully registered for the scheme and are in the process of developing the evidence packs required by the Government auditors.

Governance, risks, opportunities and CR

Leadership and CR

CR at Sage is 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 HR and Corporate Communications and includes Board presence through the membership of the Company Secretary. The Company Secretary regularly updates the Board on risks and opportunities in the area of CR.

Governance, risks, opportunities and CR

Sage continues to work towards the highest standards of governance and more details on this can be found in the "Corporate governance statement" section within the annual report.

Our Code of Ethics remains in place across our organisation and we continue to monitor and extend the channels by which employees can anonymously report any concerns about bribery, fraud and corruption.

Energy efficiency scheme in Sage Spain

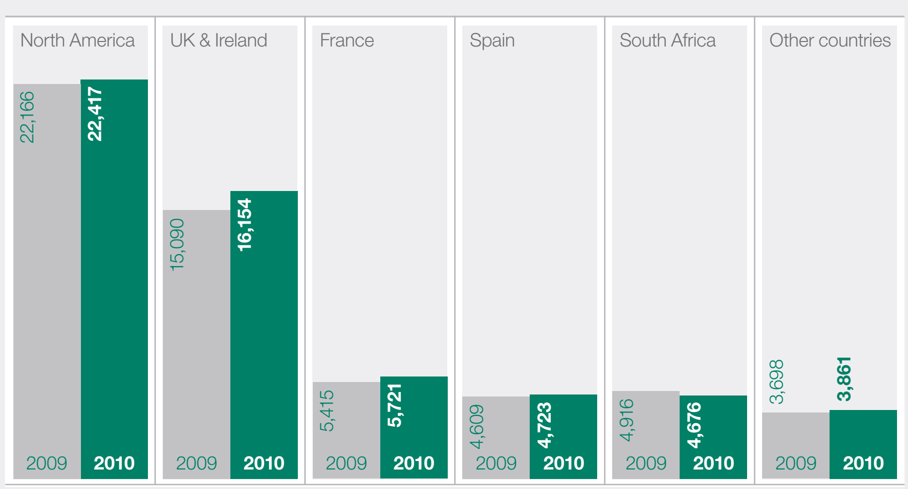
This year Sage Spain has piloted an Energy Efficiency Scheme designed to measure and then reduce the energy usage across their offices. The project started with the analysis and measurement of the energy usage and its sources across their 31 offices in Spain.

From this data, an action plan was developed to start the process of reducing energy usage:

- Traditional light bulbs were replaced with energy efficient ones.
- Core central heating temperatures were reduced.
- Individual air conditioning units were installed to enable controls to be adjusted per office area.
- Usage of machines with high energy consumption was controlled.

All of these measures and the reasons behind them were communicated with all employees to further encourage them to think about their personal impacts on the environment both at work and at home. We have piloted this scheme this year and are awaiting a full year of results to see its effectiveness. We are aware that adverse weather during 2010 has shown a small increase in usage compared to last year, which we hope will reduce next year as the scheme takes effect.

MWH of energy used within Sage business



We have restated energy usage for our UK business for 2009 due to the clarification of further energy usage that needs to be included in consultation with our energy brokerage services.

We also ask our leadership population to sign a declaration relating to the Code of Ethics, to ensure we have transparency surrounding any additional business commitments they may have and their relationships with customers and suppliers.

Risks

Whilst governance applies to all areas of our CR policy, most legislation that is in place covers the environmental impacts of our operations. As expected, legislation surrounding environmental issues continues to increase and there is a general proliferation of carbon trading schemes worldwide, as well as signs that many Governments are increasingly mandating the reporting of carbon footprints and other environmental impacts.

Sage continues to monitor the introduction of these schemes so that we are capable of reporting carbon emissions where required when legislation is introduced. In the meantime, we actively seek to improve our energy efficiency in all of the markets in which we operate.

Climate change continues to represent a risk to organisations, coming from legislative pressures, changing stakeholder expectations and the direct impacts of a warming climate. 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.

As part of business planning best practice, 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.

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 as a result of increased energy costs.
- Increased scrutiny over our reporting and response to climate change challenges.
- Increased oil, transportation and other raw material costs impacting employee travel habits, with the potential to adversely affect the target recruitment market or impact other employment policies such as home working, as well as our wider cost base.
- Water restrictions and shortages.
- Rising cost of business travel.

These risks may affect all of our operating companies so processes around the identification and management of key risks that may affect the Group's success remain an integral part of the internal control environment. The Group's Risk Committee, consisting of the Group Chief Executive, Group Finance Director, Group Risk and Assurance Director, Company Secretary and other key members of the Executive Committee continue to evaluate the impacts of these potential risks.

Opportunities

The continued trend towards electronic software downloads gives Sage an opportunity to provide our customers with ways to minimise their environmental impacts further at the same time as reducing our own through the reduction in associated packaging.

Cloud computing also presents an opportunity for our business to further reduce environmental impacts through the more efficient use of fewer servers via the cloud, as opposed to more traditional standalone servers on company premises. We are moving more software on to the cloud, including *Billing Boss* in North America and *SalesLogix* worldwide.

We also look to continue to develop and expand our electronic payment processing services, making it easier for customers and suppliers to transact via the web.

Board of directors and advisers

Committee membership

A Audit Committee
N Nomination Committee
R Remuneration Committee

Tony Hobson

Chairman, non-executive director

Age 63

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.

R N Chairman

Guy Berruyer

Chief Executive (from 1 October 2010)

Age 59

Guy joined Sage in 1997 to run its French operation. He was appointed to the Board in January 2000 as CEO for its Mainland Europe business and in 2005 also took charge of its Asian operations. Guy succeeded Paul Walker as Group Chief Executive in October 2010. Prior to joining Sage he was Country Manager and then European Managing Director for Intuit, the US software company. Previously he worked at the French hardware company Groupe Bull where he was a Director of Marketing and Claris as Southern European General Manager.

Paul Harrison

Finance Director

Age 46

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 and now chairs its Audit Committee.

Paul Stobart

CEO, Northern Europe
(from 1 January 2011)
Formerly CEO, UK & Ireland

Age 53

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.

David Clayton

Director of Strategy and Corporate Development (from 1 January 2011)
Formerly Group Strategy and Mergers and Acquisitions Director

Age 53

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. In December 2009, David was appointed to the Board of SDL plc as a non-executive director.

Tamara Ingram

Independent non-executive director

Age 50

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.

A N R

Tim Ingram

Independent non-executive director
Senior Independent Director

Age 63

Tim is Chairman of Collins Stewart plc. He was formerly Managing Director of Business to Business Banking at Abbey National plc and Chief Executive of Caledonia Investments plc. He is a non-executive director of Savills plc, ANZ Bank (Europe) Ltd and Alliance Trust plc. He was appointed to the Group Board in March 2002, becoming Senior Independent Director on 25 July 2007.

A N R

Ruth Markland

Independent non-executive director

Age 57

Ruth is a non-executive director of Standard Chartered plc, Chairman of the Board of Trustees of WRVS and a member of the Supervisory Board of Arcadis NV. She was formerly Managing Partner, Asia for the international law firm, Freshfields Bruckhaus Deringer and was appointed to the Group Board in September 2006.

A N R Chairman

Ian Mason

Independent non-executive director

Age 48

Ian joined the Board on 1 November 2007. He joined Electrocomponents plc in 1995 as Director of Business Development becoming Group Chief Executive in July 2001. He previously worked with Mckinsey & Co. and The Boston Consulting Group, and holds an MBA from INSEAD.

A N R

Mark Rolfe

Independent non-executive director

Age 52

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, Barratt Developments plc and Debenhams plc and Chairman of Lane, Clark and Peacock LLP. He joined the Board on 1 December 2007.

N R A Chairman

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
Time Central
Gallowgate
Newcastle upon Tyne
NE1 4SR

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

Principal Bankers
Lloyds TSB Bank plc
25 Gresham Street
London
EC2V 7HN

Registrars
Equiniti
The Causeway
Worthing
West Sussex
BN99 6DA

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

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.

Risk management responsibilities and processes

Executive Committee
Day-to-day responsibility for risk management

Group Board
Advise and challenge on risk management strategy and implementation

Risk Committee
Review and monitor risks throughout the Group and monitor implementation of risk management policy

Audit Committee
Review of risk management procedures for appropriateness and effectiveness

Sage face significant competitive risk

Risk description
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. A number of companies with which we compete, or which may enter into competition with us, have greater financial, marketing and technical resources than we do.

Potential impact
If we are unable to compete adequately in the market in which we operate, our financial results would deteriorate through loss of our customer base.

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

Sage must ensure its intellectual property is appropriately secure

Risk description
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.

Potential impact
Illegal or unauthorised copies of our software could be sold without our knowledge, impacting financial results and Sage's reputation.

Mitigation
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.

Sage must ensure it has procedures and plans in place to protect the business in the event of the loss of key management

Risk description
While Sage operates in a decentralised culture, with many different operating companies across the globe, there is a risk, as with any other business, relating to key man dependency and loss of key management.

Potential impact
Loss of key knowledge or personnel could result in an inability for Sage to operate effectively and maintain a competitive edge. Loss of key management could result in important, sensitive information leaving the Group.

Mitigation
Sage has detailed key man dependency identification processes and detailed succession planning processes in place to mitigate against the risk of loss of key personnel.

Operational processes	Identification and evaluation	Analysis	Mitigation
– 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.	– Quarterly completion of detailed risk return by all businesses. – Risks recorded on standard template detailing potential effect of risk, controls in place to mitigate risk and risk owner. – Risks scored using predefined impact and likelihood definitions. – Required mitigation plans identified to bring risks within Board approved risk appetite.	– Detailed review and analysis of all returns. – Risks prioritised in relation to impact on business performance and ability to achieve business objectives. – Detailed risk dashboard created to identify significant risks and trends and movements in risk data. – Analysis of results presented to Risk and Audit Committees.	– Implementation of mitigation plans required by local business management. – Implementation of mitigation plans regularly monitored. – Lack of appropriate mitigation plan or lack of implementation of mitigation plan rigorously challenged and reviewed.

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

Risk description
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.

Potential impact
Changing technology places demands on employees, particularly R&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.

Mitigation
We continue to build strong customer relationships, develop and expand our product and service offering to meet customer needs and seek organic and acquisitive growth opportunities. We also develop appropriate strategic direction and maintain knowledge of industry developments to ensure a proactive response to changing customer requirements.

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

Risk description
As an international company, we face potential challenges from economic, political, legal, accounting and business factors across the globe. In the recent economic environment, this situation was 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 the Bribery Act, and unexpected changes to economic and market conditions are specific risks associated with managing our business.

Potential impact
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.

Mitigation
In recent 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 geographic 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 must ensure that its products and services are of an appropriate quality for customers

Risk description
There is a risk to Sage's reputation and future ability to grow as a business if poor quality products and services are released to customers.

Potential impact
Sage's reputation and competitive advantage would be severely jeopardised if a poor quality product or service was released to customers. The impact of Sage's products and services on its customer's ability to do business increases the severity of this risk.

Mitigation
Sage has detailed product release and quality control procedures which are adhered to in advance of a product or service release. Sage also has detailed quality assurance processes and initiatives over the level of service provided to customers.

Directors' report

For the year ended 30 September 2010

The directors present their report and the audited consolidated financial statements for the year ended 30 September 2010.

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 £319.9m on revenue of £1,435.0m.

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: How we've performed, Chairman's statement, Chief Executive's review, Financial review, What we do and how we work, Maximising our future growth potential, Regional reviews, Our people, Corporate responsibility and Principal risks and uncertainties on pages 1 to 39, 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 63. Dividends paid and proposed are set out on page 79. The Board proposes a final dividend of 5.22p per share (2009: 4.93p per share) taking the proposed full year dividend to 7.80p per share (2009: 7.43p per share).

Research and development

During the year, the Group invested £158.9m (2009: £174.6m) 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 1 to 39 (including Principal risks and uncertainties).

Charitable contributions and political donations

During the year, within the UK, charitable contributions totalling £119,000 were made, which included £43,000 to The Tyne and Wear Community Foundation, £14,000 to The Community Foundation for Greater Manchester, £16,000 to The Berkshire Community Foundation, and a total of £46,000 in smaller contributions to numerous charities. The rest of the Group made charitable contributions totalling £307,000. No political donations were made in the year.

Directors and their interests

A list of directors, their interests in the ordinary share capital of the Company and details of their options over the ordinary share capital of the Company are given in the Remuneration report on pages 51 to 62. 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 2010, 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 28 and 29.

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 53 days (2009: 46 days). The Company has no trade creditors (2009: £nil).

Substantial shareholdings

At 20 December 2010, 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	%
Blackrock, Inc.	–	–	64,195,644	4.93	64,195,644	4.93
Invesco Limited	–	–	57,175,646	4.34	57,175,646	4.34

Future developments

The Group's future developments are described in the Business review on pages 1 to 39 (including Principal risks and uncertainties).

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 "Articles"), but please note that it is proposed that the Company will amend its articles of association with effect from the conclusion of the Annual General Meeting on 2 March 2011. Brief details of the proposed changes 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 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 2011 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 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 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 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 Articles).

Repurchase of shares

The Company obtained shareholder authority at the last Annual General Meeting (held on 2 March 2010) to buy-back up to 131,296,695 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 2 March 2011. 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.

Under the Articles, 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 Articles.

However, in accordance with the new UK Corporate Governance Code, the Board has agreed that all directors will stand for re-election at the Annual General Meeting to be held on 2 March 2011 and that it will propose an amendment to the Company's articles of association that, if approved by shareholders, will require the directors to stand for re-election annually.

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 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 dual tranche US$271,000,000 and €214,000,000 five year multi-currency revolving credit facility agreement dated 24 August 2010 between, amongst others, the Company and Lloyds TSB Bank plc (as facility agent), on a change of control, if any individual lender so requires 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 commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable.

– Under a note purchase agreement dated 11 March 2010 relating to US$200,000,000 senior notes, Series A, due 11 March 2015, US$50,000,000 senior notes, Series B, due 11 March 2016 and US$50,000,000 senior notes, Series C, due 11 March 2017 between the Company and the note holders, on a change of control, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to pre-pay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of pre-payments. Where a holder of notes accepts the offer to pre-pay, the pre-payment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed pre-payment date. No pre-payment under a change of control shall include any premium of any kind.

Under the terms of both 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

20 December 2010

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"), other than in relation to the period from 1 June 2010 until Mr P A Walker's retirement from the Board on 30 September 2010 when Mr Walker was a non-executive director of two FTSE 100 companies, Diageo plc and Experian plc, contrary to paragraph A.4.5 of the Combined Code. In the light of Mr Walker's retirement from the Board it was felt appropriate to allow him the opportunity to pursue these non-executive director appointments.

The Company is aware of the terms of the UK Corporate Governance Code published in May 2010 which will apply for the first time to the Company from 1 October 2010 and is taking appropriate steps to ensure compliance with that code.

The workings of the Board and its committees

The Board

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

The directors' biographies appear on pages 36 and 37. These demonstrate that the directors have a range of experience and are of sufficient calibre to bring independent judgement to bear 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, although all directors will retire and seek re-election (other than Mr T C W Ingram) at the Annual General Meeting on 2 March 2011. At the same meeting, a resolution will be put to the meeting to amend the articles of association of the Company to require the annual re-election of directors.

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 50. The Board has formally adopted a schedule of matters specifically reserved to it for decision which is available to shareholders on request to the Secretary at the registered office and which is also available on the Company's website at www.sage.com. All directors have access to the advice and services of the Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Secretary ensures that the directors take independent professional advice as required at the expense of the Company when it is judged necessary to discharge their responsibilities as directors.

The appointment and removal of the Secretary is a matter for the Board as a whole.

The Board meets formally not less than six times a year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition opportunities and reviewing regular reports to shareholders. In the year under review the Board met on six occasions. All directors in office at the time attended all of these Board meetings other than Ms R Markland, who was unable to attend one meeting.

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 advisers and reports their views to the Chairman. This year's review highlighted areas for further focus by the Board, particularly in the area of strategy, and considered the information made available to the Board. The views of the directors on the evaluation process and the use of a third party facilitator to assist in that review were noted and, as a result, steps will be taken to ensure third party evaluation in the current financial year.

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 2006 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.

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 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. Mr Ingram will be retiring from the Board at the Annual General Meeting on 2 March 2011 at which point Ms R Markland will take on the role.

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.

Remuneration Committee

The Group's Remuneration Committee is chaired by Ms R Markland. 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 three further meetings held at short notice. All members in office at the time attended all the meetings other than Messrs Mason, Rolfe and Ingram who were unable to attend one meeting held on short notice and Ms T Ingram who was unable to attend three meetings held at short notice. 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 51 to 62, 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 36 and 37. 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. 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 R Markland 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 were previously provided by KPMG, under an outsourcing agreement. During the course of the financial year, the Committee decided to change the arrangement with KPMG to a co-source arrangement with certain internal audit services being provided by a team within the Group. The role of Head of Internal Audit is now undertaken by the Group Risk and Assurance Director who has a direct reporting line to the Audit Committee and its Chairman in order to ensure 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 most recent 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 2010 the audit fee was £2.0m. 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 £1.6m of which £1.5m was attributable to tax services (£1.3m to tax compliance work and £0.2m to tax advisory services) and £0.1m 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 78.

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 2011. 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 most recent change of audit partner occurred in the year to 30 September 2010 and, therefore, formal consideration of an audit tender process took place during the course of that year. The Committee gave full consideration to the performance and independence of the auditors and after this review considered that a tender process was not required given the processes already in place to ensure independence and the performance to date of the current auditors.

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. Three 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. In the year under review, the Committee took the lead, with the assistance of the services of external consultants, in the search for a new Chief Executive of the Group, considering both internal and external candidates and recommending to the Board the appointment of Mr G S Berruyer.

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 1 to 39 (including Principal risks and uncertainties) include a detailed review of the business and future developments in relation to it. A full Annual Report and Accounts is sent to all shareholders who so wish. The Company also has a website (www.sage.com) which contains up-to-date information on Group activities and published financial results. There is regular dialogue with individual institutional shareholders and there are presentations to analysts after the Company's announcement of the year end and half-year results. At each Board meeting, the Board receives an update on presentations to investors and any communication from shareholders to ensure that directors, both executive and non-executive, have an understanding of their views.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

Internal control and risk management

The Board is responsible for the operation and effectiveness of the Group's system of internal controls and risk management. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is managed on a day-to-day basis by the Group Risk and Assurance 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 and Assurance 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 operates 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 exist in France, Germany and Spain 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, the executive directors and the executive committee. 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, other than in relation to the period from 1 June 2010 until Mr P A Walker's retirement from the Board on 30 September 2010 when Mr Walker was a non-executive director of two FTSE 100 companies, Diageo plc and Experian plc, contrary to paragraph A.4.5 of the Combined Code. In the light of Mr Walker's retirement from the Board it was felt appropriate to allow him the opportunity to pursue these non-executive director appointments.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Group financial statements comply with IFRSs as adopted by the European Union, 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 36 and 37, 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

20 December 2010

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 Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and also meets the requirements of the Listing Rules of the UK Listing Authority.

1 The Remuneration Committee

1.1 Composition of the Remuneration Committee

The Remuneration Committee consists of non-executive directors considered by the Board to be independent, and the Chairman of the Board (who was independent on appointment to the Board). It works within detailed terms of reference, copies of which are available on request from the Secretary and on the Company's website at www.sage.com. Its role includes making recommendations to the Board on remuneration policy for executive directors and the Chairman (who does not participate in discussions relating to his own remuneration), defining the remuneration packages of executive directors and the Chairman together with any compensation payments to them and approving the Remuneration report. The Committee also considers the remuneration policy of the Company for senior executives of the Group other than members of the Board and seeks to maintain consistency in the approach to remuneration policy. The current members of the Remuneration Committee are Ms R Markland (Chair), Mr T C W Ingram, 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. Deloitte's executive compensation advisory practice provides no services to the Group other than advice on executive remuneration to the Remuneration Committee. During the financial year, the wider Deloitte business has also provided specific corporate finance support in the context of M&A activity, tax advice, and advice to the Group's North American business on a software implementation programme. Ms K Geary (Group Director of HR 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

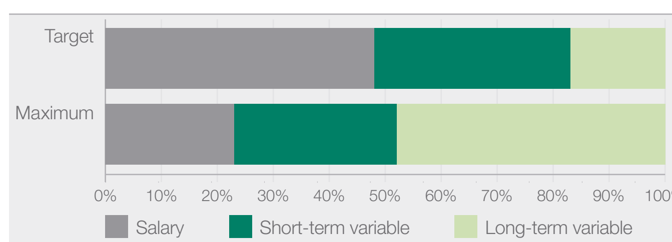
The Remuneration Committee, in setting remuneration policy, recognises the need to be competitive in an international market. The Committee's policy is to set remuneration levels which ensure that the executive directors are fairly and responsibly rewarded in return for high levels of performance. Remuneration 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 100, excluding the top 30, with a significant proportion of revenue generated from overseas activities). The Committee receives information regarding salary increases for managers in operating companies to provide a broader context for decisions on pay at executive director and senior executive level, and also takes into account the executive directors' individual performance and the performance of the Group. No general salary increases were awarded at executive director level last year. In the year ending 30 September 2011 salaries of executive directors will be increased by 2% from those disclosed in this report, with the exception of P S Harrison whose salary will be increased to £425,000, as a necessary adjustment given the increased scope of his role within the Group, and in line with the Committee's intention to move him towards the market competitive range as reported last year. In reaching the conclusion that a 2% increment is appropriate, the Committee has taken full account of proposed pay increases for employees throughout the Group.

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 fee for the Senior Independent Director is £10,000. Following this year's review, there will be no changes to the current fee levels and structure.

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 service agreement was reviewed and renewed with effect from 1 October 2010. Following the review, his annual fee has been increased from £250,000 to £270,000 in view of market data and the anticipated increased time commitment.

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 strategic 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.

The Committee reviews the individual strategic element of the bonus frequently to ensure the objectives are relevant and stretching, and represent the achievement of strategic milestones against a background of an evolving long-term strategy. For 2010, recognising the challenging economic conditions, and the desire to focus on our customer base the "individual" element of the bonus was driven by revenue growth (based on regional revenue for regional CEOs, and Group revenue for Group-based directors). For 2011, to extend the focus on sustainable top-line growth, the "individual" element of the bonus will include metrics based on revenue and customer numbers, in line with strategy.

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.

In respect of performance for the year ended 30 September 2010, the Committee considered financial performance over the full financial year and determined the bonus figures shown in the table on page 57.

2.5 Policy on long-term incentives

The Committee established the current long-term incentives structure to establish a motivational and performance-orientated structure that focuses on the creation of shareholder value.

Long-term incentive awards are made under the Performance Share Plan ("PSP") and 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% over the period; 100% of the award vests at that time only if RPI is exceeded in that period by 27% over the period. 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+9% 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 2011 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 2011 will normally 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 (based on the face value at grant).

The maximum value of the award to Guy Berruyer in the year ending 30 September 2011 will be 300% of salary (representing a "core" award value of 200% of salary). This is a one-time award to recognise the focus of the new Chief Executive Officer on growing and developing the business. The Remuneration Committee considers that these grant levels are 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 2011, PSP awards will be made following the AGM in March 2011.

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 HM Revenue & Customs ("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.

Currently 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. At the Annual General Meeting in 2011, a resolution will be put to the meeting to amend the articles of association to require re-election every year. 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 and Experian plc. Mr P L Stobart is a non-executive director of Capital & Regional plc. Mr D H Clayton is a non-executive director of SDL 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 respect of Diageo plc and £35,000 in respect of Experian plc in the case of Mr P A Walker, £39,750 in the case of Mr P L Stobart, £30,000 in the case of Mr D H Clayton 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 Nomination Committee 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, 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 2010, or on date of contract if later	Notice period under contract
Executive directors			
G S Berruyer	1 October 2010	Age 65 or 12 months	12 months from the Company and/or individual
D H Clayton	25 July 2007	Age 60 or 12 months	12 months from the Company and/or individual
P S Harrison	1 April 2000	Age 60 or 12 months	12 months from the Company and/or individual
P L Stobart	26 September 2003	Age 60 or 12 months	12 months from the Company and/or individual
P A Walker	26 September 2003	Age 60 or 12 months	12 months from the Company and/or individual
Non-executive directors			
A J Hobson	30 September 2010	3 years	12 months from the Company and/or individual
T Ingram	25 November 2010	3 years	6 months from the Company and/or 1 month from individual
T C W Ingram	3 March 2010	6 months	6 months from the Company and/or 1 month from individual
R Markland	13 September 2009	2 years	6 months from the Company and/or 1 month from individual
I Mason	30 September 2010	3 years	6 months from the Company and/or 1 month from individual
M E Rolfe	25 November 2010	3 years	6 months from the Company and/or 1 month from individual

Notes:
- P A Walker ceased to be a director on 30 September 2010 and his contract of employment ended on 30 November 2010.
- There are no other benefits in the contracts relevant to termination payments.

CEO transitional arrangements

Mr Walker's cessation as CEO

As announced on 16 July 2010, Mr Walker's role as Chief Executive of the Group (and executive responsibilities with all Group Companies) ceased on 30 September 2010. Mr Walker was asked to remain with the Company until 1 December 2010, and played a key role in ensuring a smooth transition of executive responsibilities over this period.

For the two-month period between the 2010 year end and 1 December 2010, Mr Walker was entitled to receive his monthly salary only, with corresponding pension and insurance benefits, but with no entitlement to participate in any bonus scheme over the period.

Outstanding PSP awards will continue in effect but where appropriate will be pro-rated to reflect service during the performance period and may then vest on their normal vesting dates, subject to assessment of performance conditions at the normal time.

Mr Berruyer's appointment as CEO

On 16 July 2010, the Company announced Mr Berruyer's appointment as Chief Executive of Sage with effect from 1 October 2010.

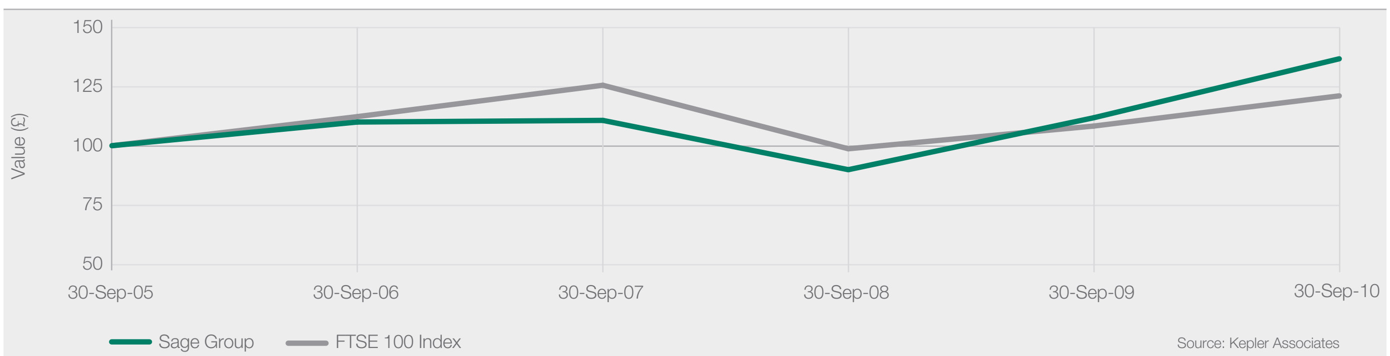
Mr Berruyer has been appointed on a base salary of £700,000, and will participate in the bonus arrangements described in this report on the same basis as other executive directors. His entitlement to benefits and pension are commensurate with other executive directors (and he may apply a portion of the net proceeds from his pension entitlement to maintain participation in his home country social security system, at no additional cost to the Company). Mr Berruyer will participate in the PSP under the same policy which applies to other executive directors from time to time. For the year to 30 September 2011 only, he will receive a larger one-off PSP award subject to the same performance conditions as other participants. The value of this core award will be 200% of salary, potentially leading to an award at 300% of salary if EPS and TSR conditions are all met in full over a three-year period (which is within the shareholder approved limits under the PSP). The Committee considers this appropriate as a one-off award in the context of appointment to the role of CEO and to provide a clear focus on the continued growth and performance of the business.

Mr Berruyer will receive a contribution from the Company towards relocation expenses and housing costs associated with his relocation to the UK at the Company's request.

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 2010 of £100 invested in The Sage Group plc on 30 September 2005 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 2010 for PSP awards made to date was as follows:

- 2008 awards – TSR ranking of 10 out of 19 comparators
- 2009 awards – TSR ranking of 9 out of 19 comparators
- 2010 awards – TSR ranking of 10 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[1] '000	Benefits in kind[2] '000	2010 Total '000	2009 Total '000	2010 Pension contributions[3] '000	2009 Pension contributions '000
Executive directors								
G S Berruyer	**€655**	**€617**	**€42**	**€63**	**€1,377**	€976	**–**	–
D H Clayton	**£350**	**£339**	**£25**	**£18**	**£732**	£536	**£88**	£88
P S Harrison	**£375**	**£363**	**£27**	**£18**	**£783**	£536	**£94**	£88
P L Stobart	**£445**	**£379**	**£16**	**£18**	**£858**	£676	**£111**	£111
P A Walker	**£770**	**£801**	**–**	**£21**	**£1,592**	£1,161	**£193**	£193
Non-executive directors								
A J Hobson	**£250**	**–**	**–**	**–**	**£250**	£250	**–**	–
T Ingram	**£55**	**–**	**–**	**–**	**£55**	£55	**–**	–
T C W Ingram	**£65**	**–**	**–**	**–**	**£65**	£65	**–**	–
R Markland	**£68**	**–**	**–**	**–**	**£68**	£68	**–**	–
I Mason	**£55**	**–**	**–**	**–**	**£55**	£55	**–**	–
M E Rolfe	**£72**	**–**	**–**	**–**	**£72**	£72	**–**	–

Notes:
1 An element of bonus has been deferred by the Company as an award under the Sage Group Deferred Bonus Plan. Awards under that plan, which are expected to be made in January 2011, over such number of shares whose market value is as close as possible to, but no greater than, the deferred bonus, will vest on the third anniversary of the date of grant. In the event that a director ceases to be an employee of the Group for reasons other than death, retirement, redundancy, injury, ill-health or disability before the third anniversary of the date of grant, then the award will lapse unless the Remuneration Committee recommends otherwise. The directors have no entitlement to the bonus deferred into an award of shares until it vests. Full details of the award will be contained in the report for the year ending 30 September 2011.
2 Benefits in kind include the provision of car allowance, insurance and relocation costs.
3 Retirement benefits were accruing to four directors (2009: 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 £5,723,000 (2009: £4,329,000).
- 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 £1,592,000 (2009: £1,354,000).
- In the table above an exchange rate of €1.15/£1 has 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 20 December 2010 (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	5.82%
10% of Group's share capital can be used for all share schemes	6.42%

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 3.78% and under all share schemes 4.38%.

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 2009 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2010 number**	Date exercisable
G S Berruyer	329.75p	121,304	–	–	–	**121,304**	17 January 2004 – 17 January 2011
	171.00p	175,438	–	–	–	**175,438**	24 December 2006 – 24 December 2013
	198.00p	189,082	–	–	–	**189,082**	6 January 2008 – 6 January 2015
	258.50p	122,630	–	–	–	**122,630**	10 January 2009 – 10 January 2016
	270.00p	147,639	–	–	(85,631)	**62,008**	10 January 2010 – 10 January 2017
	214.00p	218,545	–	–	–	**218,545**	10 January 2011 – 10 January 2018
		974,638	**–**	**–**	**(85,631)**	**889,007**	
D H Clayton	214.00p	156,542	–	–	–	**156,542**	10 January 2011 – 10 January 2018
		156,542	**–**	**–**	**–**	**156,542**	
P S Harrison	721.00p	30,000	–	–	(30,000)	**–**	23 February 2003 – 23 February 2010
	329.75p	65,595	–	–	–	**65,595**	17 January 2004 – 17 January 2011
	171.00p	128,654	–	–	–	**128,654**	24 December 2006 – 24 December 2013
	198.00p	133,838	–	–	–	**133,838**	6 January 2008 – 6 January 2015
	258.50p	96,324	–	–	–	**96,324**	10 January 2009 – 10 January 2016
	270.00p	118,519	–	–	(68,742)	**49,777**	10 January 2010 – 10 January 2017
	214.00p	156,542	–	–	–	**156,542**	10 January 2011 – 10 January 2018
		729,472	**–**	**–**	**(98,742)**	**630,730**	
P L Stobart	329.75p	121,304	–	–	–	**121,304**	17 January 2004 – 17 January 2011
	134.00p	223,880	–	–	–	**223,880**	31 December 2005 – 31 December 2012
	171.00p	175,438	–	–	–	**175,438**	24 December 2006 – 24 December 2013
	198.00p	181,818	–	–	–	**181,818**	6 January 2008 – 6 January 2015
	258.50p	121,369	–	–	–	**121,369**	10 January 2009 – 10 January 2016
	270.00p	148,889	–	–	(86,356)	**62,533**	10 January 2010 – 10 January 2017
	214.00p	198,598	–	–	–	**198,598**	10 January 2011 – 10 January 2018
		1,171,296	**–**	**–**	**(86,356)**	**1,084,940**	

Executive share options (continued)

Director	Exercise price per share	Shares under option at 1 October 2009 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2010 number**	Date exercisable
P A Walker	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	210,629	–	–	–	**210,629**	10 January 2009 – 10 January 2016
	270.00p	258,889	–	–	(150,156)	**108,733**	10 January 2010 – 10 January 2017
	214.00p	343,457	–	–	–	**343,457**	10 January 2011 – 10 January 2018
		1,874,394	**–**	**–**	**(150,156)**	**1,724,238**	
Total		**4,906,342**	**–**	**–**	**(420,885)**	**4,485,457**	

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.
- The market price of a share of the Company at 30 September 2010 was 276.30p and the lowest and highest market price during the year was 213.30p and 280.00p respectively.
- 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 2009 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2010 number**	Date exercisable
P S Harrison	149.00p	6,140	–	–	–	**6,140**	1 August 2012 – 31 January 2013
Total		**6,140**	**–**	**–**	**–**	**6,140**	

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 2010 14,996 units were held by Mr G S Berruyer at a price of €3.67 per share. On 30 September 2009 23,886 units were held at a price of €2.426 per share. Units are valued on a weekly basis.

5.3 Performance Share Plan (audited information)

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

Director	Awarded 1 October 2009 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Awarded 30 September 2010 number**	Vesting date
G S Berruyer	147,639	–	(109,906)	(37,733)	**–**	10 January 2010
	361,647	–	–	–	**361,647**	3 March 2011
	745,649	–	–	–	**745,649**	3 March 2012
	–	507,280	–	–	**507,280**	4 March 2013
	1,254,935	**507,280**	**(109,906)**	**(37,733)**	**1,614,576**	
D H Clayton	253,787	–	–	–	**253,787**	3 March 2011
	438,282	–	–	–	**438,282**	3 March 2012
	–	303,593	–	–	**303,593**	4 March 2013
	692,069	**303,593**	**–**	**–**	**995,662**	
P S Harrison	118,519	–	(88,229)	(30,290)	**–**	10 January 2010
	253,787	–	–	–	**253,787**	3 March 2011
	438,282	–	–	–	**438,282**	3 March 2012
	–	325,278	–	–	**325,278**	4 March 2013
	810,588	**325,278**	**(88,229)**	**(30,290)**	**1,017,347**	
P L Stobart	148,889	–	(110,837)	(38,052)	**–**	10 January 2010
	321,969	–	–	–	**321,969**	3 March 2011
	557,245	–	–	–	**557,245**	3 March 2012
	–	385,997	–	–	**385,997**	4 March 2013
	1,028,103	**385,997**	**(110,837)**	**(38,052)**	**1,265,211**	
P A Walker	258,889	–	(192,725)	(66,164)	**–**	10 January 2010
	556,818	–	–	–	**556,818**	3 March 2011
	964,221	–	–	–	**964,221**	3 March 2012
	–	667,905	–	–	**667,905**	4 March 2013
	1,779,928	**667,905**	**(192,725)**	**(66,164)**	**2,188,944**	
Total	**5,565,623**	**2,190,053**	**(501,697)**	**(172,239)**	**7,081,740**	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 4 March 2010, the date of the awards made in the year ended 30 September 2010 was 242.50p.
- The market price of a share on 10 January 2010, the date the awards above vested in the year ended 30 September 2010 was 229.90p. The market price of a share on 10 January 2007, the date on which these awards were granted was 271.50p.
- The vesting of shares awarded prior to 2009 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 and 2010 is set out in paragraph 2.5 above.
- In respect of the awards with a vesting date 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, 2012 and 2013 the group comprised: Adobe Systems, ARM 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 2007, TSR performance was such that 68.7% 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 2009 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	**Shares at 30 September 2010 number**	Vesting date
G S Berruyer	10,815	–	(10,815)	–	**–**	10 January 2010
	14,714	–	–	–	**14,714**	10 January 2011
	12,716	–	–	–	**12,716**	10 December 2011
	38,245	**–**	**(10,815)**	**–**	**27,430**	
P S Harrison	10,187	–	(10,187)	–	**–**	10 January 2010
	11,495	–	–	–	**11,495**	10 January 2011
	21,682	**–**	**(10,187)**	**–**	**11,495**	
P L Stobart	3,878	–	(3,878)	–	**–**	10 January 2010
	8,401	–	–	–	**8,401**	10 January 2011
	12,279	**–**	**(3,878)**	**–**	**8,401**	
P A Walker	22,275	–	(22,275)	–	**–**	10 January 2010
	25,111	–	–	–	**25,111**	10 January 2011
	47,386	**–**	**(22,275)**	**–**	**25,111**	
Total	**119,592**	**–**	**(47,155)**	**–**	**72,437**	

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 othe r than death, retirement, redundancy, injury, ill-health or disability before the third anniversary of the date of grant then the rights to the award will lapse, unless the Remuneration Committee recommend otherwise.
- Awards are not subject to further performance conditions once granted.
- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 January 2010, the date the awards above vested in the year ended 30 September 2010 was 229.90p. The market price of a share on 10 January 2007, the date on which these awards were granted was 271.50p.

5.5 Interests in shares

The interests of each person who was a director of the Company as at 30 September 2010 (together with interests held by his or her connected persons) were:

Director	**Ordinary shares at 30 September 2010 number**	Ordinary shares at 30 September 2009 number
G S Berruyer	**303,010**	239,549
D H Clayton	**31,000**	31,000
P S Harrison	**104,301**	46,324
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	**145,685**	76,701
P A Walker	**6,223,164**	6,223,164
Total	**6,893,438**	6,703,016

Notes:
• There have been no changes in the directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2010 and 20 December 2010.

5.6 Significant awards to past directors

No 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

20 December 2010

Consolidated income statement

For the year ended 30 September 2010

	Note	2010 £m	2009 £m
Revenue	1	**1,435.0**	1,439.3
Cost of sales		**(103.5)**	(108.8)
Gross profit		**1,331.5**	1,330.5
Selling and administrative expenses		**(1,001.5)**	(1,049.9)
Operating profit	1,3	**330.0**	280.6
Finance income	2	**3.3**	4.0
Finance costs	2	**(13.4)**	(17.2)
Finance costs – net	2	**(10.1)**	(13.2)
Profit before taxation		**319.9**	267.4
Income tax expense	4	**(92.6)**	(77.9)
Profit for the year – attributable to owners of the parent	22,23	**227.3**	189.5
EBITA†	1	**365.8**	320.7
Earnings per share (pence)			
– Basic	6	**17.29p**	14.46p
– Diluted	6	**17.23p**	14.42p

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

Consolidated statement of comprehensive income

For the year ended 30 September 2010

	Note	2010 £m	2009 £m
Profit for the year	22	**227.3**	189.5
Other comprehensive income:			
Currency translation differences	21	**10.5**	140.6
Actuarial loss on post employment benefit obligations	22	**(0.3)**	(0.3)
Cash flow hedges	21	**(0.7)**	(0.3)
Other comprehensive income for the year, net of tax		**9.5**	140.0
Total comprehensive income for the year – attributable to owners of the parent		**236.8**	329.5

Consolidated balance sheet

As at 30 September 2010

	Note	2010 £m	2009 £m
Non-current assets			
Goodwill	7	**2,031.1**	2,030.8
Other intangible assets	8	**179.1**	216.0
Property, plant and equipment	9	**149.6**	144.5
Deferred income tax assets	17	**10.4**	7.5
		2,370.2	2,398.8
Current assets			
Inventories	10	**4.1**	5.2
Trade and other receivables	11	**276.3**	275.1
Cash and cash equivalents (excluding bank overdrafts)	12	**70.8**	59.4
		351.2	339.7
Total assets		**2,721.4**	2,738.5
Current liabilities			
Trade and other payables	13	**(288.9)**	(252.8)
Current income tax liabilities		**(73.7)**	(62.1)
Borrowings	15	**(2.8)**	(18.8)
Deferred consideration		**(2.7)**	(2.3)
Deferred income	14	**(402.7)**	(391.1)
		(770.8)	(727.1)
Non-current liabilities			
Borrowings	15	**(249.3)**	(460.6)
Derivative financial instruments	16	**(1.0)**	(0.3)
Retirement benefit obligations	26	**(11.3)**	(11.8)
Deferred income tax liabilities	17	**(39.6)**	(41.2)
		(301.2)	(513.9)
Total liabilities		**(1,072.0)**	(1,241.0)
Net assets		**1,649.4**	1,497.5
Equity attributable to owners of the parent			
Ordinary shares	18	**13.2**	13.1
Share premium	20	**499.8**	492.0
Other reserves	21	**259.3**	249.5
Retained earnings	22	**877.1**	742.9
Total equity		**1,649.4**	1,497.5

The consolidated financial statements on pages 63 to 107 were approved by the Board of directors on 20 December 2010 and are signed on their behalf by:

G S Berruyer
Director

P S Harrison
Director

Consolidated statement of cash flows

For the year ended 30 September 2010

	Note	**2010 £m**	2009 £m
Cash flows from operating activities			
Cash generated from continuing operations	23	**428.7**	357.6
Interest paid		**(11.6)**	(16.2)
Income tax paid		**(75.6)**	(55.9)
Net cash generated from operating activities		**341.5**	285.5
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	24(f)	**(7.5)**	(13.8)
Disposal of subsidiaries, net of cash disposed	24(f)	**7.4**	12.0
Purchases of intangible assets	8	**(7.1)**	(10.3)
Purchases of property, plant and equipment		**(20.9)**	(19.5)
Proceeds from sale of property, plant and equipment		**0.6**	0.2
Interest received	2	**3.3**	4.0
Net cash used in investing activities		**(24.2)**	(27.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**7.9**	5.4
Purchase of treasury shares	22	**(7.3)**	–
Finance lease principal payments		**(0.1)**	(0.1)
Issue costs on loans		**(4.4)**	(0.7)
Repayments of borrowings		**(324.4)**	(323.9)
Proceeds from borrowings		**126.2**	129.5
Dividends paid to Company's shareholders	5	**(98.6)**	(95.1)
Net cash used in financing activities		**(300.7)**	(284.9)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (before exchange rate changes)	23	**16.6**	(26.8)
Effects of exchange rate changes	23	**1.8**	8.9
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**18.4**	(17.9)
Cash, cash equivalents and bank overdrafts at 1 October	23	**52.2**	70.1
Cash, cash equivalents and bank overdrafts at 30 September	23	**70.6**	52.2

Consolidated statement of changes in equity

For the year ended 30 September 2010

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2009	**13.1**	**492.0**	**249.5**	**742.9**	**1,497.5**
Profit for the year	**–**	**–**	**–**	**227.3**	**227.3**
Other comprehensive income:					
Currency translation differences	**–**	**–**	**10.5**	**–**	**10.5**
Actuarial loss on post employment benefit obligations	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Cash flow hedges	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Total comprehensive income for the year ended 30 September 2010	**–**	**–**	**9.8**	**227.0**	**236.8**
Transactions with owners:					
Employees share option scheme:					
– Proceeds from shares issued	**0.1**	**7.8**	**–**	**–**	**7.9**
– Value of employee services	**–**	**–**	**–**	**10.0**	**10.0**
– Equity movement of deferred income tax	**–**	**–**	**–**	**3.1**	**3.1**
Purchase of treasury shares	**–**	**–**	**–**	**(7.3)**	**(7.3)**
Dividends	**–**	**–**	**–**	**(98.6)**	**(98.6)**
Total transactions with owners for the year ended 30 September 2010	**0.1**	**7.8**	**–**	**(92.8)**	**(84.9)**
At 30 September 2010	**13.2**	**499.8**	**259.3**	**877.1**	**1,649.4**

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2008	13.1	486.6	109.2	638.1	1,247.0
Profit for the year	–	–	–	189.5	189.5
Other comprehensive income:					
Currency translation differences	–	–	140.6	–	140.6
Actuarial loss on post employment benefit obligations	–	–	–	(0.3)	(0.3)
Cash flow hedges	–	–	(0.3)	–	(0.3)
Total comprehensive income for the year ended 30 September 2009	–	–	140.3	189.2	329.5
Transactions with owners:					
Employees share option scheme:					
– Proceeds from shares issued	–	5.4	–	–	5.4
– Value of employee services	–	–	–	6.7	6.7
– Equity movement of deferred income tax	–	–	–	4.0	4.0
Dividends	–	–	–	(95.1)	(95.1)
Total transactions with owners for the year ended 30 September 2009	–	5.4	–	(84.4)	(79.0)
At 30 September 2009	13.1	492.0	249.5	742.9	1,497.5

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 20 December 2010.

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 2010
The following standards, interpretations, and amendments to standards have been adopted in the financial statements. None had any impact on the Group results or financial position:

- IFRS 8, "Operating Segments"
- IFRS 3 (Revised), "Business Combinations"
- IAS 1 (Revised), "Presentation of Financial Statements"
- IFRS 2 (Amendment), "Share-based Payment"

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 end of the reporting period. 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 comprehensive income and Consolidated statement of cash flows 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 acquisition 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. Any costs directly attributable to the business combination are expensed to the income statement as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. 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 difference is recognised directly in the statement of comprehensive income. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments are recognised in the income statement.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

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 services (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 (including non-specified upgrades when included). Revenue not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Group accounting policies (continued)

d Revenue recognition (continued)

Software licences – the Group recognises the revenue allocable to software licences and specified 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 end of the reporting period. 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 consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units ("CGUs") expected to benefit from the synergies of the combination, and the allocation represents the lowest level at which goodwill is monitored.

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.

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 the end of each reporting period.

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 statement of cash flows 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 end of the reporting period. 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Group accounting policies (continued)

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 end of the reporting period.

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 the end of each reporting period 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 end of the reporting period. 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 the end of the reporting period.

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 in other comprehensive income 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 in other comprehensive income. 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.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. 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 outside profit or loss. For such non-monetary items, any exchange component of that gain or loss is also recognised outside profit or loss.

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 at the end of the reporting period. 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 recognised in other comprehensive income 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 defined benefit pension scheme 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 cost/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 comprehensive income 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 end of the reporting period 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 26.

Group accounting policies (continued)

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. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. 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 the end of the reporting period, 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, when it can be reliably measured 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's segmental analysis has been derived using the information used by the Chief Operating Decision Maker. The Group's Executive Committee has been identified as the Chief Operating Decision Maker as the committee is responsible for the allocation of resources to operating segments and assessing their performance.

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. The profit measure used by the Executive Committee is Earnings before interest, tax and amortisation ("EBITA").

The operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting. At 30 September 2010 the Group was organised into geographical segments based on the location of assets.

y Adoption of new and revised IFRS

New and amended standards not yet mandatory for the Group

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.

International Financial Reporting Standards ("IFRS")
- IFRS 9, "Financial Instruments"

International Financial Reporting Interpretations Committee ("IFRIC") interpretations
- IFRIC 18, "Transfers of Assets from Customers"
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

Amendments to existing standards
- Amendment to IAS 24, "Related Party Disclosures"
- Amendment to IFRS 7, "Financial Instruments: Disclosure"
- Amendment to IFRIC 14, "Prepayments of a Minimum Funding Requirement"
- Annual Improvements to IFRSs 2010

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group but will increase the level of disclosure to be made in the financial statements.

All the IFRSs, IFRIC interpretations and amendments to existing standards are endorsed by the EU at the date of approval of this consolidated financial information with the exception of IFRS 9, the amendment to IFRS 7 and the Annual Improvements to IFRSs 2010.

New and amended standards adopted by the Group

From 30 September 2009, the following standards, amendments and interpretations became effective and were adopted by the Group:

IFRS
- IFRS 1 (Revised), "First-time Adoption of IFRS"
- 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 13, "Customer Loyalty Programmes"
- IFRIC 14, "The Limit on a Defined Benefit Asset"
- IFRIC 15, "Agreements for Construction of Real Estates"
- IFRIC 16, "Hedges of a Net Investment Including Foreign Operations"
- IFRIC 17, "Distribution of Non-cash Assets to Owners"

Amendments to existing standards

- Amendment to IFRS 1, for additional exemptions
- Amendment to IFRS 2, "Vesting Conditions and Cancellations"
- Amendment to IFRS 2, "Group Cash-settled Share-based Payment Transactions"
- Amendment to IAS 27, "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate"
- Amendments to IAS 32 and IAS 1, "Puttable Financial Instruments and Obligations Arising on Liquidation"
- Amendment to IAS 32, "Presentation and Classification of Rights Issues"
- Amendment to IFRS 7, "Improving Disclosures about Financial Instruments"
- Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives
- Amendment to IAS 39, "Eligible Hedged Items"
- Annual Improvements to IFRSs 2009

IFRS 8, "Operating Segments" – the standard replaced IAS 14, "Segment Reporting", and aligns operating segments reported to those segments reported internally to senior management. The basis for the segments under IFRS 8, is set out in note 1. The standard does not change the recognition, measurement, or disclosure of transactions in the consolidated financial statements.

IAS 1 (Revised), "Presentation of Financial Statements" – the amendment requires "non-owner" changes in equity to be presented separately from "owner" changes in a statement of comprehensive income. It also requires that if there is retrospective restatement or reclassification of items in the financial statements that the opening balance sheet is also disclosed. This will mean that in such circumstances three balance sheets rather than two will be reported. Entities can also choose whether to present one performance statement (the statement of comprehensive income) or two performance statements (the income statement and statement of comprehensive income). The Group has chosen to present two performance statements. A further impact of the amendment is that certain primary statements have been renamed.

IFRS 2 (Amendment), "Share-based Payment", effective for accounting periods beginning on or after 1 January 2009. The amendment to the standard limits vesting conditions to service conditions and performance conditions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, i.e. acceleration of the expense based on the grant date fair value. This amendment had no material impact on the Group's consolidated financial statements.

IFRS 3 (Revised), "Business Combinations" and consequential amendments to IAS 27, "Consolidated and Separate Financial Statements". The revisions require that all acquisition related costs are to be expensed to the income statement in the period incurred. There are a number of other 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.

There is no material impact of the adoption of this standard in this financial information. The future 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.

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 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the Chief Operating Decision Maker. The Group's Executive Committee has been identified as the Chief Operating Decision Maker as the committee is responsible for the allocation of resources to operating segments and assessing their performance. The profit measure used by the Executive Committee is Earnings before interest, tax and amortisation ("EBITA") which excludes the effects of amortisation of acquired intangible assets and the net amortisation of software development expenditure on a constant currency basis. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting. The operating segments have not changed as a result of implementing IFRS 8.

The Group is organised into four operating segments. 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 principally based in South Africa, Australia, Singapore, Malaysia, UAE, China and India. The revenue 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.

Revenue by segment

	Year ended 30 September 2010			Year ended 30 September 2009					Change %		
	IFRS statutory	**Organic revenue adjustment[1]**	**Non-GAAP organic**	IFRS statutory	Currency impact[2]	Underlying at constant currency	Organic revenue adjustment[1]	Non-GAAP organic constant currency	IFRS statutory	Underlying at constant currency	Non-GAAP organic constant currency
Subscription revenue by segment											
UK & Ireland	**180.6**	**–**	**180.6**	171.1	(0.1)	171.0	–	171.0	6%	6%	6%
Mainland Europe	**295.4**	**(0.4)**	**295.0**	292.7	(2.6)	290.1	(5.0)	285.1	1%	2%	3%
North America	**415.9**	**(16.7)**	**399.2**	428.3	(0.7)	427.6	(21.7)	405.9	–3%	–3%	–2%
Rest of World	**61.6**	**(1.3)**	**60.3**	44.7	7.7	52.4	–	52.4	38%	18%	15%
Subscription revenue	**953.5**	**(18.4)**	**935.1**	936.8	4.3	941.1	(26.7)	914.4	2%	1%	2%
Software and software-related services revenue by segment (SSRS)											
UK & Ireland	**67.5**	**–**	**67.5**	71.1	(0.1)	71.0	–	71.0	–5%	–5%	–5%
Mainland Europe	**216.0**	**(0.7)**	**215.3**	227.8	(1.3)	226.5	(9.0)	217.5	–5%	–5%	–1%
North America	**134.0**	**(11.4)**	**122.6**	148.1	0.1	148.2	(13.9)	134.3	–10%	–10%	–9%
Rest of World	**64.0**	**–**	**64.0**	55.5	8.3	63.8	–	63.8	15%	0%	0%
SSRS revenue	**481.5**	**(12.1)**	**469.4**	502.5	7.0	509.5	(22.9)	486.6	-4%	-5%	-4%
Total revenue by segment											
UK & Ireland	**248.1**	**–**	**248.1**	242.2	(0.2)	242.0	–	242.0	2%	3%	3%
Mainland Europe	**511.4**	**(1.1)**	**510.3**	520.5	(3.9)	516.6	(14.0)	502.6	–2%	–1%	2%
North America	**549.9**	**(28.1)**	**521.8**	576.4	(0.6)	575.8	(35.6)	540.2	–5%	–4%	–3%
Rest of World	**125.6**	**(1.3)**	**124.3**	100.2	16.0	116.2	–	116.2	25%	8%	7%
Total revenue	**1,435.0**	**(30.5)**	**1,404.5**	1,439.3	11.3	1,450.6	(49.6)	1,401.0	0%	–1%	0%

1 Organic revenue adjustment excludes the contributions of current and prior year acquisitions, disposals and non-core products.
2 Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of $1.56/£1 and €1.15/£1 to facilitate the comparison of results.

Profit by segment

	Year ended 30 September 2010			Year ended 30 September 2009					Change %		
	IFRS statutory operating profit	**Adj[1]**	**Non-GAAP EBITA**	IFRS statutory operating profit	Adj[1]	Non-GAAP EBITA reported	Currency impact[2]	Underlying Non-GAAP EBITA constant currency	IFRS statutory operating profit	Non-GAAP EBITA reported	Underlying Non-GAAP EBITA constant currency
Profit by segment											
UK & Ireland	**84.4**	**4.5**	**88.9**	79.7	4.6	84.3	(0.1)	84.2	6%	5%	6%
Mainland Europe	**110.4**	**13.1**	**123.5**	90.6	16.7	107.3	(0.8)	106.5	22%	15%	16%
North America	**104.0**	**17.6**	**121.6**	86.7	18.6	105.3	0.7	106.0	20%	15%	15%
Rest of World	**31.2**	**0.6**	**31.8**	23.6	0.2	23.8	3.8	27.6	32%	34%	15%
Total profit	**330.0**	**35.8**	**365.8**	280.6	40.1	320.7	3.6	324.3	18%	14%	13%

1 Adjustment includes the effects of amortisation of acquired intangible assets and the net amortisation of software development expenditure.
2 Foreign currency results for the prior year ended 30 September 2009 have been retranslated based on the average exchange rates for the year ended 30 September 2010 of \$1.56/£1 and €1.15/£1 to facilitate the comparison of results.

Year ended 30 September 2010	Note	**UK & Ireland £m**	**Mainland Europe £m**	**North America £m**	**Rest of World £m**	**Group £m**
The results by segment were as follows:						
Continuing operations						
Revenue		**248.1**	**511.4**	**549.9**	**125.6**	**1,435.0**
Segment operating profit	3	**84.4**	**110.4**	**104.0**	**31.2**	**330.0**
Finance income	2					**3.3**
Finance costs	2					**(13.4)**
Profit before taxation						**319.9**
Income tax expense	4					**(92.6)**
Profit for the year						**227.3**

No single customer contributes more than 10% of the Group's revenue in the current or prior year.

Reconciliation of Non-GAAP EBITA† to IFRS statutory operating profit					
Non-GAAP EBITA†	**88.9**	**123.5**	**121.6**	**31.8**	**365.8**
Net amortisation of software development expenditure	**(0.3)**	**–**	**(0.1)**	**–**	**(0.4)**
Amortisation of acquired intangible assets	**(4.2)**	**(13.1)**	**(17.5)**	**(0.6)**	**(35.4)**
Operating profit	**84.4**	**110.4**	**104.0**	**31.2**	**330.0**

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

1 Segment information (continued)

Year ended 30 September 2010	Note	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
The assets and liabilities by segment were as follows:						
Segment assets		**436.0**	**697.6**	**1,457.0**	**130.8**	**2,721.4**
Segment liabilities		**(197.1)**	**(287.4)**	**(255.3)**	**(86.2)**	**(826.0)**
Segment net assets		**238.9**	**410.2**	**1,201.7**	**44.6**	**1,895.4**
Unallocated liabilities						
– Corporate borrowings						**(246.0)**
Total net assets						**1,649.4**
Other segment information by segment was as follows:						
Capital expenditure – property, plant and equipment	9	**7.6**	**11.3**	**8.2**	**1.3**	**28.4**
Capital expenditure – intangible assets	8	**0.2**	**1.1**	**5.8**	**–**	**7.1**
Depreciation	9	**7.1**	**7.0**	**5.8**	**2.3**	**22.2**
Amortisation of intangible assets	8	**4.6**	**14.8**	**22.4**	**0.6**	**42.4**
Other non-cash expenses – share-based payments	19	**4.3**	**2.4**	**2.7**	**0.6**	**10.0**

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.

Year ended 30 September 2009	Note	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
The results by segment were as follows:						
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 costs	2					(17.2)
Profit before taxation						267.4
Income tax expense	4					(77.9)
Profit for the year						189.5

	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
Reconciliation of Non-GAAP EBITA† to IFRS statutory operating profit					
Non-GAAP EBITA† at constant exchange rates	84.2	106.5	106.0	27.6	324.3
Impact of movements in foreign currency exchange rates	0.1	0.8	(0.7)	(3.8)	(3.6)
Non-GAAP EBITA† reported	84.3	107.3	105.3	23.8	320.7
Net amortisation of software development expenditure	(0.3)	(0.1)	(0.2)	–	(0.6)
Amortisation of acquired intangible assets	(4.3)	(16.6)	(18.4)	(0.2)	(39.5)
Operating profit	79.7	90.6	86.7	23.6	280.6

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

Year ended 30 September 2009	Note	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
The assets and liabilities by segment 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)
Total net assets						1,497.5
Other segment information by segment was as follows:						
Capital expenditure – property, plant and equipment	9	4.6	9.2	3.8	1.9	19.5
Capital expenditure – intangible 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

2 Finance income and costs

	2010 £m	2009 £m
Finance income – interest income on short-term deposits	**3.3**	4.0
Finance costs:		
Finance costs on bank borrowings	**(7.3)**	(16.2)
Finance costs on US senior loan notes	**(4.8)**	–
Amortisation of issue costs	**(1.3)**	(1.0)
	(13.4)	(17.2)
Net finance costs	**(10.1)**	(13.2)

3 Operating profit

The following items have been included in arriving at operating profit	Note	2010 £m	2009 £m
Staff costs	25	**656.6**	682.0
Inventories			
– Cost of inventories recognised as an expense (included in cost of sales)	10	**22.1**	29.7
Depreciation of property, plant and equipment			
– Owned assets	9	**22.0**	22.1
– Under finance leases	9	**0.2**	0.2
Amortisation of intangible assets (excluding amortisation of development expenditure)	8	**42.0**	45.3
Amortisation of development expenditure	8	**0.4**	0.6
Loss on disposal of property, plant and equipment		**0.2**	0.5
Profit on disposal of intangible assets		**(0.7)**	(3.3)
Other operating lease rentals payable			
– Plant and machinery	9	**3.1**	2.5
– Property	9	**33.5**	39.5
Repairs and maintenance expenditure on property, plant and equipment		**5.4**	6.8
Net foreign exchange (gains)/losses		**(0.1)**	0.2
Research and development expenditure		**158.9**	174.6

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:

	2010 £m	2009 £m
Fees payable to the Company auditor for the audit of parent Company and consolidated accounts	**1.8**	1.5
Fees payable to the Company auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**0.2**	0.2
Total audit fees	**2.0**	1.7
Other non-tax compliance services	**0.1**	0.2
Total audit and assurance fees	**2.1**	1.9
Tax services and tax compliance work	**1.5**	1.7
	3.6	3.6

The total audit fee for the Group, including the audit of overseas subsidiaries was £2.0m (2009: £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 46 and 47.

Exceptional items

Included in selling and administrative expenses are £nil of exceptional restructuring costs (2009: £26.4m).

4 Income tax expense

Analysis of charge in the year	Note	2010 £m	2009 £m
Current tax			
– Current year		**90.7**	80.7
– Adjustment in respect of prior year		**5.7**	(18.0)
Current tax		**96.4**	62.7
Deferred tax			
– Origination and reversal of temporary differences		**0.3**	6.5
– Adjustment in respect of prior year		**(4.1)**	8.7
Deferred tax	17	**(3.8)**	15.2
Income tax expense		**92.6**	77.9

Tax on items credited to other comprehensive income	Note	2010 £m	2009 £m
Deferred tax credit on share options	22	**(3.1)**	(4.0)
Current tax credit on exchange adjustments		**(3.6)**	(4.3)
Total tax on items credited to other comprehensive income		**(6.7)**	(8.3)

The tax for the year is higher (2009: higher) than the standard rate of corporation tax in the UK 28% (2009: 28%). The differences are explained below:	2010 £m	2009 £m
Profit on ordinary activities before taxation	**319.9**	267.4
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 28% (2009: 28%)	**89.6**	74.9
Tax effects of:		
Adjustment in respect of prior year	**1.6**	(9.3)
Adjustment in respect of foreign tax rates	**11.5**	9.4
Non-taxable income and other credits net of non-deductible expenses and permanent items	**(10.1)**	2.9
Total taxation	**92.6**	77.9

5 Dividends

	2010 £m	2009 £m
Final dividend paid for the year ended 30 September 2009 of 4.93p per share	**64.7**	–
(2009: final dividend paid for the year ended 30 September 2008 of 4.78p per share)	**–**	62.5
Interim dividend paid for the year ended 30 September 2010 of 2.58p per share	**33.9**	–
(2009: interim dividend paid for the year ended 30 September 2009 of 2.50p per share)	**–**	32.6
	98.6	95.1

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2010 of 5.22p per share which will absorb an estimated £68.8m of shareholders' funds. It will be paid on 11 March 2011 to shareholders who are on the register of members on 11 February 2011. These financial statements do not reflect this dividend payable.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue 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 2010, 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

	2010 Earnings £m	2010 Weighted average number of shares millions	2010 Per share amount pence	2009 Earnings £m	2009 Weighted average number of shares millions	2009 Per share amount pence
Basic EPS – Profit attributable to equity holders of the Company	227.3	1,314.9	17.29	189.5	1,310.6	14.46
Effect of dilutive securities						
Options		4.5	(0.06)		3.7	(0.04)
Diluted EPS	227.3	1,319.4	17.23	189.5	1,314.3	14.42

Underlying EPS – Non GAAP measure

	2010 Earnings £m	2010 Weighted average number of shares millions	2010 Per share amount pence	2009 Earnings £m	2009 Weighted average number of shares millions	2009 Per share amount pence
Basic EPS – Profit attributable to equity holders of the Company	227.3	1,314.9	17.29	189.5	1,310.6	14.46
Non GAAP items:						
Intangible asset amortisation excluding amortisation of computer software	35.8			40.1		
Taxation	(10.4)			(11.6)		
Net adjustments	25.4		1.93	28.5		2.17
Underlying basic EPS	252.7	1,314.9	19.22	218.0	1,310.6	16.63
Exchange adjustments						
Exchange adjustments				3.6		
Taxation				(1.1)		
Net exchange adjustments				2.5		0.19
Underlying basic EPS (after exchange adjustments)	252.7	1,314.9	19.22	220.5	1,310.6	16.82
Effect of dilutive securities						
Options		4.5	(0.06)		3.7	(0.04)
Underlying diluted EPS (after exchange adjustments)	252.7	1,319.4	19.16	220.5	1,314.3	16.78

Exchange adjustments relate to the retranslation of prior year results to current year exchange rates as shown in the table on page 8 within the Financial review.

7 Goodwill

	Note	2010 £m	2009 £m
Cost			
At 1 October		**2,030.8**	1,825.5
Additions	24(g)	**9.1**	7.3
Disposals	24(g)	**(8.8)**	(10.1)
Exchange adjustments		**–**	208.1
At 30 September		**2,031.1**	2,030.8
Aggregate impairment at 1 October and 30 September		**–**	–
Net book amount at 30 September		**2,031.1**	2,030.8

Details of acquisitions in the year are shown in note 24. 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 end of the reporting period by geographic area:

	2010 £m	2009 £m
UK & Ireland	**212.4**	212.4
France	**278.7**	293.6
Germany	**27.3**	28.8
Switzerland	**33.0**	38.6
Poland	**7.2**	7.4
Spain	**134.9**	142.3
North America		
– Sage Business Solutions Division	**784.9**	772.4
– Sage Payment Solutions Division	**158.7**	156.4
– Sage Healthcare Division	**301.2**	296.7
South Africa	**45.5**	36.3
Australia	**25.7**	26.6
Asia	**21.6**	19.3
	2,031.1	2,030.8

The majority of movements in goodwill by geography compared to prior year were due to the impact of foreign currency exchange movements.

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.

7 Goodwill (continued)

- 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 end of the reporting period and the risks specific to the CGU. The discount rates applied to CGUs were in the range of 6.3% (2009: 7.4%) to 17.7% (2009: 14.9%).
- The long-term operating margin assumed for a CGU's operations is primarily based on past performance. For some CGUs, those for which management has strong reason to believe that past operating margins are not indicative of future operating margins, expected future improvements from sustainable operating cost savings are also included in management's assessment of the long-term operating margin. The long-term operating margin applied to CGUs was in the range of 18% (2009: 10%) to 44% (2009: 50%).
- 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% (2009: 1.3%) to 5.6% (2009: 5.7%).

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.

The value-in-use calculations are sensitive to changes in discount rates. The discount rates used are based on estimated weighted average costs of capital in each country before tax and reflect specific risks relating to the relevant CGUs.

The largest CGUs are Sage Business Solutions Division and Sage Healthcare Division, which constitute approximately 50% of the carrying value of goodwill at the end of the reporting period. The discount rates applied to the respective CGUs would have to increase by 48%, and 63% respectively to result in a value-in-use equal to the carrying value of the goodwill. This assumes all other key assumptions applied within the value-in-use calculations remain constant.

8 Other intangible assets

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost							
At 1 October 2009	45.7	99.2	0.4	5.6	71.4	151.4	373.7
Additions	–	–	–	–	5.3	1.8	7.1
Acquisitions	–	1.3	–	–	–	1.5	2.8
Disposals	(1.0)	(1.9)	–	–	(10.7)	(1.4)	(15.0)
Exchange adjustments	(0.8)	(2.1)	–	–	0.2	(0.6)	(3.3)
At 30 September 2010	43.9	96.5	0.4	5.6	66.2	152.7	365.3
Accumulated amortisation							
At 1 October 2009	14.5	48.2	0.2	5.1	24.1	65.6	157.7
Charge for the year	2.9	13.6	0.1	0.4	6.6	18.8	42.4
Acquisitions	–	–	–	–	–	–	–
Disposals	(1.0)	(1.0)	–	–	(10.2)	(0.8)	(13.0)
Exchange adjustments	–	(0.7)	–	–	(0.2)	–	(0.9)
At 30 September 2010	16.4	60.1	0.3	5.5	20.3	83.6	186.2
Net book amount at 30 September 2010	27.5	36.4	0.1	0.1	45.9	69.1	179.1

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost							
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
At 30 September 2009	45.7	99.2	0.4	5.6	71.4	151.4	373.7
Accumulated amortisation							
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
At 30 September 2009	14.5	48.2	0.2	5.1	24.1	65.6	157.7
Net book amount at 30 September 2009	31.2	51.0	0.2	0.5	47.3	85.8	216.0

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
Cost				
At 1 October 2009	**96.5**	**146.8**	**59.2**	**302.5**
Additions at cost	**5.5**	**16.1**	**6.8**	**28.4**
Acquisitions/disposals of subsidiaries	**(1.7)**	**(0.3)**	**–**	**(2.0)**
Disposals	**(0.7)**	**(11.5)**	**(3.6)**	**(15.8)**
Exchange adjustments	**0.7**	**0.3**	**(0.8)**	**0.2**
At 30 September 2010	**100.3**	**151.4**	**61.6**	**313.3**
Accumulated depreciation				
At 1 October 2009	**9.0**	**105.2**	**43.8**	**158.0**
Charge for the year	**1.7**	**15.2**	**5.3**	**22.2**
Acquisitions/disposals of subsidiaries	**(0.8)**	**(0.1)**	**–**	**(0.9)**
Disposals	**–**	**(10.9)**	**(4.1)**	**(15.0)**
Exchange adjustments	**0.1**	**0.1**	**(0.8)**	**(0.6)**
At 30 September 2010	**10.0**	**109.5**	**44.2**	**163.7**
Net book amount at 30 September 2010	**90.3**	**41.9**	**17.4**	**149.6**

9 Property, plant and equipment (continued)

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

Depreciation expenses of £22.2m (2009: £22.3m) have been charged through selling and administrative expenses (note 3).

Lease rentals amounting to £3.1m (2009: £2.5m) and £33.5m (2009: £39.5m) relating to the lease of plant and machinery and property respectively have also been charged through selling and administrative expenses (note 3).

Assets held under finance leases have the following net book amount:	**2010 £m**	2009 £m
Cost	**3.4**	0.9
Accumulated depreciation	**(0.6)**	(0.5)
Net book amount	**2.8**	0.4

Included in assets held under finance leases are plant and equipment with a net book amount of £2.6m (2009: £0.2m) and vehicles £0.2m (2009: £0.2m).

10 Inventories

	2010 £m	2009 £m
Materials	**0.7**	1.4
Finished goods	**3.4**	3.8
	4.1	5.2

The Group consumed £22.1m (2009: £29.7m) of inventories, included in cost of sales, during the year. There was no material write down of inventories during the current or prior year.

11 Trade and other receivables

Amounts falling due within one year:	2010 £m	2009 £m
Trade receivables	**262.2**	265.1
Less: provision for impairment of receivables	**(27.4)**	(31.4)
Trade receivables – net	**234.8**	233.7
Other receivables	**19.7**	20.7
Prepayments and accrued income	**21.8**	20.7
	276.3	275.1

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

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

Trade and other receivables by geographical location:	2010 £m	2009 £m
UK & Ireland	**79.7**	75.5
Mainland Europe	**103.2**	107.2
North America	**55.4**	57.7
Rest of World	**16.2**	14.0
	254.5	254.4

Movements on the Group provision for impairment of trade receivables were as follows:	2010 £m	2009 £m
At 1 October	**31.4**	28.0
Acquisition of subsidiaries	**–**	(0.2)
Disposal of subsidiaries	**(0.3)**	–
Increase in provision for receivables impairment	**6.1**	14.0
Receivables written-off during the year as uncollectible	**(6.9)**	(9.0)
Unused amounts reversed	**(1.7)**	(5.3)
Exchange adjustments	**(1.2)**	3.9
At 30 September	**27.4**	31.4

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 2010, trade receivables of £29.3m (2009: £49.8m) were either partially or fully impaired.

The ageing of these receivables was as follows:	2010 £m	2009 £m
Not due	**1.0**	11.0
Less than six months past due	**6.4**	9.9
More than six months past due	**21.9**	28.9
	29.3	49.8

11 Trade and other receivables (continued)

Trade receivables which were past their due date but not impaired at 30 September 2010 were £51.4m (2009: £56.6m).

The ageing of these receivables was as follows:	**2010 £m**	2009 £m
Less than six months past due	**46.2**	52.7
More than six months past due	**5.2**	3.9
	51.4	56.6

The maximum exposure to credit risk at the end of the reporting period 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 (excluding bank overdrafts)

	2010 £m	2009 £m
Cash at bank and in hand	**70.7**	59.3
Short-term bank deposits	**0.1**	0.1
	70.8	59.4

The effective interest rate on short-term deposits was 0.5% (2009: 1.1%) and these deposits have an average maturity of 81 days (2009: 85 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

	2010 £m	2009 £m
Trade payables	**86.2**	66.0
Other tax and social security payable	**71.2**	70.5
Accruals	**131.5**	116.3
	288.9	252.8

14 Deferred income

	2010 £m	2009 £m
Deferred income	**402.7**	391.1

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 Borrowings

Current	**2010 £m**	2009 £m
Bank overdrafts	**0.2**	7.2
Bank loans – unsecured	**2.0**	11.4
Finance lease obligations	**0.6**	0.2
	2.8	18.8

Non-current	**2010 £m**	2009 £m
US senior loan notes – unsecured	**189.1**	–
Bank loans – unsecured	**56.9**	460.5
Finance lease obligations	**3.3**	0.1
	249.3	460.6

Included in loans above is £246.0m (2009: £460.5m) of unsecured loans (after unamortised issue costs), these borrowings were taken out in connection with acquisitions.

The bank loans are principally drawn down under a £357.4m (2009: £815.1m) multi-currency revolving credit facility expiring on 31 August 2015. This facility was arranged during the year and consists both of US$271.0m (£172.0m) and €214.0m (£185.4m) tranches and replaces the £650.0m and US$264.0m (£165.1m) multi-currency revolving credit facilities both of which were cancelled during the year.

In March 2010 US$300.0m (£190.4m) senior loan notes were issued into the private placement market, these notes mature $200.0m (£127.0m) in 2015, $50.0m (£31.7m) in 2016 and $50.0m (£31.7m) in 2017 and carry interest coupons of 4.39%, 4.78% and 5.15% respectively. These senior loan notes were used to repay part of the multi-currency revolving credit facility.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £4.0m (2009: £0.2m). The Group has incurred total issue costs of £4.4m (2009: £8.3m) in respect of these facilities. These costs are allocated to the income statement over the term of the facility using the effective interest method.

Unsecured bank borrowings were drawn in the following currencies: Sterling £1.3m (2009: £81.7m); US Dollar £57.6m (2009: £229.3m), Euro £nil (2009: £148.1m) and Swiss Franc £nil (2009: £12.8m) and currently bear interest at a rate of 1.20% (2009: 0.35%) above LIBOR, apart from £50.8m (2009: £93.8m) which bear an average fixed interest rate of 1.68% (excluding a margin of 1.20%).

16 Financial instruments

Numerical financial instruments disclosures are set out below and also in note 23.

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 with the exception of long-term borrowings due to these bearing interest at fixed rates which are currently higher than floating rates.

		2010		2009	
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowings	15	**(249.3)**	**(260.6)**	(460.6)	(460.6)
Fair value of other financial assets and financial liabilities:					
Primary financial instruments held or issued to finance the Group's operations:					
Short-term borrowings	15	**(2.8)**	**(2.8)**	(18.8)	(18.8)
Trade and other payables excluding other tax and social security	13	**(217.7)**	**(217.7)**	(182.3)	(182.3)
Trade and other receivables excluding prepayments	11	**254.5**	**254.5**	254.4	254.4
Short-term bank deposits	12	**0.1**	**0.1**	0.1	0.1
Cash at bank and in hand	12	**70.7**	**70.7**	59.3	59.3
Derivatives used for hedging:					
Derivative financial instruments		**(1.0)**	**(1.0)**	(0.3)	(0.3)

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.

16 Financial instruments (continued)

Capital risk

The Group's objectives when managing capital (defined as net debt (note 23) 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 and senior loan notes being 3.0 times. At 30 September 2010 this ratio was 0.6 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.

Liquidity risk

Liquidity risk is the risk that Group will not be able to meet its financial obligations as they fall due. 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:

				2010
	Borrowings £m	**Trade and other payables £m**	**Derivative financial instruments £m**	**Total £m**
In less than one year	**2.9**	**288.9**	**0.7**	**292.5**
In more than one year but not more than two years	**1.0**	**–**	**0.4**	**1.4**
In more than two years but not more than five years	**218.3**	**–**	**–**	**218.3**
In more than five years	**82.3**	**–**	**–**	**82.3**
	304.5	**288.9**	**1.1**	**594.5**

				2009
	Borrowings £m	Trade and other payables £m	Derivative financial instruments £m	Total £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
	485.4	252.8	3.6	741.8

Borrowing facilities

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

	2010 £m	2009 £m
Expiring between one and two years	**–**	354.5
Expiring in more than two years	**297.8**	–
	297.8	354.5

The facilities have been arranged to help finance the 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 and has also utilised the US private placement market.

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 2010, the Group had drawn down £59.6m (2009: £460.6m) from its committed revolving credit facilities and had fixed rate loan notes outstanding of £190.4m (2009: £nil). 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 2010, the Group had fixed interest rate borrowings of £241.2m (2009: £93.8m) 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.

During the year the Group had 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 2010 was £261.9m (2009: £227.9m), the Euro borrowings £nil (2009: £148.1m) and Swiss Franc borrowings £nil (2009: £12.8m). The foreign exchange gain of £6.9m (2009: loss of £71.3m) 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 2010 and 30 September 2009, these exposures were immaterial to the Group.

Derivative financial instruments

	2010		2009	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedge:				
Current	**–**	**–**	–	–
Non-current	**–**	**(1.0)**	–	(0.3)

The fair values of derivatives have been calculated using market rates prevailing at the end of the reporting period. Their designation depends on the contractual maturity of the derivative.

The notional principal amount of the outstanding interest rate swap contracts at 30 September 2010 was £50.8m (2009: £93.8m).

At 30 September 2010, the average fixed interest rate of swapped floating debt is 1.68%, (excluding margin) (2009: 1.70%) and the main floating rates are 1.20% (2009: 0.35%) above LIBOR.

Losses recognised in the hedging reserve in equity (note 21) on interest rate swap contracts as of 30 September 2010 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 Sterling, US Dollar and Euro interest rates, and US Dollar/Sterling and Euro/Sterling exchange rates.

16 Financial instruments (continued)

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.

	2010		2009	
	Income gains/(losses) £m	**Equity gains/(losses) £m**	Income gains/(losses) £m	Equity gains/(losses) £m
1% increase in market interest rates	**(3.4)**	**(3.4)**	(5.2)	(5.2)
1% decrease in market interest rates	**3.4**	**3.4**	5.2	5.2
10% strengthening of Sterling versus the US Dollar	**(4.5)**	**(59.3)**	(4.0)	(51.9)
10% strengthening of Sterling versus the Euro	**(7.4)**	**(28.9)**	(5.9)	(24.0)
10% weakening of Sterling versus the US Dollar	**5.0**	**65.2**	4.4	57.1
10% weakening of Sterling versus the Euro	**8.2**	**31.8**	6.5	26.4

The minimum lease payments under finance leases fall due as follows:	**2010 £m**	2009 £m
Not later than one year	**0.7**	0.2
Later than one year but not more than five years	**3.6**	0.1
	4.3	0.3
Future finance charges on finance leases	**(0.4)**	–
Present value of finance lease liabilities	**3.9**	0.3

17 Deferred income tax

Deferred income tax has been calculated at 27% (2009: 28%) in respect of UK companies (being the corporation tax rate at which timing differences are expected to reverse) and at the prevailing rates for the overseas subsidiaries.

The movement on the deferred tax account is as shown below:	**2010 £m**	2009 £m
At 1 October	**(33.7)**	(21.6)
Acquisition of subsidiaries	**(0.8)**	–
Disposal of subsidiaries	**(0.1)**	–
Transfer (from)/to current income tax liabilities	**(3.2)**	0.3
Income statement credit/(charge)	**3.8**	(15.2)
Exchange differences	**1.7**	(1.2)
Share options	**3.1**	4.0
At 30 September	**(29.2)**	(33.7)

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 income tax

Assets	**Intangible assets £m**	**Other £m**	**Total £m**
At 1 October 2009	**(0.3)**	**7.8**	**7.5**
Income statement credit	**0.1**	**2.0**	**2.1**
Acquisition of subsidiaries	**(0.8)**	**–**	**(0.8)**
Disposal of subsidiaries	**0.4**	**(0.5)**	**(0.1)**
Reclassification from deferred tax liability	**(0.6)**	**1.3**	**0.7**
Exchange differences	**–**	**1.0**	**1.0**
At 30 September 2010	**(1.2)**	**11.6**	**10.4**
Liabilities			
At 1 October 2009	**(40.7)**	**(0.5)**	**(41.2)**
Income statement (charge)/credit	**(3.5)**	**5.2**	**1.7**
Reclassification from deferred tax asset	**0.6**	**(1.3)**	**(0.7)**
Exchange differences	**1.1**	**(0.4)**	**0.7**
Share options	**–**	**3.1**	**3.1**
Transfer to current tax liabilities	**–**	**(3.2)**	**(3.2)**
At 30 September 2010	**(42.5)**	**2.9**	**(39.6)**
Net deferred tax (liability)/asset at 30 September 2010	**(43.7)**	**14.5**	**(29.2)**

Assets	Intangible assets £m	Other £m	Total £m
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
At 30 September 2009	(0.3)	7.8	7.5
Liabilities			
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
At 30 September 2009	(40.7)	(0.5)	(41.2)
Net deferred tax (liability)/asset at 30 September 2009	(41.0)	7.3	(33.7)

The deferred tax liability due after more than one year is £42.5m (2009: £40.7m).

18 Ordinary shares

Authorised	**2010 £m**	2009 £m
1,860,000,000 (2009: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	**2010 shares**	**2010 £m**	2009 shares	2009 £m
At 1 October	**1,312,966,956**	**13.1**	1,309,557,557	13.1
Employee share option scheme:				
– Proceeds from shares issued	**4,393,626**	**0.1**	3,409,399	–
At 30 September	**1,317,360,582**	**13.2**	1,312,966,956	13.1

Potential issues of ordinary shares

Executive share option scheme

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 134.00p to 329.75p 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	**2010 number**	2009 number
11 February 2000	275.50p–467.60p	11 February 2000 – 6 January 2010	**–**	35,212
23 February 2000	721.00p	23 February 2003 – 23 February 2010	**–**	31,250
24 May 2000	542.50p	24 May 2003 – 24 May 2010	**–**	19,037
10 January 2001	301.00p	10 January 2004 – 10 January 2011	**1,590,456**	1,821,676
17 January 2001	329.75p	17 January 2004 – 17 January 2011	**459,833**	459,833
16 May 2001	264.00p	16 May 2004 – 16 May 2011	**1,233,474**	1,385,648
2 January 2002	228.50p	2 January 2005 – 2 January 2012	**2,077,630**	2,740,223
31 December 2002	134.00p	31 December 2005 – 31 December 2012	**992,122**	1,798,420
12 May 2003	147.00p	12 May 2006 – 12 May 2013	**410,940**	542,953
24 December 2003	171.00p	24 December 2006 – 24 December 2013	**3,843,134**	5,202,139
24 May 2004	172.00p	24 May 2007 – 24 May 2014	**123,908**	230,234
6 January 2005	198.00p	6 January 2008 – 6 January 2015	**2,228,315**	3,010,315
12 May 2005	206.00p	12 May 2008 – 12 May 2015	**1,337,271**	1,639,524
10 January 2006	258.50p	10 January 2009 – 10 January 2016	**3,164,375**	3,469,517
10 January 2007	270.00p	10 January 2010 – 10 January 2017	**2,761,175**	5,339,143
20 June 2007	248.00p	20 June 2010 – 20 June 2017	**126,034**	129,956
10 January 2008	214.00p	10 January 2011 – 10 January 2018	**7,655,202**	8,063,504
17 June 2008	219.25p	17 June 2011 – 17 June 2018	**246,209**	246,209
			28,250,078	36,164,793

Under the above scheme, 4,000,090 1p ordinary shares were issued during the year for aggregate proceeds of £7.1m.

Long-term incentive plan

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	2010 number	2009 number
10 January 2007	10 January 2010	–	2,136,092
20 June 2007	20 June 2010	–	33,000
3 March 2008	3 March 2011	4,579,315	4,644,041
17 June 2008	17 June 2011	333,148	333,148
3 March 2009	3 March 2012	11,732,189	11,962,924
4 March 2010	4 March 2013	8,165,587	–
		24,810,239	19,109,205

Savings-related Share Option Scheme

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	2010 number	2009 number
1 March 2003	112.00p	1 March 2010 – 31 August 2010	–	13,312
1 March 2004	140.00p	1 March 2009 – 31 August 2009	–	678
1 March 2004	140.00p	1 March 2011 – 31 August 2011	27,556	32,348
1 March 2005	157.00p	1 March 2010 – 31 August 2010	–	87,988
1 March 2005	157.00p	1 March 2012 – 31 August 2012	16,918	16,918
1 August 2006	184.00p	1 August 2009 – 31 January 2010	–	249,897
1 August 2006	184.00p	1 August 2011 – 31 January 2012	114,465	130,845
1 August 2006	184.00p	1 August 2013 – 31 January 2014	20,999	21,928
1 August 2007	203.00p	1 August 2010 – 31 January 2011	69,521	263,007
1 August 2007	203.00p	1 August 2012 – 31 January 2013	69,199	75,005
1 August 2007	203.00p	1 August 2014 – 31 January 2015	18,525	22,334
1 August 2008	177.00p	1 August 2011 – 31 January 2012	393,133	471,032
1 August 2008	177.00p	1 August 2013 – 31 January 2014	160,745	206,528
1 August 2008	177.00p	1 August 2015 – 31 January 2016	9,462	10,250
1 August 2009	149.00p	1 August 2012 – 31 January 2013	1,173,389	1,347,158
1 August 2009	149.00p	1 August 2014 – 31 January 2015	301,293	343,512
1 August 2009	149.00p	1 August 2016 – 31 January 2017	50,403	62,289
1 August 2010	190.00p	1 August 2013 – 31 January 2014	537,227	–
1 August 2010	190.00p	1 August 2015 – 31 January 2016	166,228	–
1 August 2010	190.00p	1 August 2017 – 31 January 2018	18,099	–
			3,147,162	3,355,029

Under the above scheme, 393,536 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 2010 was 276.30p and the highest and lowest prices during the year were 280.00p and 213.30p respectively.

19 Share-based payments

The total charge for the year relating to employee share-based payment plans was £10.0m (2009: £6.7m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £8.1m (2009: £4.8m). 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.

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

Grant date	December 2002	May 2002	December 2003	May 2004	January 2005	May 2005	January 2006	January 2007	June 2007	January 2008	June 2008
Share price at grant date	£1.33	£1.45	£1.75	£1.72	£1.90	£2.07	£2.53	£2.72	£2.49	£2.13	£2.21
Exercise price	£1.34	£1.47	£1.71	£1.72	£1.98	£2.06	£2.59	£2.70	£2.48	£2.14	£2.19
Number of employees	70	21	261	12	67	115	309	446	10	408	2
Shares under option	992,122	410,940	3,843,134	123,908	2,228,315	1,337,271	3,164,375	2,761,175	126,034	7,655,202	246,209
Vesting period (years)	3	3	3	3	3	3	3	3	3	3	3
Expected volatility	62%	62%	62%	57%	52%	48%	40%	30%	25%	24%	26%
Option life (years)	10	10	10	10	10	10	10	10	10	10	10
Expected life (years)	4	4	4	4	4	4	4	4	4	4	4
Risk free rate	4.1%	3.8%	4.5%	5.1%	4.4%	4.3%	4.1%	5.0%	5.7%	4.2%	5.3%
Expected dividends expressed as a dividend yield	0.3%	1.3%	0.9%	1.0%	1.6%	1.6%	1.6%	1.4%	3.0%	3.0%	3.0%
Fair value per option	£0.661	£0.678	£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:

	2010 Number '000s	2010 Weighted average exercise price £	2009 Number '000s	2009 Weighted average exercise price £
Outstanding at 1 October	**29,672**	**2.13**	37,763	2.14
Granted	**–**	**–**	–	–
Forfeited	**(3,433)**	**2.57**	(5,862)	2.38
Exercised	**(3,351)**	**1.72**	(2,229)	1.65
Outstanding at 30 September	**22,888**	**2.13**	29,672	2.13
Exercisable at 30 September	**14,728**	**2.10**	16,194	1.95

Range of exercise prices	2010 Weighted average exercise price £	2010 Number of shares '000s	2010 Weighted average remaining life years Expected	2010 Weighted average remaining life years Contractual	2009 Weighted average exercise price £	2009 Number of shares '000s	2009 Weighted average remaining life years Expected	2009 Weighted average remaining life years Contractual
2.14 – 2.70	**2.13**	**22,888**	**0.1**	**5.4**	2.13	29,672	0.4	6.3

The weighted average share price during the period for options exercised over the year was 243.83p (2009: 199.63p).

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 2010 comprised the following companies:

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

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	March 2008	June 2008	March 2009	March 2010
Share price at grant date	£2.00	£2.21	£1.62	£2.42
Exercise price	£0.00	£0.00	£0.00	£0.00
Number of employees	104	2	222	249
Shares under award	4,579,315	333,148	11,732,189	8,165,587
Vesting period (years)	3	3	3	3
Expected volatility	25%	27%	33%	32%
Award life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk free rate	4.0%	5.3%	1.5%	1.6%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%
Fair value per award	£1.088	£1.254	£1.434	£1.945

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:

	2010 Number '000s	2010 Weighted average exercise price £	2009 Number '000s	2009 Weighted average exercise price £
Outstanding at 1 October	**19,109**	**–**	9,811	–
Awarded	**8,173**	**–**	12,045	–
Forfeited	**(1,038)**	**–**	(2,747)	–
Exercised	**(1,434)**	**–**	–	–
Outstanding at 30 September	**24,810**	**–**	19,109	–
Exercisable at 30 September	**–**	**–**	–	–

Range of exercise prices	2010 Weighted average exercise price £	2010 Number of shares '000s	2010 Weighted average remaining life years Expected	2010 Weighted average remaining life years Contractual	2009 Weighted average exercise price £	2009 Number of shares '000s	2009 Weighted average remaining life years Expected	2009 Weighted average remaining life years Contractual
N/A	**–**	**24,810**	**1.6**	**1.6**	–	19,109	1.9	1.9

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

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

Eligibility

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

Employee contributions

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

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

Exercise price

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

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

Grant of options

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

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

Exercise of options

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

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

Grant date	March 2004	March 2005	August 2006	August 2006	August 2007	August 2007	August 2007	August 2008
Share price at grant date	£1.93	£2.06	£2.28	£2.28	£2.28	£2.28	£2.28	£1.98
Exercise price	£1.40	£1.57	£1.84	£1.84	£2.03	£2.03	£2.03	£1.77
Number of employees	8	5	50	8	68	35	5	254
Shares under option	27,556	16,918	114,465	20,999	69,521	69,199	18,525	393,133
Vesting period (years)	7	7	5	7	3	5	7	3
Expected volatility	54%	54%	42%	51%	22%	34%	45%	28%
Option life (years)	7	7	5	7	3	5	7	3
Expected life (years)	7	7	5	7	3	5	7	3
Risk free rate	4.7%	4.7%	4.7%	4.6%	5.4%	5.3%	5.2%	4.8%
Expected dividends expressed as a dividend yield	0.9%	1.6%	1.6%	1.6%	3.0%	3.0%	3.0%	3.0%
Fair value per option	£1.192	£1.176	£1.028	£1.255	£0.503	£0.750	£0.965	£0.476

Grant date	August 2008	August 2008	August 2009	August 2009	August 2009	August 2010	August 2010	August 2010
Share price at grant date	£1.98	£1.98	£1.95	£1.95	£1.95	£2.43	£2.43	£2.43
Exercise price	£1.77	£1.77	£1.49	£1.49	£1.49	£1.90	£1.90	£1.90
Number of employees	55	5	473	64	15	372	62	7
Shares under option	160,745	9,462	1,173,389	301,293	50,403	537,227	166,228	18,099
Vesting period (years)	5	7	3	5	7	3	5	7
Expected volatility	27%	39%	33%	29%	35%	33%	29%	28%
Option life (years)	5	7	3	5	7	3	5	7
Expected life (years)	5	7	3	5	7	3	5	7
Risk free rate	4.8%	4.8%	2.4%	3.1%	3.5%	1.5%	2.3%	2.9%
Expected dividends expressed as a dividend yield	3.0%	3.0%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%
Fair value per option	£0.543	£0.746	£0.565	£0.580	£0.682	£0.576	£0.600	£0.634

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.

The resulting fair value is expensed over the service period of three, five or seven years on the assumption that 15% of options will lapse over the service period as employees leave the Group.

19 Share-based payments (continued)

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

	2010		2009	
	Number '000s	Weighted average price £	Number '000s	Weighted average price £
Outstanding at 1 October	3,355	1.65	3,022	1.82
Awarded	732	1.90	1,763	1.49
Forfeited	(544)	1.69	(267)	1.83
Surrendered	–	–	(676)	1.85
Exercised	(396)	1.83	(487)	1.76
Outstanding at 30 September	3,147	1.68	3,355	1.65
Exercisable at 30 September	70	2.03	251	1.84

	2010				2009			
			Weighted average remaining life years				Weighted average remaining life years	
Range of exercise prices	Weighted average exercise price £	Number of shares '000s	Expected	Contractual	Weighted average exercise price £	Number of shares '000s	Expected	Contractual
1.40 – 2.03	1.68	3,147	2.3	2.8	1.65	3,355	2.6	3.1

20 Share premium

	£m
At 1 October 2008	486.6
Premium on shares issued during the year under share option schemes	5.4
At 1 October 2009	492.0
Premium on shares issued during the year under share option schemes	7.8
At 30 September 2010	**499.8**

21 Other reserves

	Translation reserve £m	Hedge reserve £m	Other reserve £m	Total other reserves £m
At 1 October 2008	48.1	–	61.1	109.2
Currency translation differences	140.6	–	–	140.6
Cash flow hedges:				
– fair value losses in the year	–	(0.3)	–	(0.3)
At 30 September 2009	188.7	(0.3)	61.1	249.5
Currency translation differences	10.5	–	–	10.5
Cash flow hedges:				
– fair value losses in the year	–	(0.7)	–	(0.7)
At 30 September 2010	**199.2**	**(1.0)**	**61.1**	**259.3**

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

	2010 £m	2009 £m
At 1 October	**742.9**	638.1
Profit for the year	**227.3**	189.5
Value of employee services	**10.0**	6.7
Dividends	**(98.6)**	(95.1)
Purchase of treasury shares	**(7.3)**	–
Actuarial loss on post employment benefit obligations	**(0.3)**	(0.3)
Equity movement of deferred income tax	**3.1**	4.0
At 30 September	**877.1**	742.9

The actuarial loss of £0.3m (2009: £0.3m) is made up of net gains of £0.5m (2009: gain of £0.1m) on post-employment benefits (note 26) and a loss of £0.8m (2009: loss of £0.4m) on other long-term employee benefits (note 26).

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 4,986,267 ordinary shares in the Company (2009: 3,601,541) at a cost of £12.9m (2009: £10.1m) and a nominal value of £49,863 (2009: £36,015). The Trust originally purchased the shares in February 2006, a further 2,990,210 shares were acquired by the Trust in August 2010 with the cost being reflected in retained earnings.

These shares were acquired by the Trust in the open market using funds provided by the Company to meet obligations under the Performance Share Plan. During the year, 1,605,484 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 2010 was £13.8m (2009: £8.4m).

23 Cash flow and net debt

Reconciliation of profit for the year to cash generated from continuing operations	2010 £m	2009 £m
Profit for the year	**227.3**	189.5
Adjustments for:		
Taxation	**92.6**	77.9
Finance income	**(3.3)**	(4.0)
Finance expenses	**13.4**	17.2
Amortisation of intangible assets	**42.4**	45.9
Depreciation of property, plant and equipment	**22.2**	22.3
Loss on disposal of property, plant and equipment	**0.2**	0.5
Profit on disposal of intangible assets	**(0.7)**	(3.3)
Equity-settled share-based transactions	**10.0**	6.7
Exchange movements	**(1.7)**	1.7
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
– Decrease in inventories	**1.1**	1.0
– (Increase)/decrease in trade and other receivables	**(4.7)**	15.8
– Increase/(decrease) in trade and other payables	**16.1**	(13.5)
– Increase/(decrease) in deferred income	**13.8**	(0.1)
Cash generated from continuing operations	**428.7**	357.6

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)	2010 £m	2009 £m
Decrease in cash in the year (pre-exchange movements)	**16.6**	(26.8)
Cash outflow from decrease in loans, finance leases and cash collected from customers	**202.7**	195.2
Change in net debt resulting from cash flows	**219.3**	168.4
Acquisitions	**(3.0)**	–
Non-cash movements	**(5.0)**	(1.0)
Exchange movements	**8.3**	(65.8)
Movement in net debt in the year	**219.6**	101.6
Net debt at 1 October	**(439.4)**	(541.0)
Net debt at 30 September	**(219.8)**	(439.4)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2009 £m	Cash flow £m	Acquisitions £m	Other £m	Exchange movements £m	At 30 September 2010 £m
Cash and cash equivalents	59.4	**10.0**	**–**	**–**	**1.4**	**70.8**
Bank overdrafts	(7.2)	**6.6**	**–**	**–**	**0.4**	**(0.2)**
Cash, cash equivalents and bank overdrafts	52.2	**16.6**	**–**	**–**	**1.8**	**70.6**
Loans due within one year	(11.4)	**9.3**	**0.1**	**–**	**–**	**(2.0)**
Finance leases due within one year	(0.2)	**0.1**	**–**	**(0.5)**	**–**	**(0.6)**
Loans due after more than one year	(460.5)	**208.9**	**–**	**(1.3)**	**6.9**	**(246.0)**
Finance leases due after more than one year	(0.1)	**–**	**–**	**(3.2)**	**–**	**(3.3)**
Cash collected from customers	(19.4)	**(15.6)**	**(3.1)**	**–**	**(0.4)**	**(38.5)**
Total	(439.4)	**219.3**	**(3.0)**	**(5.0)**	**8.3**	**(219.8)**

Included in cash above is £38.5m (2009: £19.4m) 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.

24 Acquisitions and disposals

a Acquisition of Netcash (Pty) Limited

On 29 April 2010 the Group completed the acquisition of the entire share capital of Netcash (Pty) Limited ("Netcash"), for a consideration of £8.5m. Total goodwill arising on the acquisition is £8.9m.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2010 the acquisition contributed £1.3m to revenue and £0.4m to profit. Had this acquisition occurred at the beginning of the financial year, Netcash revenue would have been £2.4m and the contribution to Group profit would have been £0.6m.

The net identifiable liabilities (including intangible assets) were recognised at their fair values. The residual excess over the net liabilities acquired is recognised as goodwill.

Details of net liabilities acquired and goodwill are as follows:

	£m
Purchase consideration:	
– Cash paid	7.1
– Contingent consideration	1.4
Total purchase consideration	8.5
– Fair value of net identifiable liabilities (see below)	0.4
Goodwill	8.9

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 Netcash business.

Netcash acquisition	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	–	2.8
Trade and other payables	(3.2)	(3.2)
Income tax – Deferred	–	(0.8)
Cash and cash equivalents	0.8	0.8
Total net identifiable liabilities acquired	(2.4)	(0.4)
Goodwill		8.9
Consideration		8.5
Consideration satisfied by:		
Cash		7.1
Contingent consideration		1.4
Consideration		8.5

IFRS 3 (Revised), "Business Combinations", has been applied prospectively by the Group from 1 October 2009 and has been adopted for the Netcash acquisition. Acquisition related costs of £0.1m have been included in selling and administrative expenses in the consolidated income statement for the year ended 30 September 2010, which previously would have been included in the consideration for the business combination. Contingent consideration payable to the former owners of Netcash of £1.4m has been recognised at fair value, this additional consideration is dependent on EBIT achievement for the year ending 30 September 2011.

The outflow of cash and cash equivalents on the acquisition of Netcash is calculated as follows:	£m
Cash consideration	7.1
Cash acquired	(0.8)
Net cash outflow	6.3

24 Acquisitions and disposals (continued)

a Acquisition of Netcash (Pty) Limited (continued)

The intangible assets acquired as part of the acquisition of Netcash can be analysed as follows:	£m
Technology	1.3
Customer relationships	1.5
	2.8

Further details of these are given in note 8.

There were no other acquisitions made in the year.

b Disposal of Sage Pro-Concept S.A.

On 30 October 2009 the Group disposed of Sage Pro-Concept S.A. (“Pro-Concept”) for £7.0m in cash.

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

Pro-Concept disposal	Carrying value pre-disposal £m
Goodwill	(8.6)
Intangible assets	(1.5)
Property, plant and equipment	(1.1)
Trade and other receivables	(1.8)
Income tax – Deferred	0.1
Trade and other payables	2.6
Deferred income	0.9
Cash and cash equivalents	(2.0)
Net assets disposed	**(11.4)**

The loss on disposal is calculated as follows:	£m
Disposal proceeds	7.0
Net assets disposed	(11.4)
Cumulative translation differences	3.4
Loss on disposal	**(1.0)**

The inflow of cash and cash equivalents on the disposal of Pro-Concept is calculated as follows:	£m
Disposal proceeds	7.0
Cash disposed	(2.0)
Net cash inflow	**5.0**

c Other disposals made in the year

The following other disposals were made during the year:

- On 30 November 2009 the Group disposed of the Eurowin Hardware division of Sage Eurowin, S.L.
- On 23 April 2010 the Group disposed of the Solion division of Sage Healthcare, LLC.
- On 31 August 2010 the Group disposed of Datev-Symfonia sp. z o.o.

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

Other disposals	Carrying value pre-disposal £m
Goodwill	(0.2)
Trade and other receivables	(0.2)
Trade and other payables	0.1
Net assets disposed	**(0.3)**

The gain on disposal is calculated as follows:	£m
Disposal proceeds	2.4
Net assets disposed	(0.3)
Cumulative translation differences	0.1
Gain on disposal	**2.2**

d Contribution of disposals

Had these disposals occurred at the beginning of the financial year, Group revenue would have been £1,431.2m and Group profit before taxation would have been £319.8m.

e Other

During the year ended 30 September 2010 adjustments were made in respect of goodwill on prior year acquisitions of £0.2m, due to a reduction in deferred consideration of £0.1m and decrease in net assets of £0.3m following the finalisation of the fair value of assets and liabilities.

f Analysis of net outflow of cash in respect of acquisitions and disposals

The outflow of cash and cash equivalents on the acquisitions and disposals is calculated as follows:	Note	£m
Netcash	24(a)	(6.3)
Payment of contingent consideration		(1.2)
Acquisitions of subsidiaries		**(7.5)**
Pro-Concept	24(b)	5.0
Other disposals	24(c)	2.4
Disposal of subsidiaries		**7.4**
Net cash outflow in respect of acquisitions and disposals		**(0.1)**

g Analysis of goodwill

The total additions and disposals to goodwill are calculated as follows:	Note	£m
Netcash	24(a)	8.9
Adjustments in relation to previous years' acquisitions	24(e)	0.2
Additions		**9.1**
Pro-Concept	24(b)	(8.6)
Other disposals	24(c)	(0.2)
Disposals		**(8.8)**
Net movement in goodwill on acquisitions and disposals		**0.3**

25 Employees and directors

Average number of people employed (including directors)	2010 number	2009 number
By territory:		
UK & Ireland	**2,409**	2,509
Mainland Europe	**5,142**	5,573
North America	**3,975**	4,501
Rest of World	**1,730**	1,769
	13,256	14,352

Staff costs (including directors on service contracts)	Note	2010 £m	2009 £m
Wages and salaries		**532.2**	551.0
Social security costs		**101.1**	110.5
Share-based payments	19	**10.0**	6.7
Other pension costs	26	**13.3**	13.8
		656.6	682.0

Key management compensation	2010 £m	2009 £m
Salaries and short-term employee benefits	**7.9**	6.5
Post-employment benefits	**0.8**	0.6
Share-based payments	**4.1**	3.1
	12.8	10.2

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee as shown on page 15.

26 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 a small pension scheme in Switzerland (the disposal of Sage Pro-Concept S.A. has resulted in a reduction in retirement benefit obligations) 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.

Pension costs	Note	2010 £m	2009 £m
Defined contribution schemes		**12.0**	11.9
Defined benefit plans		**1.3**	1.9
	25	**13.3**	13.8

Defined benefit plans

The most recent actuarial valuations of the retirement benefit plans were performed by Ernst & Young in October 2010.

Weighted average principal assumptions made by the actuaries	2010 %	2009 %
Rate of increase in pensionable salaries	**2.80**	0.50
Rate of increase in pensions in payment and deferred pensions	**0.00**	0.00
Discount rate	**2.90**	3.20
Inflation assumption	**1.50**	1.00
Expected return on plan assets	**4.00**	4.00

Mortality rate assumptions made by the actuaries	2010 years	2009 years
Average life expectancy for 65-year-old male	**19.4**	19.4
Average life expectancy for 65-year-old female	**23.9**	23.9
Average life expectancy for 45-year-old male	**32.7**	32.7
Average life expectancy for 45-year-old female	**38.7**	38.7

Amounts recognised in the balance sheet	2010 £m	2009 £m
Present value of funded obligations	**(26.2)**	(31.7)
Fair value of plan assets	**14.9**	19.9
Net liability recognised in the balance sheet	**(11.3)**	(11.8)

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.

Major categories of plan assets as a percentage of total plan assets	2010 £m	2010 %	2009 £m	2009 %
Bonds	**9.6**	**64.4**	12.4	62.3
Equities	**2.4**	**16.1**	3.2	16.1
Property	**1.2**	**8.1**	1.1	5.5
Other	**1.7**	**11.4**	3.2	16.1
	14.9	**100.0**	19.9	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 at the end of the reporting period. 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 2011 are £0.9m.

Amounts recognised in the income statement	2010 £m	2009 £m
Interest cost	**(0.8)**	(1.0)
Expected return on plan assets	**1.0**	0.8
Current service cost	**(1.5)**	(1.7)
Total included within staff costs	**(1.3)**	(1.9)

The entire cost is included within selling and administrative expenses.

Changes in the present value of the defined benefit obligation	2010 £m	2009 £m
Present value of obligation – 1 October	**(31.7)**	(20.0)
Exchange movement	**(1.3)**	(5.0)
Disposal	**9.0**	–
Service cost	**(1.5)**	(1.7)
Plan participant contributions	**(0.6)**	(2.9)
Interest cost	**(0.8)**	(1.0)
Benefits paid	**1.3**	4.3
Reclassification	**(0.5)**	(5.6)
Actuarial (loss)/gain on benefit obligation	**(0.1)**	0.2
Present value of obligation – 30 September	**(26.2)**	(31.7)

26 Retirement benefit obligations (continued)

Changes in the fair value of plan assets	2010 £m	2009 £m
Fair value of plan assets – 1 October	**19.9**	16.1
Exchange movement	**1.5**	3.3
Disposal	**(7.4)**	–
Expected return on plan assets	**1.0**	0.8
Employer's contributions	**0.8**	1.4
Employee's contributions	**0.6**	2.9
Benefits paid	**(1.3)**	(4.3)
Reclassification	**–**	0.2
Actuarial loss on plan assets	**(0.2)**	(0.5)
Fair value of plan assets – 30 September	**14.9**	19.9

Analysis of the movement in the balance sheet liability	2010 £m	2009 £m
At 1 October	**(11.8)**	(3.9)
Exchange movement	**0.2**	(1.7)
Disposal	**1.6**	–
Total expense as recognised in the income statement	**(1.3)**	(1.9)
Contributions paid	**0.8**	1.4
Reclassification	**(0.5)**	(5.4)
Actuarial loss	**(0.3)**	(0.3)
At 30 September	**(11.3)**	(11.8)

The actual return on plan assets was £0.3m (2009: £0.2m).

History of experience gains and losses	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligation	**(26.2)**	(31.7)	(20.0)	(17.9)	(11.7)
Fair value of plan assets	**14.9**	19.9	16.1	12.6	9.6
Deficit	**(11.3)**	(11.8)	(3.9)	(5.3)	(2.1)
Experience adjustments on plan liabilities	**0.1**	(0.2)	(3.5)	(5.8)	(0.1)
Experience adjustments on plan assets	**0.2**	0.5	0.7	7.6	0.1

Cumulative actuarial gains and losses recognised outside profit or loss	2010 £m	2009 £m
At 1 October	**0.6**	0.9
Actuarial losses recognised in the year (before tax)	**(0.3)**	(0.3)
At 30 September	**0.3**	0.6

27 Operating lease commitments – minimum lease payments

	2010		2009	
Total future commitments under non-cancellable operating leases expiring:	**Property £m**	**Vehicles plant and equipment £m**	Property £m	Vehicles plant and equipment £m
Within one year	**9.2**	**1.6**	11.8	2.0
Later than one year and less than five years	**34.6**	**4.6**	61.6	4.9
After five years	**180.0**	**–**	132.0	–
	223.8	**6.2**	205.4	6.9

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

28 Contingent liabilities

The Group had no contingent liabilities at 30 September 2010 (2009: none).

29 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.

30 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 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
Sage Software 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 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of cash flows, Consolidated statement of changes in equity 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 50, 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 Chapter 3 of Part 16 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 2010 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 44 to 50 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 49 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 2010 and on the information in the Remuneration report that is described as having been audited.

Charles Bowman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
20 December 2010

Company balance sheet

At 30 September 2010
Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2010 £m	2009 £m
Fixed assets			
Investments	2	**1,460.0**	1,578.0
		1,460.0	1,578.0
Current assets			
Debtors	3	**215.8**	287.4
		215.8	287.4
Creditors			
Amounts falling due within one year	4	**(578.8)**	(579.2)
Net current liabilities		**(363.0)**	(291.8)
Total assets less current liabilities		**1,097.0**	1,286.2
Creditors			
Amounts falling due after more than one year	5	**(247.0)**	(460.7)
Net assets		**850.0**	825.5
Capital and reserves			
Called up share capital	6	**13.2**	13.1
Share premium account	7	**499.8**	492.0
Other reserve	7	**47.2**	50.7
Profit and loss account	7	**289.8**	269.7
Total shareholders' funds		**850.0**	825.5

The financial statements on pages 109 to 113 were approved by the Board of directors on 20 December 2010 and are signed on their behalf by:

G S Berruyer
Director

P S Harrison
Director

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 £113.2m (2009: profit £181.2m). 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 the end of each reporting period, 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

	2010 £m	2009 £m
Final dividend paid for the year ended 30 September 2009 of 4.93p per share	**64.7**	–
(2009: final dividend paid for the year ended 30 September 2008 of 4.78p per share)	**–**	62.5
Interim dividend paid for the year ended 30 September 2010 of 2.58p per share	**33.9**	–
(2009: interim dividend paid for the year ended 30 September 2009 of 2.50p per share)	**–**	32.6
	98.6	95.1

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2010 of 5.22p per share which will absorb an estimated £68.8m of shareholders' funds. It will be paid on 11 March 2011 to shareholders who are on the register of members on 11 February 2011. These financial statements do not reflect this dividend payable.

2 Investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2009	**1,578.0**
Reduction in year	**(118.0)**
At 30 September 2010	**1,460.0**
Provision for diminution in value at 30 September 2009 and 2010	**–**
Net book value	
At 30 September 2010	**1,460.0**
At 30 September 2009	1,578.0

The reduction in the year represents share capital redeemed in an existing subsidiary undertaking. 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 2010, are shown in note 30 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

	2010 £m	2009 £m
Amounts owed by Group undertakings	**215.5**	286.5
Other debtors	**0.3**	0.9
	215.8	287.4

4 Creditors: amounts falling due within one year

	2010 £m	2009 £m
Bank overdraft	**0.2**	0.3
Borrowings	**–**	1.3
Amounts owed to Group undertakings	**573.8**	576.4
Accruals	**4.8**	1.2
	578.8	579.2

5 Creditors: amounts falling due in more than one year

	2010 £m	2009 £m
US senior loan notes – unsecured	**189.1**	–
Bank loans – unsecured	**56.9**	460.4
Derivative financial instruments	**1.0**	0.3
	247.0	460.7

Included in loans above is £246.0m (2009: £460.4m) of unsecured loans (after unamortised issue costs) these borrowing were taken out in connection with acquisitions.

The bank loans are principally drawn down under a £357.4m (2009: £815.1m) multi-currency revolving credit facility expiring on 31 August 2015. This facility was arranged during the year and consists both of US$271.0m (£172.0m) and €214.0m (£185.4m) tranches and replaces the £650.0m and US$264.0m (£165.1m) multi-currency revolving credit facilities both of which were cancelled during the year.

In March 2010 US$300.0m (£190.4m) senior loan notes were issued into the private placement market, these notes mature $200.0m (£127.0m) in 2015, $50.0m (£31.7m) in 2016 and $50.0m (£31.7m) in 2017 and carry interest coupons of 4.39%, 4.78% and 5.15% respectively. These senior loan notes were used to repay part of the multi-currency revolving credit facility.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £4.0m (2009: £0.2m). The Group has incurred total issue costs of £4.4m (2009: £8.3m) in respect of these facilities. These costs are allocated to the income statement over the term of the facility using the effective interest method.

Unsecured bank borrowings were drawn in the following currencies: Sterling £nil (2009: £71.7m); US Dollar £56.9m (2009: £229.3m), Euro £nil (2009: £147.9m) and Swiss Franc £nil (2009: £12.8m) and currently bear interest at a rate of 1.20% (2009: 0.35%) above LIBOR, apart from £50.8m (2009: £93.8m) which bear an average fixed interest rate of 1.68% (excluding a margin of 1.20%).

6 Called up share capital

Authorised	**2010 £m**	2009 £m
1,860,000,000 (2009: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	**2010 shares**	**2010 £m**	2009 shares	2009 £m
At 1 October	**1,312,966,956**	**13.1**	1,309,557,557	13.1
Allotted under share option schemes	**4,393,626**	**0.1**	3,409,399	–
At 30 September	**1,317,360,582**	**13.2**	1,312,966,956	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 329.75p 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 2009	(10.1)	61.1	(0.3)	50.7	492.0	269.7	812.4
New shares issued	–	–	–	–	7.8	–	7.8
Purchase of treasury shares	(7.3)	–	–	(7.3)	–	–	(7.3)
Utilisation of treasury shares	4.5	–	–	4.5	–	(4.5)	–
Cash flow hedge	–	–	(0.7)	(0.7)	–	–	(0.7)
Retained profit for the year	–	–	–	–	–	113.2	113.2
Dividends	–	–	–	–	–	(98.6)	(98.6)
Equity-settled transactions	–	–	–	–	–	10.0	10.0
At 30 September 2010	**(12.9)**	**61.1**	**(1.0)**	**47.2**	**499.8**	**289.8**	**836.8**

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 4,986,267 ordinary shares in the Company (2009: 3,601,541) at a cost of £12.9m (2009: £10.1m) and a nominal value of £49,863 (2009: £36,015). The Trust originally purchased the shares in February 2006, a further 2,990,210 shares were acquired by the Trust in August 2010 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 acquired by the Trust in the open market using funds provided by the Company to meet obligations under the Performance Share Plan. During the year, 1,605,484 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 2010 was £13.8m (2009: £8.4m).

8 Operating lease commitments – minimum lease payments

The Company had no operating lease commitments during the year (2009: £nil).

9 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 September 2010 (2009: 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 2010 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 50, 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 Chapter 3 of Part 16 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 2010;
- 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 2010.

Charles Bowman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
20 December 2010

Shareholder information

Financial calendar

Annual General Meeting	2 March 2011
Dividend payments	
Final payable – year ended 30 September 2010	11 March 2011
Interim payable – period ending 31 March 2011	June 2011
Results announcements	
Interim results – period ending 31 March 2011	4 May 2011
Final results – year ending 30 September 2011	30 November 2011

Shareholder information online

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

To take advantage of this service for future communications, please go to www.shareview.co.uk and select "Shareholder Centre", where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your eleven-character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

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

Registrars

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Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary.
Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

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

Investor enquiries

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

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The online version of this report offers a richer experience, enhanced content and provides PDFs of the report:

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Design and production
Radley Yeldar | www.ry.com

Board photography
Sam Robinson

Print
Royle Print

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