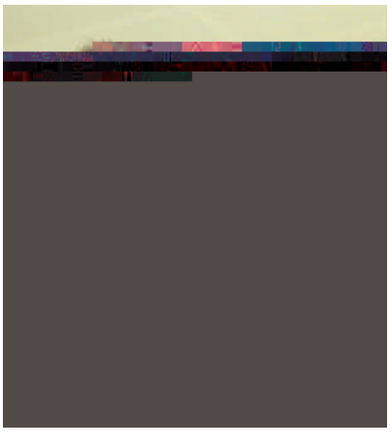
Annual Report & Accounts 2011

The Sage Group plc



Chairman's letter

Dear Shareholder

Full year dividend per share of

9.75p

(2010: 7.80p)

These good results reflect the strong fundamentals of Sage's business, such as our leading market positions, our large and loyal customer base, a culture of innovation and high cash generation. In the past 12 months we have built on these foundations to reposition the business to deliver higher revenue and profit growth in the future. With our strong balance sheet and cash flows and our focus upon shareholder value, the Board has decided to rebase the dividend, resulting in a 25% increase in the year. Going forward our policy is to increase our dividend broadly in line with growth in underlying earnings per share.

During the year we announced the sale of Sage Healthcare, which will enable management to focus on the considerable opportunities that exist within our core US business. The proceeds from this sale will be returned to shareholders through a share buyback programme which commenced in October 2011. This Board decision reflects our policy of returning surplus capital to shareholders and our intention is to gradually reach a net debt level of 1x EBITDA over the next 18 months through a combination of further capital returns to shareholders and targeted acquisitions.

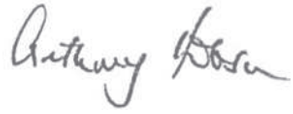
Following the appointment of Guy Berruyer as CEO in 2010, a number of senior executive promotions followed across two regions with a consequent effect on three of our largest countries. These appointments were a key measure of the success of several years of strengthening and deepening our executive talent pool. We will continue to focus on our talent, to ensure that we have appropriate succession plans at all levels of our business, and have the right skills in place to support our ambitious business priorities.

I believe that a strong and diverse Board is a prerequisite for success. Diversity is measured in many ways; for instance the different professional backgrounds of Board members. The Board of Sage will regularly consider how the diversity and skills of the management team across the Group can be enhanced, including the proportion of women in our team. It is of the utmost importance that we maintain a strong and diverse Board and management team and only the most appropriate candidates will be appointed.

We remain committed to high standards of corporate governance, with ultimate responsibility sitting with the Board. This year the terms of the UK Corporate Governance Code 2010 applied to the Company for the first time. You can read more about Board activities and priorities from page 46.

This year saw the departure from the Board of Paul Stobart and Tim Ingram. As CEO of Northern Europe, and previously of our UK & Ireland business, Paul made a substantial contribution to Sage over his fifteen years in the business. Tim served on the Board as a non-executive director for nine years, becoming Senior Independent non-executive director in July 2007. He brought considerable experience to the Board, particularly financial and City expertise. On behalf of the Board, we wish both Paul and Tim every future success and thank them for their contributions to Sage. More generally, I would like to thank all of our people for their continued, dedicated commitment to Sage.

Looking forward, the economic outlook remains uncertain. However, our strong business model and robust finances position us well to deal with the changeable economic cycle. We will continue to pursue our significant market and product opportunities whilst, as always, managing the business prudently.



Anthony Hobson, Chairman

Read the Chairman's introduction to governance on page 45

Overview

Setting the scene for our business, our business model for creating value and the markets in which we operate.

Read about how our business model is positioning our business for future growth on pages 6 – 11

IFC Chairman's letter
2 Chief Executive's review
5 Executive Committee
6 Our business model
12 Market overview

Performance

A review of our financial and corporate performance including our priorities and how we are delivering against them.

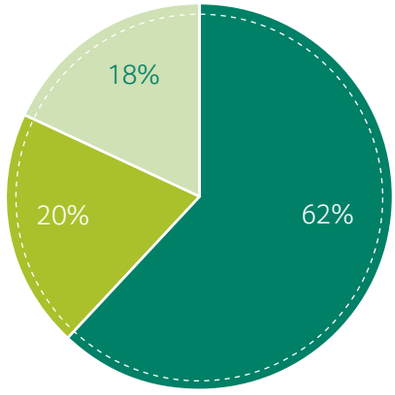
Read about how we are delivering our priorities on pages 24 – 35

14 Financial review
19 Key Performance Indicators ("KPIs")
20 Principal risks and uncertainties
22 Our priorities
24 Delivering our priorities
36 People and organisation
38 Corporate responsibility

Governance

How we manage our business and an introduction to our Board and their priorities.

Read about the role of the Board, including the matters reserved for the Board from page 46



- Strategy and risk
- Financial reporting
- Governance

42 Board of directors
44 Executive Committee biographies
45 Chairman's introduction
46 Corporate governance
54 Directors' report
58 Remuneration report

Financial statements

Our financial statements provide a complete picture of our 2011 performance.

Read our financial statements on pages 67 – 123

Organic# revenue growth

4%*

2010 continuing: 1%

68 Independent auditors' report
69 Group financial statements
73 Notes to the financial statements
115 Independent auditors' report
116 Company financial statements
117 Notes to the financial statements
123 Shareholder information

www.sage.com

Strong foundations

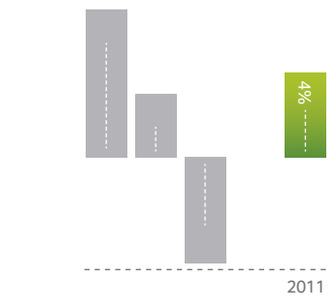
- **6 million customers**
- **12,300 employees.**

We help our customers to manage their business more efficiently through the

through a business model, which offers significant growth potential together with high levels of profitability and cash.

-
- and connected services. Significant launches in the year (e.g. *Sage One*
-

Organic# revenue growth



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

exchange rates for the year ended 30 September 2011 of $1.61/£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 and is after neutralising the impact of foreign exchange movements.

for future growth

Where Sage operates

We operate through a decentralised structure in more than 23 countries worldwide. Our software and services are developed and supported locally, enabling us to react quickly at a local level to individual market needs. We also have a number of products sold across the Group such as *Sage ERP X3* and *Sage CRM* that meet wider market needs.

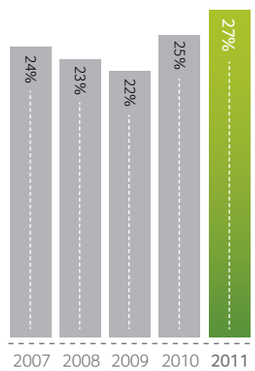
Read about our regional performance on pages 16 – 17

Our regions and their contribution to Group revenue

* Africa, Australia, Middle East and Asia

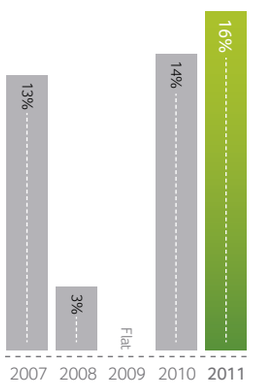
EBITA† margin
27%

KPI



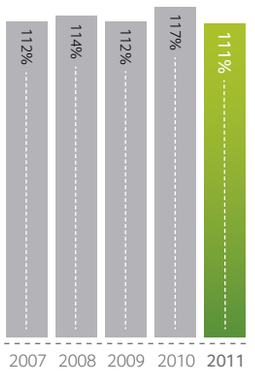
Underlying EPS growth
16%*

KPI



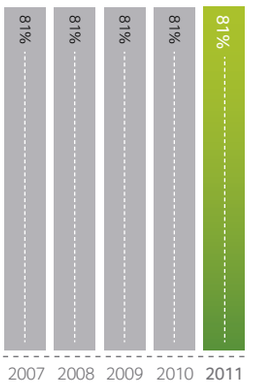
Cash generation
111%

KPI



Renewal rates
81%

KPI



Chief Executive's review

Leveraging our

These are good results which reflect the strong fundamentals of Sage's business

Guy Berruyer, Chief Executive

From a trading perspective this has been a positive year for Sage, with 4%* growth in organic revenue, 16%* growth in underlying earnings per share and strong cash flows. At the same time, from both a strategic and an operational perspective, there has been significant change – we have embedded a new management structure, disposed of our Sage Healthcare business and demonstrated our commitment to enhancing shareholder returns. We have also taken concrete steps better to position the Group for growth – this involves expanding the range of products and services we can sell to our customer base, focusing our resources on areas with the highest potential, accelerating the development of our online offers and collaborating more within Sage to meet the common challenges that our businesses face. All of these factors have enabled us to make good progress against the four priorities I set out last December – improving organic revenue growth, driving margins in the medium term, further leveraging the web and re-engaging in M&A.

Whilst there has been a lot of change in the year, we have also remained focused on the needs of our 6 million SME customers. These customers value excellent service, products that meet their business needs and a brand they can trust. We are pleased that our customer satisfaction ratings remained high and our subscription contract renewal rates were stable at 81%; a key measure for Sage. In line with

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 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of $1.61/£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 and is after neutralising the impact of foreign exchange movements.

strengths

the trend of previous years and with more products and services sold through contracts, subscription revenues grew ahead of software and software-related services, with 5%* and 3%* growth respectively (2010: 3%* growth and 3%* contraction respectively).

The external trading environment was mixed in the year, although an improvement in comparison with 2010. With the health of SMEs closely linked to that of the underlying economies in which we trade, we have had to compete hard to win new sales of software. Nevertheless, with our culture of innovation, an established range of products, and the ability to provide real business benefits to customers through our offerings, we were pleased to welcome 261,000 new paying customers to Sage in the year (2010: 252,000). These customers will be a key source of future subscription revenue for Sage.

We have already made progress against our objective of increasing margins in the medium term. At the start of 2011, we expected to maintain margins at the 2010 level as a result of additional investment in the business. This investment partly arose in Sage Healthcare, where margins were expected to fall, whilst our other, continuing operations planned a margin improvement. Now that Sage Healthcare has been treated as a discontinued operation, I am pleased to report an increase in the EBITA† margin of our continuing operations to 27.4% in the year (2010: 26.4%*).

At the same time as increasing margins, we have invested in the areas we set out at the start of the year, such as *Sage ERP X3*, customer service, online products and internal systems, although we have delayed the adoption of our UK payments platform in Mainland Europe until 2012 to give us more time to focus on the resilience of the technology prior to the launch. Whilst in 2012 we are prioritising investing in growth opportunities over further margin expansion, we do not regard 27% as a ceiling for margins in the longer term.

Our pre-tax profit rose by 8%* in the year to £352.6m (2010: £326.6m*), whilst underlying earnings per share in 2011 were 20.81p (2010: 17.88p*), growth of 16%*. The underlying EPS growth benefitted from the favourable resolution of some outstanding tax matters leading to a temporary reduction in our effective tax rate in the year to 23% (2010: 28%).

Capital structure and dividends

Sage continues to be highly cash generative, and we are rigorous in allocating capital to business investment and targeted acquisitions. We also look to return surplus capital to shareholders. Despite an uncertain economic environment we remain confident about our business and our intention is therefore to reach a net debt level of a minimum of 1x EBITDA over the next 18 months by a combination of further capital returns to shareholders and targeted acquisitions.

Also reflecting this objective, the Board has rebased the dividend resulting in a 25% increase in our total dividend to 9.75p per share (2010: 7.80p per share), giving a final proposed dividend of 7.07p per share (2010: 5.22p per share). This total dividend is covered 2.1x by profits. We intend to pursue a policy of further increasing our dividend broadly in line with underlying EPS growth over time.

Key developments in the year

Leadership

The business is now organised as 3 regions: Europe, North America and AAMEA (Africa, Australia, Middle East and Asia), managed by Álvaro Ramírez, Pascal Houillon and Ivan Epstein respectively. This new structure is designed to drive greater collaboration and efficiency, and we have seen early positive results, such as the adoption of a common technology platform across the Group for online business solutions for small businesses.

We have also revised incentive plans for leadership across the Group so that a greater proportion of variable compensation is based on revenue growth, together with minimum profit requirements.

Innovation and technology

New technology developments mean there are significant opportunities for Sage to deliver productivity gains to SMEs through the use of our solutions. For example, in combining credit card processing and accounting, customers can avoid re-keying data, control their payments more effectively and accelerate their own cash receipts. As a result of this, we have seen strong demand for our payment services, with cross-selling of payments into our North American accounting base growing by over 40%* in the year, contributing to 16%* growth of our payments businesses across the Group.

Our focus is on delivering real business benefits to customers through the use of technology. In the small business market we continue to develop new online (SaaS) business solutions, with the most significant launch being *Sage One* in the UK. Launched in January 2011, *Sage One* already supports over 1,000 paying customers, the vast majority of which are new to Sage. In addition, we are also developing a Group-wide technology platform based on *Sage One*, for further launches of accounting and other small business online solutions. Our priority is to launch a full small business online accounting product in North America, the market with the highest adoption of online accounting.

In the mid-market, the development of cloud versions of our leading products continues, and we expect several launches in the next 12 months. We have also launched over 20 connected services this year, increasing the reach of our on-premise products into the cloud. We expect connected services to be a significant contributor to growth in the future.

Given the current economic uncertainty, we will continue to manage the business prudently, whilst pursuing the significant longer term opportunities we have in our markets

We increasingly provide updates automatically to our customers over the web. As we become "online" with our on-premise customers, this enables us to promote our connected services within existing products. Customers are able to procure these add-on solutions over the web. Furthermore, we have embedded our Sage Advisor technology in all our key North American products. This allows us to get direct feedback on the use of our solutions by our customers which means that we can target our support, our training and our future developments at the areas where we know we can deliver the best possible customer experience and value.

Acquisitions

Having not made significant acquisitions since 2006, one of my priorities has been to re-engage with acquisition opportunities as an enabler of our strategy. Such opportunities lie in both existing and selected new geographical markets. They also lie in opportunities to sell new products and services to our large customer base including web-based solutions. We apply rigorous discipline to the evaluation of these opportunities, with appraisal models linked to shareholder value. Whilst we evaluated a number of opportunities in the year, we did not complete any significant transactions.

Following the year end, in October 2011, we acquired Alchemex, a company based in South Africa providing business intelligence tools for SMEs. We see business intelligence as a key growth area for Sage, and we are embedding Alchemex technology into our products beginning in South Africa, Australia and North America.

Brand

Our strong brand is a source of competitive advantage for us. To that end, this summer we announced the rebranding of our North American accounting and ERP products, which will transition to one Sage brand, with individual product brands no longer being used. This will allow us, and our partners, to focus our marketing efforts on a single brand, maximising the impact of our marketing spend. In turn, this will help us capitalise on our cross-sell opportunities.

Sage ERP X3

Sage ERP X3, our global offering for the mid-market, continues to perform well, with growth of 13%* in the year. From having had its origins in the French market, 38% of *Sage ERP X3* revenue is now outside France. In several Sage geographies, the product is still in its very early stages so the potential for Sage is significant in this segment of the market.

Market environment

In February 2011 we released a report "The Sage Business Index 2011 – International Business Insights", based on research conducted with over 6,000 small businesses in a broad range of industry sectors across the world. We expanded this research to 10,000 businesses and released the second Sage Business Index in September 2011. The reports cover business confidence and the economy, each country as a place to do business, the role of government, business challenges and advice and the role of technology.

The results reveal that whilst confidence appears to be returning, this is not universal and, though businesses in each country face a variety of issues particular to their geography, there are also common challenges, such as legislation and funding. Entrepreneurial spirit and culture are shown to be alive and well and the report points to how the key driver for adopting new technologies is to improve business efficiency. The September 2011 report showed a decline in overall confidence about the economic outlook, but when asked about prospects for their own business, respondents were still cautiously optimistic.

Summary and outlook

When I took over as CEO of Sage in October 2010, I inherited a business with immensely strong foundations: leading market positions, committed employees, a culture of innovation, and strong cash generation. However, we had also reached a point in our evolution where we needed to reposition the business towards higher growth by focusing our resources on areas with the highest potential, further leveraging our customer base, accelerating the development of our online offers and collaborating more within Sage to meet the common challenges our businesses face. Achieving all these objectives will take more than one year, but I am very pleased with the concrete steps we have taken in the year and as set out in this report.

As we look forward, there are clearly significant macro-economic concerns which may impact SMEs, particularly in the eurozone, and our customers are telling us through our Sage Business Index that they see the outlook remaining uncertain. However, the strengths of our business position us well to deal with the ups and downs of the economic cycle. Given the current economic uncertainty, we will continue to manage the business prudently, whilst pursuing the significant longer term opportunities we have in our markets.

Guy Berruyer, Chief Executive Officer

* 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 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of $1.61/£1 and €1.15/£1 to facilitate the comparison of results.

Executive Committee

The Executive Committee oversees the sound running of all Sage operations. It comprises nine internationally diverse senior leaders from across the business

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 operational and financial performance;
- the assessment and control of risk;
- the prioritisation and allocation of resources; and
- monitoring competitive forces in each area of operation.

1 Guy Berruyer
Chief Executive Officer

2 David Clayton
Director of Strategy and Corporate Development

3 Paul Harrison
Chief Financial Officer

4 Karen Geary
Group Human Resources Director

5 Klaus-Michael Vogelberg
Group Chief Technology Officer

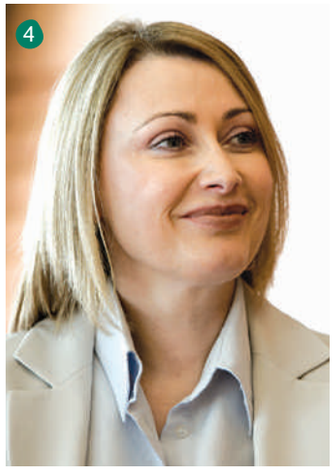
6 Michael Robinson
Company Secretary and Group Legal Director

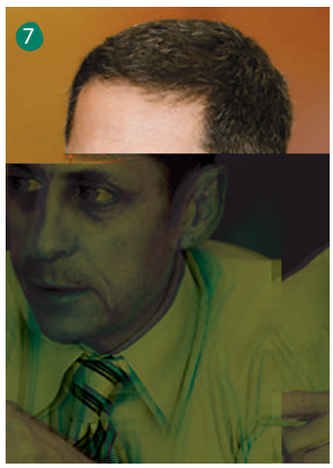
7 Ivan Epstein
Chief Executive Officer, AAMEA

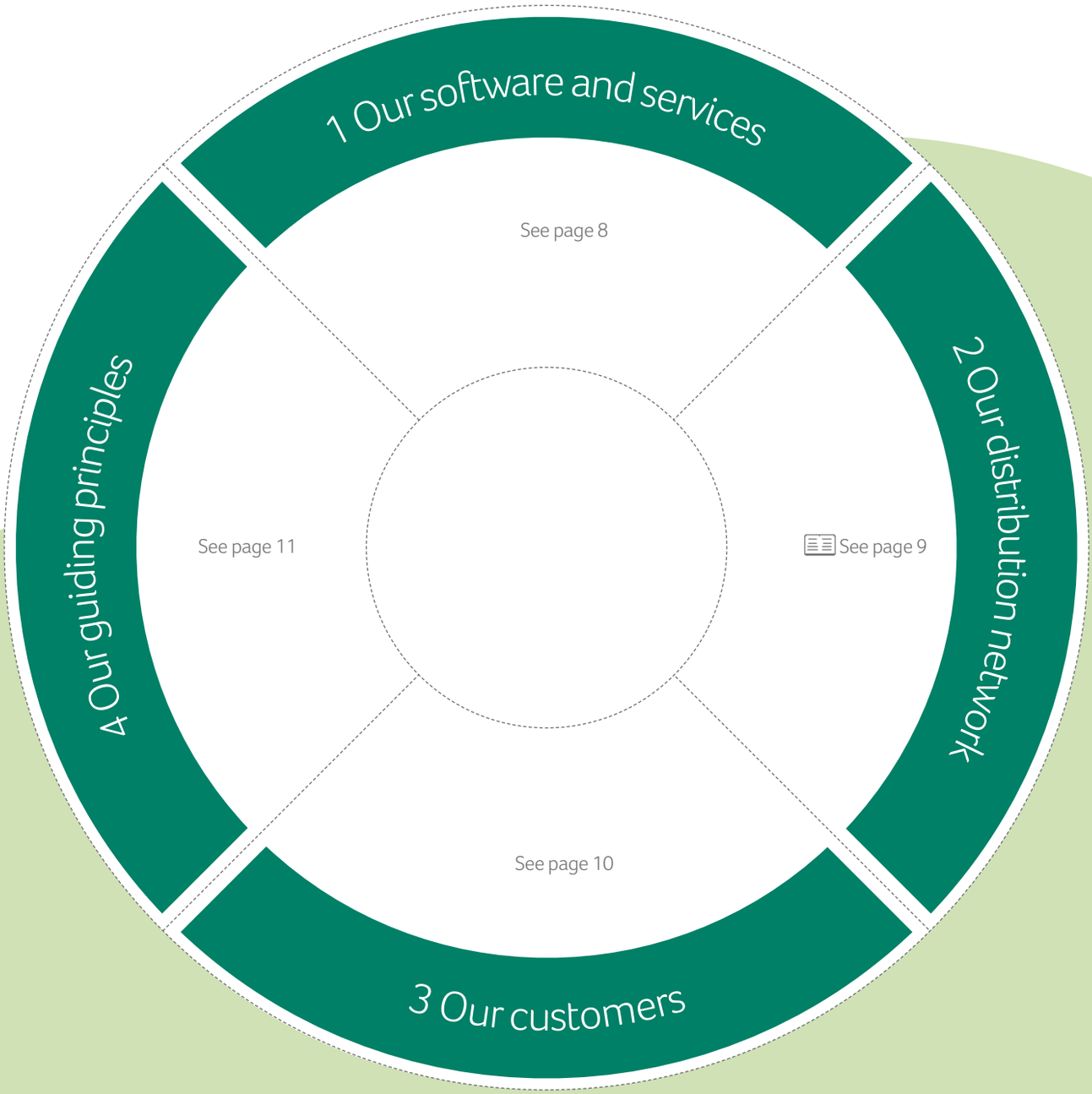
8 Pascal Houillon
Chief Executive Officer, North America

9 Álvaro Ramírez
Chief Executive Officer, Europe

See page 44 for full biographies






1 Our software and services
See page 8
2 Our distribution network
See page 9
3 Our customers
See page 10
4 Our guiding principles
See page 11

2 Our distribution network

Our distribution channels are a key competitive advantage. We work with over 28,000 business partners and 40,000 accountants who recommend and market Sage products worldwide.

Business partners are not only key in promoting our software and services, but also in providing local expertise to customers who demand increasing levels of tailored software and specialised services.

Direct sales by telesales teams or our websites

Direct (including via the web)

Many of our products and services are sold direct by our telesales teams or via our websites, especially at the entry-level where product implementation is easier.

Business partners

Our business partners are part of the Sage ecosystem and provide additional local expertise, implementation, training and support as well as customisation and specialist sector knowledge, particularly in the mid-market.

Our business partners form part of our Sage ecosystem

Accountants

Our size and experience mean our software and services are trusted by accountants worldwide to manage their clients' businesses.

Our network of accountants are accredited as Sage experts and receive the support of a dedicated account team to help market Sage products and services and provide installation, configuration and training.

Our network of accountants are accredited as Sage experts

Retail

Retail sales account for a small part of our total revenues. However, it is an important channel in welcoming new customers to Sage. As these businesses grow, they upgrade and extend their software solutions, leading to future revenue streams.

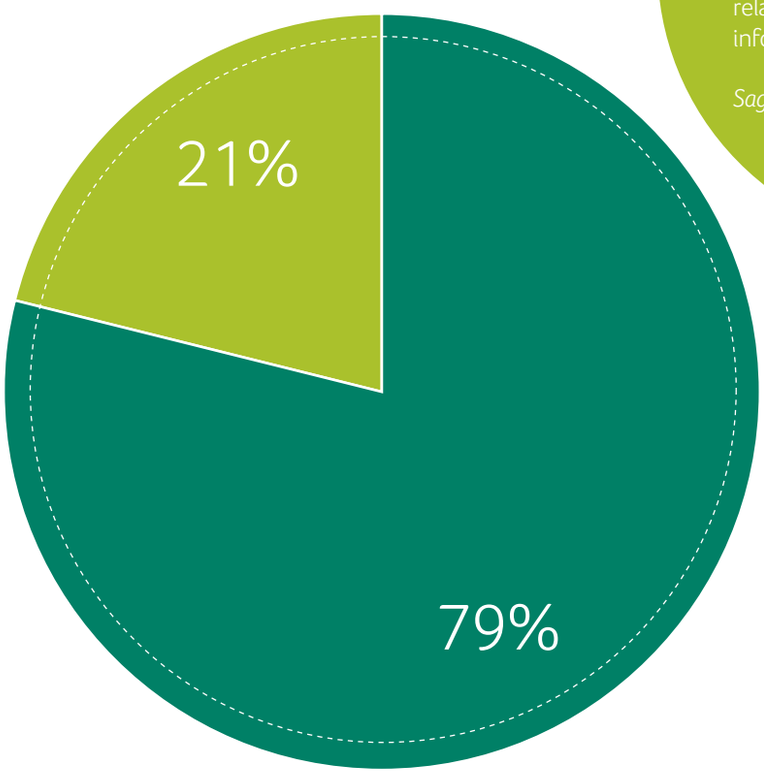
Retail sales are an important channel of attracting new customers

3 Our customers

More than 6 million companies around the world use our software and services. These range from small businesses to larger organisations and divisions of multi-national corporations.

We strive to deliver an experience to our customers that gives them peace of mind and the freedom to get on with running their businesses.

Customer split



Mid-market

Up to 5,000 employees
Represents 21% of our customer base

"*Sage SalesLogix* provides us with a more efficient solution for managing customer relationships and storing customer information."

Sage SalesLogix Customer, Harry Rosen Inc.

Small business

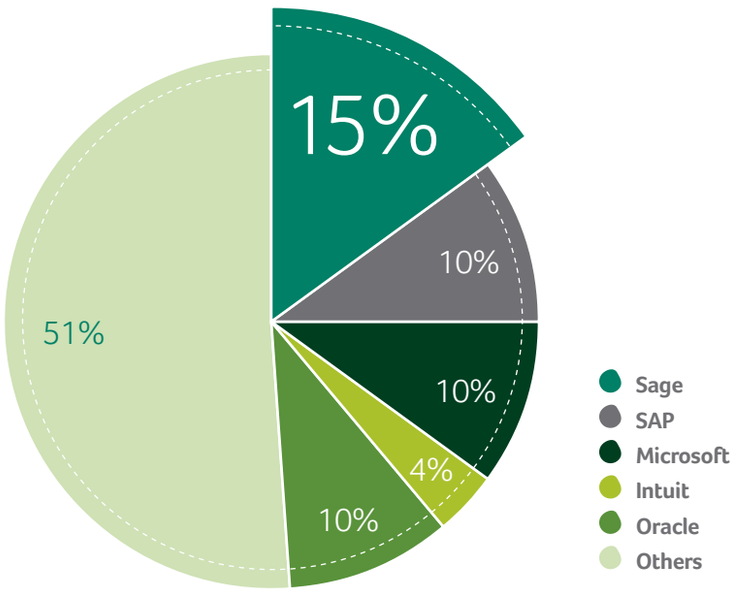
Up to 25 employees
Represents 79% of our customer base

"One of the best things about *Sage One* is it's so easy to use and it saves us lots of time when doing our books. Recording invoices is really quick and simple. The 24/7 telephone support is great too. We've called and got an answer immediately."

Sage One customer, E. Watson & Sons

Market overview

Sage is the leading global supplier of business management solutions to SMEs



Source: IDC #220937, Worldwide ERP 2008 Vendor Analysis, published December 2009.
Based on ERP revenue small business; <1000 employees

Competitive environment

In the SME space, Sage continues to enjoy a healthy share of the market. We have built our market leading position by providing local solutions to local customers.

In the small business segment, our competitors are typically local businesses that are privately owned. Most of them operate in a single country, often focused on just a part of that country. There are a relatively small number of larger companies which compete with us across a number of countries. In the mid-market, Microsoft Dynamics is our principal competitor, with some other local competitors.

As we enter the world of online applications we face both new and traditional competitors. Mobile applications are becoming more prevalent, as are flexible ways to purchase systems and applications. There are a significant and growing number of competitors in the small and micro online accounting space.

The barriers to entry in our business are high. Our business excels because of our leading software and services, our strong brand and our distribution network of partners and accountants.

Marketplace trends and factors

1 Legislation and Regulation

During the past few years, there have been significant legislative and regulatory changes that impact our customer base. These changes are opportunities for us to provide support and advice to our customers.

In the current year, the biggest impact has been the adoption of the Single European Payments Area ("SEPA") which has resulted in a number of our Euro-based customers upgrading their systems.

2 Technology developments

Increasingly, customers and employees want to access their data any time, anywhere. As a result, the need for providing web-based access to business applications as well as support for new devices and operating systems is becoming important.

For core accounting and ERP products, the significant majority of demand remains for these products deployed on-premise. However, as a new generation of web-centric entrepreneurs start businesses, we expect the proportion of accounting software delivered via the web to increase. We, therefore, believe that online business solutions for accounting will become more relevant to customers in the small and micro business segment over time.

3 International solutions

With globalisation on the increase, we are seeing growing demand from existing and potential customers who increasingly operate internationally and need a solution that works in all of their locations. These solutions must be robust enough to cope with multiple government legislations, currencies and languages, yet be flexible and offer local customisation. As a global business with extensive experience of working with growing SMEs, we understand these challenges and have developed solutions that meet the demands international business generates.

Economy

We are impacted by the global and local economies in which we trade and clearly there are currently uncertain macro trends. The main issue for SMEs remains getting access to capital. The consequence of this is that many businesses continue to defer substantial investment decisions.

Notwithstanding the economic position, SMEs continue to need our products to run their businesses effectively. SMEs are increasingly looking for greater efficiencies and continue to view our customer support as important as new government initiatives/regulation creates demand for up to date business management software and quality support.

The Sage Business Index – International Business Insights

In February 2011 we released a report "The Sage Business Index 2011 – International Business Insights", based on research conducted with over 6,000 small businesses in a broad range of industry sectors across the world. We expanded this research to 10,000 businesses and released the second Sage Business Index in September 2011. The reports cover business confidence and the economy, each country as a place to do business, the role of government, business challenges and advice and the role of technology.

The results reveal that whilst confidence appears to be returning, this is not universal and, though businesses in each country face a variety of issues particular to their geography, there are also common challenges, such as legislation and funding. Entrepreneurial spirit and culture are shown to be alive and well and the report points to how the key driver for adopting new technologies is to improve business efficiency. The September 2011 report showed a decline in overall confidence about the economic outlook, but when asked about prospects for their own business, respondents were still cautiously optimistic.

The Sage Business Index, plus additional content, can be accessed at:

www.businessindex.sage.com

Financial review

The Group remains highly cash generative with operating cash flow of £405.1m representing 111% of EBITA†

Paul Harrison, Chief Financial Officer

We remain highly cash

Organic# revenue growth
4%*
2010 continuing: 1%

Underlying EPS growth
16%*
2010: 14%

EBITA† margin increased to
27%
2010 continuing: 26%

Full year dividend up to 9.75p per share
25%
2010: 7.80p per share

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 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of $1.61/£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 and is after neutralising the impact of foreign exchange movements.

Revenue

Revenue from continuing operations grew by 4%* to £1,334.1m compared to the prior year (2010: £1,277.6m*). Organic revenue grew by 4%* compared to the prior year. Organic revenue excludes the contributions of current and prior year acquisitions and disposals and non-core products. Non-core products represent 2% of 2011 revenues. Organic revenue also excludes the results of Sage Healthcare, which is disclosed as discontinued operations. Revenue attributable to discontinued operations was £149.7m (2010: £152.4m*).

Total revenues for software and software-related services were £457.6m (2010: £446.1m*), which grew organically by 3%*. Software and software-related services include stand-alone software licence sales (including new licences, upgrades and migrations) and professional services, hardware and business forms.

Total subscription revenues were £876.5m (2010: £831.5m*) which grew organically by 5%*, benefitting from growth in premium subscription contracts and the continued shift towards software and services being sold on a subscription basis. Subscription revenues are recurring in nature and include stand-alone support (13% of total revenues), combined software and maintenance and support (47% of total revenues), and payment processing services (6% of total revenues).

Subscription contracts continue to be a key growth driver for Sage, and particularly the evolution of our premium support ranges. Of our contracts, more than two thirds are now premium in nature, that is, contracts which combine software and support, and in certain cases, other premium services such as connected services, priority phone lines and backup services.

Organic revenue growth in H2 FY11 was 4%*, compared to 5%* in H1 FY11. This was a result of particularly strong performances in H1 FY11 from certain businesses such as Poland, France and Sage Payment Solutions in North America, and a slow down in Spain in H2 FY11. In addition, in North America we saw a contraction in software revenues for certain of our products in H2, partly as a result of the substitution of software revenue to subscription revenue (which is then recognised over the following 12 months), and partly with the environment for small businesses remaining challenging.

Profitability

EBITA† increased by 8%* to £365.1m (2010: £336.7m*). The Group's EBITA† margin increased to 27.4% (2010: 26.4%*). At the same time we invested in the areas we set out at the beginning of 2011, such as *Sage ERP X3*, customer service, online products and internal systems. Net finance costs of £12.5m (2010: £10.1m) were higher than the prior year due to the full year impact of the private placement debt raised in March 2010. The average interest rate on borrowings during the year was 4.59% (2010: 2.2%), with a lower proportion of overall debt being drawn on the relatively cheaper revolver in 2011 than 2010.

The income tax expense of £74.8m (2010: £84.4m), and the effective tax rate of 23% (2010: 28%) were both lower due to the favourable resolution of certain outstanding tax matters.

Underlying earnings per share grew by 16%* to 20.81p (2010: 17.88p*). Statutory basic earnings per share from continuing operations for the year ended 30 September 2011 increased by 19% to 19.44p (2010: 16.30p). Statutory diluted earnings per share from continuing operations increased by 19% to 19.29p (2010: 16.26p).

generative

Reconciliation of operating to statutory results

EBITA† to operating profit	2011 £m	Restated 2010 £m	Variance %
EBITA†	**365.1**	336.7	+8%
Impact of movements in foreign currency exchange rates	**–**	0.5	
	365.1	337.2	+8%
Amortisation of acquired intangible assets	**(21.8)**	(28.2)	
Operating profit	**343.3**	309.0	+11%

Underlying to basic earnings per share	2011 pence	Restated 2010 pence	Variance %
Underlying EPS (continuing operations)	**20.81**	17.88	16%
Impact of movements in foreign currency exchange rates	**–**	0.05	
	20.81	17.93	16%
Amortisation of acquired intangible assets	**(1.37)**	(1.63)	
Basic EPS (continuing operations)	**19.44**	16.30	19%

Cash flows

The Group remains highly cash generative with an operating cash flow of £405.1m (2010: £394.5m), representing 111% of EBITA† (2010: 117%). After interest, tax, net capital expenditure and discontinued operations, free cash flow was £287.0m. The net inflow from acquisitions and disposals completed in the year was £0.6m. After dividends paid of £104.0m and other movements of £11.3m, including exchange movements, net debt stood at £24.9m at 30 September 2011 (2010: £219.8m).

Acquisitions and disposals

We did not complete any significant acquisitions in the year. In September 2011, we signed a definitive agreement to sell Sage Healthcare, which was part of our North American business, to Vista Equity Partners for cash proceeds of £203.8m (US$320.0m). In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the results of Sage Healthcare for this year and the comparative year are therefore classified as discontinued operations in the Consolidated income statement and Consolidated statement of cash flows. The results of Sage Healthcare have also been excluded from organic growth calculations. Following the agreement to sell Sage Healthcare, an impairment charge of £121.5m has been recorded in 2011, and an exceptional foreign exchange gain of approximately £60m will be recorded in the Consolidated income statement in 2012.

R&D and capex

The Group spent £151.9m in the year ended 30 September 2011 on research and development (2010: £146.8m*). No expenditure was capitalised and £0.1m (2010: £0.4m) was amortised to the income statement relating to prior years' expenditure which had been capitalised. Capital expenditure in the year ended 30 September 2011 (including the purchase of third party software systems for internal use) was £29.5m (2010: £32.5m). The majority of this expenditure relates to IT infrastructure, both in new and replacement systems.

Regional review

Throughout the regional review, growth trends are stated on a currency neutral basis with prior year results retranslated at current year exchange rates. This is done to facilitate the comparison of results. A reconciliation of underlying headline revenue to organic revenue is shown in the table in note 1 on page 79.

	Europe	North America	AAMEA
Revenue	2011 £795.7m 2010 £763.8m*	2011 £390.9m 2010 £381.2m*	2011 £147.5m 2010 £132.6m*
Organic# growth:	+4%*	+3%*	+10%*
Subscription revenue	2011 £500.9m 2010 £478.1m*	2011 £299.7m 2010 £287.9m*	2011 £75.9m 2010 £65.5m*
Organic# growth:	+5%*	+4%*	+13%*
Software and software-related services revenue	2011 £294.8m 2010 £285.7m*	2011 £91.2m 2010 £93.3m*	2011 £71.6m 2010 £67.1m*
Organic# growth:	+3%*	-3%*	+6%*
EBITA†	2011 £229.1m 2010 £214.1m*	2011 £99.7m 2010 £89.8m*	2011 £36.3m 2010 £32.8m*
	29% margin*	26% margin*	25% margin*

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 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of $1.61/£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 and is after neutralising the impact of foreign exchange movements.

Europe

Total Europe revenues grew by 4%* to £795.7m (2010: £763.8m*). On an organic basis, this growth was also 4%* (2010: 2%*). Organic subscription revenues grew at 5%* (2010: 4%*), with organic software and software-related services revenues growing by 3%* (2010: 2%* contraction).

Our UK & Ireland business grew organically by 5%* in the year with a good performance in all market segments. We saw several significant launches in the year including *Sage 50 Mobile*, and *Sage One* which has now passed 1,000 paying customers. *Sage ERP X3* grew rapidly in the UK off a small base. Our Accountants' Division has continued to perform well with good demand for a new tiered offering as well as our iXBRL compliant product.

Revenue in our French business grew 5%* organically in the year, with our treasury and accounting and ERP products benefitting from the move to a Single Euro Payments Area. *Sage ERP X3* grew well in France with some significant contracts signed in the year, and, at the lower end, whilst the small business market remained subdued, we continue to see a strong take up of our free solution for "Auto-Entrepreneur" businesses (a business status which offers simplified legislation and administration), which offers good potential for conversion to revenue in due course.

Our Spanish business was flat* in the year, with a 4%* contraction in H2 FY11. We have focused on our products, with a significant mid-market release in the year including web functionality, and are continuing to provide high quality service including launching more connected services. However, the market has been particularly challenging, with high unemployment, low business confidence and modest GDP growth, and we expect these conditions to remain unchanged in the foreseeable future.

Revenue in Germany grew by 5%* with significant releases of our core products generating demand, and a good performance from our products serving manufacturing businesses. Our SaaS payroll business, *einfachLohn*, doubled in size in the year and now has over 3,000 paying customers.

Swiss revenues were flat* on an organic basis and our Polish business grew revenues by 24%* in a strong economy with the additional stimulus of a VAT legislation change particularly benefitting the first half of the year. Our Portuguese business grew by 6%* following legislative change, but is expecting to face more challenging conditions going forward given the broader economic issues in Portugal.

The EBITA† margin for Europe was 29% (2010: 28%*).

North America

Total revenues from continuing operations in North America grew by 3%* to £390.9m (2010: £381.2m*), with organic revenue growth of 3%* (2010: 3%* contraction). Organic subscription revenues grew 4%* (2010: 1%* contraction), while organic software and software-related services revenues contracted by 3%* (2010: 8%* contraction).

The trading environment for SMEs in North America remains challenging, although we saw a good performance from certain leading products such as *Simply* and *Accpac ERP* and our payments business showed good growth of 15%*, helped by growth in volumes and 40%* growth in the cross-sell of integrated payment solutions into our accounting base. Cross-sell now represents approximately a quarter of North American payments revenue. The market for certain other products, such as construction, remained challenging in the year.

From a strategic perspective, there have been significant developments in the year. In June 2011, we announced the adoption of one Sage brand in North America with our accounting and ERP product brands being replaced during 2012 and 2013. This will help us leverage the scale of our business and maximise the impact of our marketing. We have launched several connected services in the year, for example online tax filing, and we have a strong pipeline of online solutions to be launched in 2012. At the same time we have released major upgrades to our leading products, including *Sage ERP MAS90 SQL* and *Sage HRMS* with employee self-service.

In early 2011, following a strategic review, we evaluated that our Sage Healthcare business in North America was no longer core to our strategy. Consequently, in September 2011 we announced its disposal. This will allow us to focus on the substantial opportunity we have within our core North American business. The sale of Sage Healthcare completed in November 2011.

The EBITA† margin for North America increased to 26% (2010: 24%*), with tight cost control in the year.

AAMEA (Africa, Australia, Middle East and Asia)

Total revenues in AAMEA grew by 11%* to £147.5m (2010: £132.6m*). Organic revenue grew 10%* (2010: 7%*). Organic subscription revenues showed strong growth of 13%* (2010: 15%*), while organic software and software-related services grew by 6%* (2010: flat*).

South Africa showed strong organic revenue growth of 14%*, with both accounting and payroll solutions performing well. Sales into the broader African continent have continued to grow well and remain a good future opportunity. Australia grew by 2%* organically with good demand for *HandiSoft*, our product for tax practitioners and consultants. Together, our Middle East and Asian businesses grew by 11%* with a particularly strong performance in Singapore and Malaysia.

The EBITA† margin was 25% (2010: 25%*).

Key Performance Indicators ("KPIs")

Our financial and non-financial KPIs illustrate and measure our progress in creating value for our shareholders 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

They are set in agreement with the Board and used on a regular basis to evaluate progress against our priorities

Organic revenue growth

4%

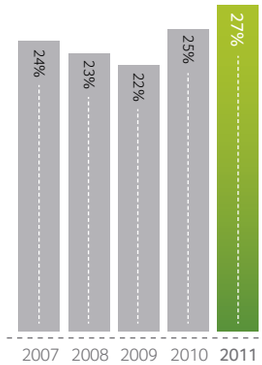
Improving organic revenue growth is a key priority for the Group.

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 certain small 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.

EBITA margin

27%



One of the Group's priorities is to continue to drive margins in the medium term. However, in the short term we are investing for future revenue growth.

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.

Underlying EPS growth

16%

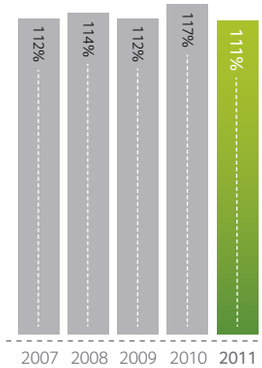
Underlying EPS is a key measure of the Group's profitability in the year.

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.

Cash generation from operations

111%



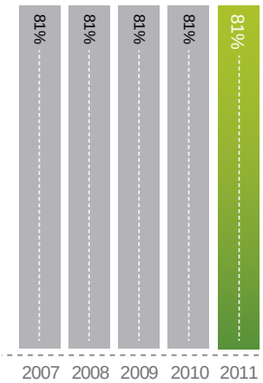
A key driver of strong economic returns is the ability to convert operating profits into cash.

This KPI provides a measure of the ability of the Group to yield cash from its ongoing business to reinvest and fund liabilities.

Cash generation from operations represents cash flows from operating activities divided by EBITA.

Renewal rates on maintenance and support contracts

81%



Customer retention is an important measure of competitiveness in the market and measuring the value of customer relationships with Sage.

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.

Principal risks and uncertainties

Risks can materialise and impact on both the achievement of business priorities and the successful running of Sage's business

A key element in achieving our business priorities 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.

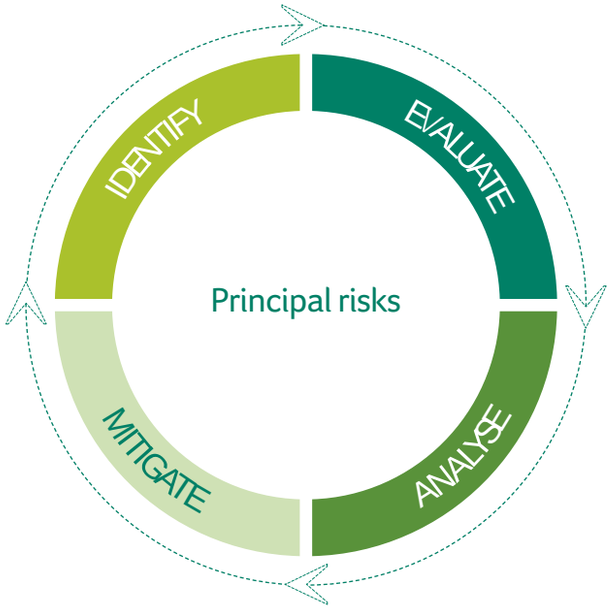
	External business factors	Products and services
Description	As a technology company, operating in many different countries throughout the world, there is a risk that Sage does not appropriately respond to external business factors, such as changing business needs, changing technologies, competitor activities, compliance and regulatory requirements and the economic environment.	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. This risk relates to both traditional on-premise products and services and online, customer facing products and services. In addition, for online customer facing products and services, Sage must ensure that it adequately protects and secures customers' data.
Potential impact	There is a potential for an adverse impact on business performance if external business factors are not appropriately responded to. Such adverse impacts could affect the competitive position and revenue, make demands on employees and cause financial penalties to be incurred.	Sage's reputation and competitive advantage could be jeopardised if a poor quality product or service was released to customers. The impact of Sage's products and services on its customers' ability to do business increases the severity of the risk. The change in the product and services landscape in terms of online customer facing products and services and the need to ensure reliability and availability also increases the potential impact of the risk.
Mitigation	We continue to build strong customer relationships, develop and expand our product and services offering and seek organic and acquisitive growth opportunities. We develop appropriate strategic direction and maintain knowledge of industry developments to ensure a proactive response to changing needs. Our defensive business model and the significant percentage of our revenue which is recurring, give comfort and support against economic exposure. Our Group-wide compliance programme seeks to ensure that local, national and international regulatory requirements are identified and complied with. A detailed quarterly forecasting process helps to ensure robust and realistic challenge to financial performance.	Sage has detailed product and service 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 relating to the level of service provided to customers.

The processes to identify and manage the principal risks to the success of the Group are an integral part of the internal control environment.

Internal control and risk management

To see how our internal control and risk management processes and responsibilities work, see our corporate governance report.

See page 51



	Loss of key management	Intellectual property
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.	Sage relies 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 provides new methods for illegal copying of the technology used in Sage's products and services.
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.	Illegal or unauthorised copies of Sage's software could be sold without our knowledge, impacting financial results and Sage's reputation.
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.	While relying, as other companies do, on the laws and regulations in existence, Sage continually polices the unauthorised use of its products. Sage also ensures the secure storage of source code throughout the Group.

Our priorities

The objectives of the business are to generate and preserve value over the longer term for our shareholders, our employees and our customers

1 Improving organic revenue growth

Acquiring new customers

We aim to attract new types of customer at different stages in their evolution through our diverse offerings, such as payment processing services and online business solutions.

Selling more to existing customers

We aim to increase revenue from each of our customers and deepen our customer relationships by delivering an expanded range of primarily connected services, working in an integrated way with our desktop applications.

Expanding the range of support

We will continue to evolve our premium support offering by introducing new tiers of support in our contracts, and encouraging our customers to move up the support levels.

Entering new higher growth market segments

We are looking to add new businesses to our Group that can leverage our customer base, our distribution channels, our brand and our infrastructure. We are actively looking for adjacent applications and services that SMEs are known to demand e.g. payments, connected services and online business solutions.

2 Driving margins in the medium term

We are targeting medium term growth in our EBITA margin. We have a scalable business model, and therefore we expect to see margin expansion with revenue growth.

In the short term, margins will be maintained at or around the current level as we continue to invest in our business to drive further growth.

During this year, we invested primarily in our online business solutions and connected services, whilst also continuing to invest heavily in customer service and specific high growth areas such as *Sage ERP X3*.

We are also changing our approach to product development by simplifying our product offerings and introducing products that can be utilised across a global platform such as *Sage One*.

Delivering our

For more information, the online version of our annual report features videos on each case study.

Go to www. investors.sage.com/2011annualreport

3 Leveraging the web

Connected services

We are providing a portfolio of online and mobile services, integrated with other Sage products and designed to solve specific business problems for our customers. Connected services can be purchased on a subscription basis or included with a premium support contract. They are designed to address a genuine business need and deepen the relationships that we have with our customers.

Examples include *Alchemex Smart Reporting, Sage Mobile for ACT!, Sage Business Info Services for ACT!, ACT! E-marketing.*

Online business solutions

For small businesses, we are delivering online accounting and payroll solutions. Initially these solutions will be most attractive to new customers but, in time, will also be attractive to migrating customers. Services such as *Sage One, einfachLohn, Ciel Paye Facile, Pastel My Business Online* and *VIP Liquid Payroll* are examples of this type of offer in the market today.

In the mid-market we are delivering cloud versions of some of our existing applications. These are evolutions of our existing products. They allow customers to choose their preferred deployment method, on-premise or online. The cloud versions deliver the benefits of subscription-based pricing, with no IT hardware to manage, frequent releases and seamless upgrading whilst retaining the ability to customise the solution. Applications such as *Sage ERP Accpac Online*, *SageCRM.com* and *Sage SalesLogix Cloud* are examples of this type of offer in the mid-market today.

4 Re-engaging in M&A

We continue to look at acquisitions as an enabler to our growth strategy.

We continually assess the availability of acquisitions to enter new markets and to strengthen our position in existing markets. Of increasing interest are higher growth segments of the market, including the opportunity to buy technologies, including online business solutions and connected services.

Sage is a financially robust business due to our strong cash flow and balance sheet. Therefore, we are well positioned for future M&A opportunities, whilst remaining prudent in our approach to valuation.

priorities

The following pages demonstrate the progress we are making in delivering our priorities, around our business, across the globe

Delivering our priorities

Integrated payments success in North America

Greg Hammermaster, President, Sage Payment Solutions North America, talks about integrated payments

Integrated payments services at Sage are designed to help our customers to address their business needs. By opening up new sales channels and integrating the payments software with our accounting software, we are helping our customers to increase revenues, to decrease costs and to maximise their investment in their back office systems.

To deliver this integration in 2010 we launched *Sage Exchange,* a SaaS based solution that allows seamless payments integration across our product lines. Integration eliminates the manual process of re-entering cheques and payment receipts into accounting software, reducing the risk of human error and saving customers both time and money.

Not only does an integrated approach have great customer appeal but it also provides a significant cross-sell opportunity for Sage. Penetration of the addressable market in our core US customer base is currently only around 2%, and we expect that number to grow.

The revenue per client opportunity is extremely compelling. Payment processing revenue is usually slightly greater than that for an average maintenance and support contract. So, with integrated payments we are effectively doubling the average revenue from each customer.

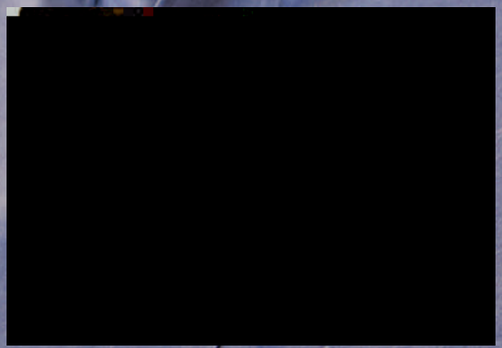
For 2012 our plan is to broaden the number of Sage products that are integrated with *Sage Exchange*. We will also add more payments-related connected services to deepen the value proposition and to introduce new revenue opportunities.

Watch this video online at
www.investors.sage.com/2011annualreport

More than

40%*

growth in cross-selling of payments into our North American accounting base



* 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 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of $1.61/£1 and €1.15/£1 to facilitate the comparison of results.

Delivering our priorities

Delivering new business advice services in the UK

Brendan Flattery, CEO, Sage UK & Ireland, talks about The Business Advice Unit in the UK

The Business Advice Unit in the UK is an innovative approach, launching new products and services, which will appeal to our customer base and help to achieve our revenue growth priority.

We are a trusted partner to more than 800,000 businesses in the UK. These businesses are already relying on us for our support and advice to run their own organisations and the business advice service is a natural extension to the trusted partner relationship which we have today with our customers.

Sage People Advice is a support service covering HR, Employment Law and Health & Safety advice, which we launched in October 2010. The service is designed for business owners who do not have in-house HR expertise, as well as for HR professionals who require additional support. The service provides businesses with access to a professional and flexible service when they need it. It gives a tiered support structure, providing users with flexibility and control over their costs. Customers can choose Pay As You Go options or, with *Sage People Manager* and *Sage People Director,* can select either a six or twelve month contract.

The service level experienced by our *Sage People Advice* customers is exceptional; 97% of our customers rate the service good or excellent. In the future we aim to provide a portfolio of advice services and we have already launched an employee benefits service in partnership with Mercer. We are also investigating other advice options to add further support to help our customers grow.

97%
of customers rate the *Sage People Advice* service as good or excellent

Watch this video online at
www.investors.sage.com/2011annualreport

Delivering our priorities

Global progress in *Sage ERP X3*

Christophe Letellier, CEO, *Sage ERP X3,* talks about our progress in the global mid-market

Sage ERP X3 is our global leading Enterprise Resource Planning solution for the mid-market. *Sage ERP X3* represents a new global approach for Sage. We have an international team to support the development of local businesses by sharing knowledge, skills and resources, as well as product development, business development and more.

2011 has been a very active year for *Sage ERP X3.* Our results are very encouraging and we are now one of the leading ERP vendors globally.

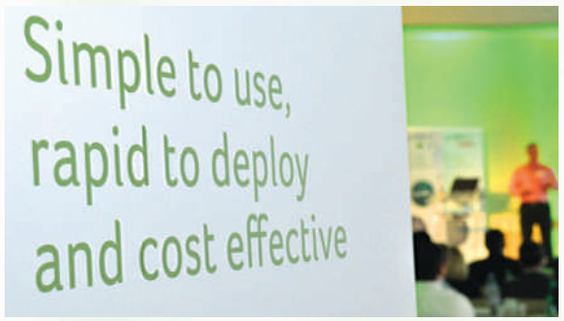
We have delivered double digit growth in the year, and we have doubled the business over the past 5 years. We are now marketing and selling the solution in more than 55 countries, and we have recently launched the solution in Eastern Europe and expanded our market in Africa. We now have 3,300 customers worldwide, and signed our first deals in Russia and Australia during this year.

There are two global initiatives that are important to our *Sage ERP X3* business: the co-development and *Sage ERP X3 Standard Edition.*

The co-development process that has been launched this year is a new R&D model for Sage. The local R&D teams and the Central R&D team are working together in a global R&D effort to ensure *Sage ERP X3* is highly relevant to today's customers. This team includes key talents from Sage's worldwide businesses, bringing together Sage's local expertise and global resources.

Sage ERP X3 Standard Edition is designed for local, independent companies or group subsidiaries with limited IT resources, which still need an ERP system that is easy to implement, rapid to deploy and with a broad functional scope. *Sage ERP X3 Standard Edition* is now available in most of our countries and will be launched in remaining ones during 2012. *Sage ERP X3 Standard Edition* is the way for SMEs to access to a world-class ERP solution.

Our plan for *Sage ERP X3* is pretty simple: to continue to grow the business with our partners, so that we can continue delivering value to our customers, helping them realise their vision.



Watch this video online at
www.investors.sage.com/2011annualreport

Now available in
more than
55 countries

Delivering our priorities

Innovative partner programmes in the US

Tom Miller, VP of Channel Management, Sage Business Solutions for North America, talks about Fast Track For Growth

We have a very broad and deeply experienced business partner channel which works with us to achieve our strategic priorities. Our business partner channel remains key, particularly in the US where over 60% of new revenue comes from the channel. We support partners in every facet of their business, and we continue to fuel their success with a broad range of partner programmes.

We are continuously striving to innovate with our partner programmes to increase performance. All of the partner programmes that we offer are ultimately about helping partners to drive new business, and therefore revenue. Fast Track For Growth ("FTFG") is one of these programmes.

With FTFG we work closely with the partner by providing one-on-one mentoring on areas including marketing, sales and consulting, with rewards available for incremental new licence revenue.

Our partners are seeing tangible benefits from the programme and interest is growing. Sage partners participating in FTFG have increased their new customer revenue at a rate that is 30% higher than non-participants.

We have also received external recognition for the FTFG programme. International Data Corporation has identified FTFG as an industry innovative practice, largely due to the personalised attention given to participants and the corresponding business growth upon course completion.

Given our success we will continue to invest in this, and other, channel programmes that produce measurable increases in new customer revenue growth.

Watch this video online at
www.investors.sage.com/2011annualreport

50%
increase in partner enrolments in the year

Driving premium support in Spain

Santiago Solanas, CEO, Sage Spain, talks about the premium support model in Spain

At Sage, our support service constitutes far more than just providing assistance to customers over the telephone. Our customers see real business benefits in the support and advice that we provide; this has been a key growth driver for our Spanish business in a time of deep recession.

To ensure our customers can access the support they need, we have a tiered support service. In Spain, we offer premium levels of support contracts that offer further services such as online data backup, network security services, HR advisory services, mobile data access and more besides. We have a four level premium support offer which we have started to implement across our product lines.

We are constantly adding new services to our support offer and have successfully moved customers up the support tiers to enable them to benefit from additional support. This year, we introduced new service modules such as legislation, data recovery and online backup in order to address the real business needs of our customers. We also launched a new top of the line service level called Exclusive. The Exclusive level includes priority telephone assistance, as well as connected services and a right to free upgrades. More than 15% of our contracts are already Exclusive.

The addition of connected services as you move up the tiers of support is a fairly new concept, and provides the further opportunity for revenue growth.

In FY12 our plan is to continue to launch new service levels across our product lines, and to increase the value perception of customers through the inclusion of more connected services in the service levels. We will also redesign the support service at the entry-level, providing it with a new online support system which can be accessed from within the product.

Watch this video online at
www.investors.sage.com/2011annualreport

15%
of customers on Exclusive premium support contracts

Delivering our priorities

14%*
organic# revenue growth
in South Africa in 2011

* 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 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of $1.61/£1 and €1.15/£1 to facilitate the comparison of results.

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

Growing organically into Africa

Steven Cohen, Managing Director, Softline Pastel, South Africa talks about our progress in Africa

The African market offers sustainable revenue streams in our core business, based on our business model that has been so successful in South Africa. The expansion into Africa was the next logical step for our business in South Africa.

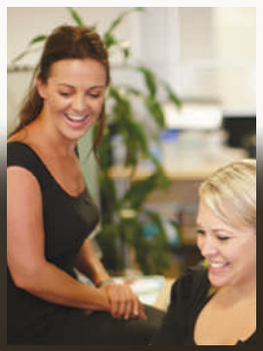
Our business approach to this new market has been conservative. At first we tested the market by working with local business partners to leverage their knowledge and skills. Now that we are confident in the demand and growing opportunities, for example, from international companies expanding into Africa, we are being more robust in our approach.

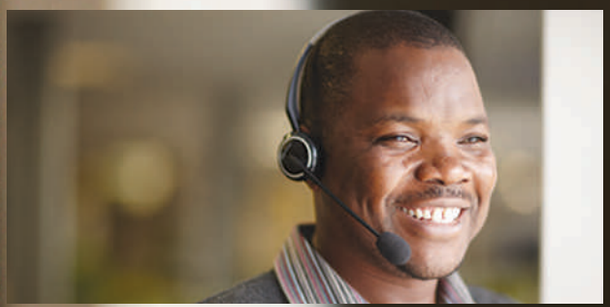
Three years ago we demonstrated our commitment by opening an office in Nairobi. Additionally, where we do not yet have offices we still operate through the reseller network.

In the future we plan to bed down the operations we have, and we will further demonstrate our commitment by opening a new office in Nigeria, expected in the next 12 months.

Our growth into Africa sits very well with Sage's long term revenue growth priority. Our success in Africa has contributed to organic revenue growth of 14%* in the South African results, and we continue to target double digit revenue growth in Africa in the future.

Watch this video online at
www.investors.sage.com/2011annualreport





People and organisation

Our people, culture and guiding principles sit at the heart of what we do. As a decentralised business we believe this is a source of competitive advantage in all our markets as decisions can be made locally and with the local customer in mind.

We believe that the quality of the employee experience has a direct bearing on the quality of the customer experience and this philosophy prevails throughout all our people policies.

Employees in Sage

	2011	2010
Europe	**7,685**	7,470
North America	**2,753**	2,788
AAMEA	**1,785**	1,816
Group and central operations	**166**	145
Total	**12,389**	12,219

Employee numbers are from continuing operations only

Leadership

One of our key goals is to be recognised for the quality of our leadership within the organisation. Following the appointment of the Chief Executive Officer in 2010, a number of very senior executive promotions followed across our countries and regions. These appointments were a key measure of the success of several years of strengthening and deepening our executive talent pools. We believe that our strategy of developing more global leaders, supported by the launch of the Sage Leadership Standard and the Sage Leadership Performance Programme in 2008, has been instrumental in our talent initiatives and the number of promotions we were able to deliver. Our leadership programmes remain a key investment for the organisation. Our current focus is to continue to apply and embed these programmes across our senior leadership community and to deepen leadership development at more junior levels of management.

Our focus for 2012 and beyond is to strengthen our succession plans at all levels within the organisation so that we are able to replenish our talent pool as a consequence of multiple promotions. Part of our strategy to achieve this goal is to increase the levels of global mobility across the business in order to create a stronger international cadre of talent at all levels. This will become a priority as the number of products requiring global collaboration increases and hence the need for our leadership community to work in closer partnership also grows.

Diversity

Sage is very supportive of the aims and objectives of the Davies Report on Women on Boards published in February 2011. In considering appointments to the Board and to senior executive positions, it is our policy to evaluate the skills, experience, knowledge and diversity required by a particular role and make an appointment accordingly. The Board of Sage currently comprises 25% women and we would expect to maintain a similar balance through 2013 to 2015 as the Board is refreshed during this period. The Board will regularly consider how diversity can be enhanced throughout the senior management team and across the Group. It is of the utmost importance to maintain strong leadership at Sage and we will therefore continue to appoint only the most appropriate candidates to the Board.

Our top leadership population (97 leaders) is 26% female (2010: 22%). The majority of countries have leadership teams in excess of 30% female with the exception of Germany and Australia. 44% of our total workforce profile is female. Our UK business established an "Enterprise for Women" group to help senior female executives focus on their careers at Sage and to encourage future female leaders.

Additionally, and as part of our global policies, we are committed to an inclusive environment for all of our people. We emphasise the importance of treating individuals in a non-discriminatory manner across the full employment lifecycle, including hiring, reward, development, promotions, mobility and termination. Training is provided to those making decisions on these factors so that no individual is disadvantaged and to prevent discrimination on the grounds of gender, religion, belief, race, creed, age, disability, sexual orientation, ethnic origin or marital status.

The Employee Experience

Whilst we have undertaken local employee surveys for many years at Sage, during the year we undertook our first employee engagement study over the largest 16 countries in the Group. Over 7,000 employees responded.

Using Key Moments Of Truth methodology, ("KMOT"), the objective was to identify KMOT that either have a positive or negative influence and overall impact on our employees. Like many other organisations, Sage has a largely engaged workforce overall. Having a profile of largely "knowledge workers", the most positive and significant aspect in the study was the strength of team spirit and camaraderie – our people enjoy working with colleagues and respect what their colleagues contribute. The largest KMOT gap was that employees were concerned about promotion and personal growth prospects. This has become a key area of focus in our people strategy and we have responded with a number of initiatives to increase engagement levels in key business areas; for example workshops on our global vision and strategy, strategic problem solving, and local action planning to resolve customer pain points.

Whilst we have not set out to win "Great Place to Work" accolades, we do continue to receive external recognition. One of our South African businesses (Softline VIP Payroll) was announced as the winner of the business and professional services category in the 2011 rendition of the Deloitte "Best Company to Work For Survey".

Collaborating across countries, regions and continents is becoming increasingly important. During the year we launched Open... our global collaboration platform, which complements local intranets but provides the opportunity to collaborate on an enterprise-wide basis using social networking tools. Open… provides collaborative functionality and a new platform where everyone across Sage, regardless of location, can talk, share, create and innovate.

Corporate responsibility

Sage remains committed to acting as a responsible corporate citizen, continuing to take a pragmatic approach to Corporate Responsibility ("CR"), whilst building upon our initiatives of previous years. We focus on areas that are most relevant to Sage, our people and our customers

Our CR policy includes four key areas of focus; people, industry, community and environment. We measure our progress in each area, 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. Information about our people activities can be found in the People and organisation section of the report on pages 36 and 37.

In line with our business model, our approach remains flexible in order to allow our businesses to focus on the areas that are of most importance to Sage and the local customer base. However, all of our CR activities must remain true to the core strategic values of Sage and are managed, assessed and supported accordingly. Standards established by local legislation will apply as a minimum.

CR at Sage is reviewed on a quarterly basis by the Executive Committee. Application of the CR policy is led by the CR Steering Committee which is led by the Group Human Resources Director 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.

Sage continues to work towards the highest standards of governance and more details on this can be found in the Governance section within this 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. 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.

Our CR policy

Industry

We aim to leverage the unique trusted partner relationship that we have with our customers globally to continue to understand and support the issues and challenges that they face.

Community

Our local communities are important to us and we actively support a number of charities and community organisations worldwide in order to make a positive impact on the communities in which we live and work.

Environment

We continue to analyse our impact on our environment. 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.

Read more about our corporate responsibility initiatives and priorities on our website.

Go to www.sage.com/ourbusiness/aboutus/corporateresponsibility

Industry

Keeping close to our customers and the issues that are important to them is the cornerstone of Sage's business philosophy.

Our decentralised structure helps us to remain intimately connected to the problems and opportunities they face every day

Understanding the issues that SMEs face

Partnership with our customers is something we place great value on within Sage – a partnership founded on understanding. We achieve this by conducting regular research in each country to ensure we fully appreciate their business landscape and the challenges they face. In turn we are able to help our customers to make the most of their business opportunities.

In February 2011 we released a report "The Sage Business Index 2011 – International Business Insights", based on research conducted with over 6,000 small businesses across the world in a broad range of industry sectors. We expanded this research and released the second Sage Business Index in September 2011. For each country, the reports cover business confidence and the economy, each country as a place to do business, the role of government, business challenges and the role of technology.

The results reveal that whilst confidence appears to be returning, this is not universal and, though businesses in each country face a variety of issues particular to their geography, there are common challenges, such as legislation and funding. Entrepreneurial spirit and culture are shown to be alive and well and the report points to how the key driver for adopting new technologies is to improve business efficiency. The September 2011 report showed a decline in overall confidence about the economic outlook, but at the time of publishing, when asked about prospects for their own business, respondents were still somewhat confident.

Providing charitable support to local businesses and organisations

We continue to work with organisations to provide free business software to non-profit organisations. In North America, our partnership with TechSoup helps charities manage their operations. During the year, we added our *Sage Simply Accounting* software and discounted credit card merchant services to the TechSoup offerings. Since 2008, we have supported 1975 non-profit organisations with software valued at $1.3million, including more than 700 organisations with software valued at $304,000 in the past year alone.

Developing the business leaders of tomorrow

Developing future talent, both within our business and in the wider business community, remains important to our business and our people. The values on which Sage is founded (Simplicity, Trust, Integrity, Innovation, Agility) capture the spirit of entrepreneurship and are the lifeblood of business. Helping to create the entrepreneurs of tomorrow is something we are passionate about.

One very direct way of supporting business and recognising talent is through awards. Sage businesses have supported many local business awards including:

- the national Startups award in Switzerland;
- Pastel Small Business Awards in South Africa;
- HR leadership Awards in Australia; and
- the Young Enterprise North East Company of the Year award in the UK.

In South Africa, Softline sponsors The Life College Xchange, an annual event at the Life College Xchange programme to promote the development of entrepreneurial skills amongst the Life College students. The Xchange is a trading floor for ideas and opportunities which these young entrepreneurs can use to interact with prospective funders and investors.

Doing business

In the course of doing business with our customers, suppliers and other third parties, we behave with integrity and professionalism. Our values and our Code of Ethics demonstrate that we operate responsibly and in accordance with all relevant laws and regulations.

In all our dealings with customers we pride ourselves on our honesty, integrity and openness. Customer data is treated with sensitivity and respect and is handled in a way that meets the requirements of data protection laws in the countries in which we operate.

We seek mutually beneficial relationships with our suppliers and we recognise our position as a role model to SME businesses.

Community

The localised nature of our business remains one of our key strengths, especially when it comes to enabling our people to have a positive impact on the communities in which they live and work. We have a long history of actively supporting a number of charities and community organisations within our local communities. Activities including fundraising, sponsorship and voluntary work are commonplace in Sage offices around the world

Volunteering in the community

Our volunteering programmes allow employees to take additional paid leave to take part in volunteering activities. These activities are based around our commitment to education, the local community and the environment. We believe that all of our employees have the skills and experience to make a real difference and that this is also an opportunity for personal development.

- Sage Day was once again a focus for charitable activities across our offices with more than 10,000 people taking part and 15 charities benefitting from cash donations, employee volunteering and charity events.

Investing in the future

Much of our focus on CR remains on education and supporting young people from disadvantaged backgrounds to develop essential life and business skills. We do this in two ways. Firstly, we provide bursaries through various organisations across our locations, for example, Foundation Speranza* in Switzerland. Secondly, we design and run internal undergraduate and internship programmes to give students every opportunity to succeed in academic pursuits and to provide them with an insight into their future careers.

* Foundation Speranza supports adolescents in their professional education. Sage Switzerland has provided internships of up to several months and is targeting 10 interns per year in conjunction with the programme.

Supporting local charities

Throughout the year, our employees have been actively involved in fundraising for charity and have undertaken a variety of fundraising activities. Some examples:

- Our "Giving is Living" payroll programme in North America allows employees to make direct donations, of which 50% is matched by Sage. In total our employees donated over $90,000 during the year.
- In the UK, we continue to donate funds to great causes through our community foundation fund. In total during 2011 we donated £75,000 to a range of good causes through this fund.
- In South Africa, our Softline business continues to provide funding to Afrika Tikkun, a leader in community development. Our contribution this year was allocated towards an early childhood development centre.

SageDay2011
Celebrating 30 years of Sage

Environment

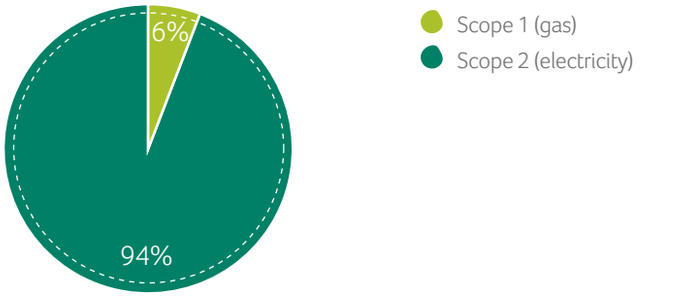
Whilst our business has a low environmental impact, we seek to minimise it by reducing our use of energy and by increasing recycling wherever possible. We achieve this through employee education and awareness, as well as through appropriate investment. We have responded to the Carbon Disclosure Project and are also a member of the FTSE4Good Index

Reporting carbon emissions

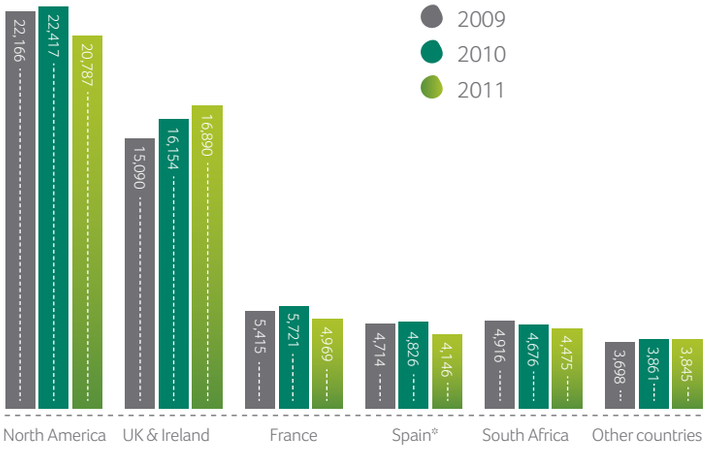
We have published data on our carbon emissions since 2009, and continue to improve our approach. Carbon emissions during the year were 26,773 tonnes representing a reduction of 5% against the prior year due mainly to lower electricity consumption. This reduction is as a result of a number of initiatives designed to increase efficiency in our energy usage and raise employee awareness so that they play an active part in continuing to reduce our footprint.

We are continually working to improve the environmental impact of our current operations through a variety of different measures. These include the identification of energy efficient measures to carry out during office re-fits and refurbishments, monitoring our usage and implementing schemes within our businesses to target areas of high energy usage. An example of this is Sage Spain's Energy Efficiency Scheme rolled out last year. The measures undertaken helped to reduce Spain's energy consumption by 19%. We intend to continue to monitor our carbon and energy usage throughout the business to measure the effectiveness of any further schemes that we implement and report on these in coming years. We also hope to continue to improve our approach to reporting and disclosure, particularly as part of the Carbon Disclosure Project.

Sage Group's global carbon footprint from energy (tCO_2e)



MWh of energy used within Sage business



* 2009 and 2010 energy figures for Spain have been restated due to a broken meter.

Total CO_2 emissions from energy (in nearest whole tonnes)

	2011	2010
Europe	**9,795**	9,932*
North America	**11,934**	13,189
AAMEA	**5,044**	5,157
Total	**26,773**	28,278*

Scope 1 and scope 2 carbon emissions are measured from the electricity and gas paid for together with 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.

It is our policy to report on offices with more than 25 employees.

* 2010 energy figures for Spain have been restated due to a broken meter.

Reducing waste

We aim to promote recycling and the use of recycled materials throughout our organisation. We continue to work to reduce our print and packaging volumes; the increased use of auto-update technology as well as the increase in the number of online business solutions and connected services will aid this objective. We also believe that it is important for us to manage our in-house activities to reduce waste. Several of our local businesses continue to develop and run pilot initiatives to reduce waste and increase environmental awareness, including:

- replacing paper bags with a Virtual Tote Bag at the Sage Summit event in North America resulting in a reduction of 150,000 printed pages;
- new Green Champions group formed in the UK helping to increase recycling by over 250%; and
- a project to change printing systems in Spain resulting in an 87% reduction in the number of printers.

Board of directors

1 Anthony Hobson
Chairman and non-executive director

Tony joined the Board in June 2004 and became Chairman in May 2007. He is a chartered accountant and an MBA who was previously Group Finance Director of Legal & General Group plc for 14 years until 2001. He is currently a non-executive director of Glas Cymru (Welsh Water), Dyson Limited and Esure; and is Chairman of the Trustees of Changing Faces, the leading UK disfigurement charity.

Nomination Committee – *Chairman*
Remuneration Committee

2 Guy Berruyer
Chief Executive Officer

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 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.

3 David Clayton
Director of Strategy and Corporate Development

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 in October 2007. In December 2009, David was appointed to the Board of SDL plc as a non-executive director.

4 Paul Harrison
Chief Financial Officer

A chartered accountant, Paul joined Sage in 1997 from Price Waterhouse to become Group Financial Controller. He joined the Board in April 2000 as Chief Financial Officer. In May 2007, Paul was appointed to the Board of Hays plc as a Non-Executive Director and, in November 2011, became the Senior Independent non-executive director.

5 Tamara Ingram OBE
Independent non-executive director

Tamara, who joined the Board in December 2004, is responsible for WPP plc's Procter & Gamble business worldwide. She is also Executive Vice President, Executive Managing Director of Grey Global, and sits on the Development Board for the Almeida Theatre.

Audit Committee
Nomination Committee
Remuneration Committee

6 Ruth Markland
Senior Independent non-executive director

Ruth is a non-executive director of Standard Chartered plc, a member of the Supervisory Board of Arcadis NV and Chairman of the Board of Trustees of WRVS. She was formerly Managing Partner, Asia for the international law firm Freshfields Bruckhaus Deringer and was appointed to the Board in September 2006 becoming its Senior Independent director in March 2011.

Audit Committee
Nomination Committee
Remuneration Committee – *Chairman*

7 Ian Mason
Independent non-executive director

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

Audit Committee
Nomination Committee
Remuneration Committee

8 Mark Rolfe
Independent non-executive director

Mark joined the Board in December 2007. 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.

Audit committee – *Chairman*
Nomination Committee
Remuneration Committee

Executive Committee biographies

Ivan Epstein
Chief Executive Officer, AAMEA

After spending five years at Price Waterhouse Ivan co-founded Softline. In 1997 Softline was listed on the Johannesburg Stock Exchange with operations in South Africa, Australia, the USA and Canada. Softline was delisted in 2003 upon its acquisition by Sage. Ivan continued as CEO of the Southern Hemisphere of Sage which includes Softline and Sage Australia. His role was expanded to cover the Middle East and Asia in October 2010. Ivan has been recognised for his entrepreneurial attributes and contribution in South Africa and in 1999/2000 was the recipient of "South Africa's Best Entrepreneur Award" awarded by Ernst & Young, and continues to serve as a panel judge.

Karen Geary
Group Human Resources Director

Karen Geary has more than 20 years of international HR experience across a variety of industries where she has helped organisations through periods of large scale change and integration. She currently leads HR, Corporate Communications and Brand for Sage globally. Her early career was spent at Monsanto Inc. and Electrocomponents plc. She spent six years at Stena Line, the Swedish transport and leisure operator, ultimately as HR Director for UK, France and Ireland. She has been in her current role at the Sage Group plc for eight years, following five years as HR Director for Sage in the UK.

Klaus-Michael Vogelberg
Group Chief Technology Officer

Klaus-Michael Vogelberg was R&D Director and partner of the German KHK Software group, acquired by Sage in 1997. In 2000 he joined the Group team to assist Sage operating companies and the Board on software architecture and technology strategy. Between 2004 and 2007 Klaus-Michael acted as R&D Director for Sage UK and Ireland, before taking up his current post of Group Chief Technology Officer.

Biographies for Executive Committee members also on the Board of directors can be found on page 42.

Pascal Houillon
Chief Executive Officer, North America

Pascal Houillon became CEO of Sage North America in April 2011. He was CEO of Sage France from 1997 and in 2005 also took on responsibility for Sage in Belgium, Brazil, Switzerland and Morocco. He started his career as a systems analyst for UAP Insurance and in 1987 Pascal co-founded Sinequanon, a company that provided business management solutions to SMEs. He joined Sage in 1989 in sales and held a number of management positions as a Regional Director and Sales Director before leading the Sybel business when it was acquired by Sage in 1995. For 9 years Pascal was Vice President of Syntec, the French software and IT association.

Álvaro Ramírez
Chief Executive Officer, Europe

Álvaro Ramírez became CEO of Sage Europe in January 2011. He joined Sage as CEO of Sage Spain in 2003 after the acquisition of Grupo SP, which he co-founded in 1989. Álvaro grew Grupo SP to become the leader in Spain for entry-level business management software, with subsidiaries in Portugal and across Central and South America. Since joining Sage, Álvaro has grown the Spanish business, both organically and through acquisition, transforming it into a market leading software company. He studied in France and Spain, and holds an M.Sc. in Telecommunications Engineering.

Michael Robinson
Company Secretary and Group Legal Director

Michael Robinson was born and educated in the North East of England before leaving to study law at Oxford University. After qualifying as a solicitor, Michael spent 15 years at one of the largest law firms in the UK, becoming a partner and specialising in a range of corporate finance work, including floatations, mergers and acquisitions. In 2002 he joined Sage as Group Legal Director and Company Secretary.

Chairman's introduction

The Board of Sage is committed to the highest standards of corporate governance

Anthony Hobson, Chairman

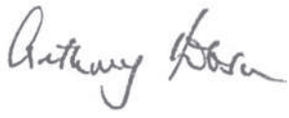
Dear Shareholder,

The Board of Sage is committed to the highest standards of corporate governance. The Board provides leadership to the business as a whole, having regard to the interests and views of its shareholders. In this report, I have looked to explain how the Board achieves these goals.

This year the Board has faced a number of challenges, particularly the changes to key executive personnel both at Board level and within the senior executive leadership of the Group. This report also sets out the Group's approach to these issues together with the other challenges which have been faced over the last 12 months.

The year to 30 September 2011 is the first year to which the UK Corporate Governance Code ("the Code") published in May 2010 has applied in full. The Financial Services Authority requires UK listed companies to explain how they have applied the main principles set out in the Code and whether they have complied with the principles set out within the Code throughout the financial year. This report, therefore, sets out how we have applied the Code and confirms our compliance with it throughout the year.

I trust you will find the report informative and helpful.



Anthony Hobson, Chairman

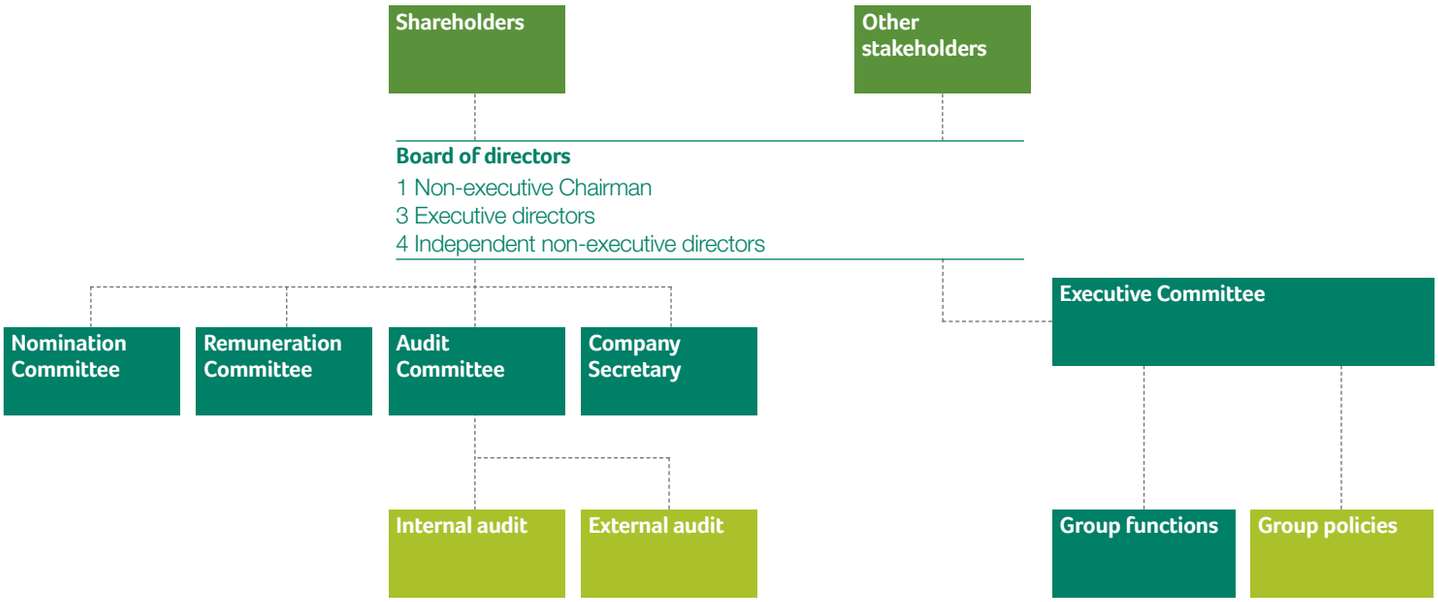
Corporate governance

Statement of compliance

Throughout the year ended 30 September 2011, the Company has complied with the provisions of the UK Corporate Governance Code ("the Code") published in May 2010.

Governance framework

The various elements which comprise our governance framework are listed below, along with an overview of their responsibilities.



Nomination Committee

This Committee reviews the composition of the Board to ensure it remains appropriate for the needs of the business and plans for its progressive refreshing. It leads the process for the identification and selection of new directors and makes recommendations to the Board in respect of such appointments. The Committee also makes recommendations to the Board on the membership of its committees.

Remuneration Committee

This Committee determines the policy for the remuneration of the Chairman, executive directors, Company Secretary and senior executives of the Group. Further details on the Group's remuneration policy are provided in the Remuneration report on pages 58 to 66.

Audit Committee

The Audit Committee oversees the Company's financial reporting, risk management and internal control procedures, and the work of its internal and external auditors. Further details on the activities of the Audit Committee are provided on pages 49 to 50.

Company Secretary

The role of the Company Secretary is to ensure good information flows to the Board and its committees and between senior management and non-executive directors. He facilitates the induction of new directors and assists with professional development as required. He also ensures Board procedures are complied with and that applicable rules and regulations are followed. The Company Secretary is available to all directors to provide advice and assistance, and is responsible for providing governance advice to the Board.

Internal audit

The internal audit function facilitates the identification of risks and carries out reviews and testing of the controls that are in place to mitigate those risks. Further details of the work of internal audit are provided on page 49.

External audit

The external audit function provides independent audit and review. Further details of the work of external audit are provided on page 49.

Executive Committee

This Committee is chaired by the Chief Executive and is responsible for overseeing operations in the Group's regions and the Group functional areas. It comprises the senior executives within the Group.

Group functions

Certain specific administrative functions are controlled centrally at Group level and report to the Board via various members of the Executive Committee. For example, Finance, Investor Relations, Tax and Treasury report through the Chief Financial Officer. Procedures are clearly defined to ensure that the activities of these functions reduce the risk profile of the organisation.

Group policies

The Board is responsible for ensuring that adequate policies and procedures are in place. These are reviewed and amended as required to ensure that they remain in line with legislation and regulations and are sufficiently robust to ensure appropriate internal controls are maintained, whilst also providing a suitable framework for the businesses and Group functions within which to operate.

How our governance framework operates

The Board and its committees

The Chairman in conjunction with the Chief Executive and Company Secretary plans the agenda for each Board meeting. That agenda is issued with supporting papers during the week before the Board meeting is held. Board packs contain financial information and briefing papers on the topics for discussion.

Board meetings are held both inside and outside the United Kingdom at operating companies of the Group. Directors are also encouraged to visit overseas operations on a regular basis. This provides the Board and individual directors with the opportunity to broaden their understanding of the business and the key markets in which it operates.

The Board currently comprises the non-executive Chairman, the Chief Executive, two other executive directors and four 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.

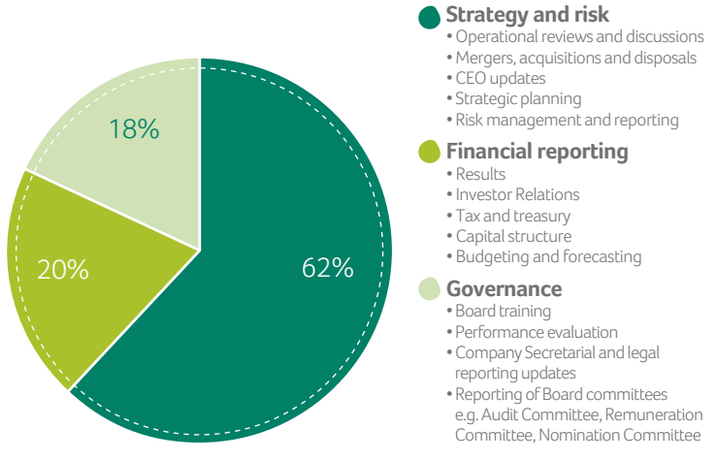
As can be seen from the directors' biographies on pages 42 and 43, the directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group. It is the balance of skills, experience, independence and knowledge evidenced by the biographies which ensures the duties and responsibilities of the Board and its Committees are discharged effectively. All directors are subject to re-election at each Annual General Meeting and, to give them a full understanding of the business on appointment, new members of the Board undergo a full, formal and tailored induction to the Board. 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.

The Company is also very supportive of the aims and objectives of the Davies' Report on Women on Boards. The Board of Sage currently comprises 25% women and the Company would expect to maintain a similar balance through 2013 to 2015 as the Board is refreshed during this period. The Board must continue to provide strong leadership at Sage and, therefore, the Company continues to appoint only the most appropriate candidates.

The Board is responsible to shareholders for the proper management of the Group. To assist in this, training is also made available to directors and training needs are assessed as part of the evaluation procedure of the Board, which is discussed below. 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.

Matters reserved for the Board (% of time spent)



The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. In order to do this and to enable the Board as a whole to discharge its duties, all directors receive appropriate information in advance of all Board meetings.

The Board recognises the importance of reviewing its practices and performance on a regular basis. To achieve this, the Board has evaluated its performance and that of 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. 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.

In the year under review, the directors were also assisted in their evaluation by an independent third party, Dr Tracy Long of Boardroom Review. Dr Long is entirely independent of the Group and performs no other function for the Group other than assisting in directors' evaluations. Dr Long facilitated a Board workshop in order to assist the Board in its own evaluation. This workshop, and the completed questionnaires, resulted in a number of issues being identified, including around the procedures at Board meetings, which have since been addressed by the Chairman.

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. In order to address this issue, at the commencement of each Board meeting, the Board considers a register of interests and potential conflicts of directors and gives, 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. These procedures on conflict have been followed throughout the year and the Board consider the approach to operate effectively.

The Chairman

The role of Chairman of the Board carries a particular responsibility to monitor and assess the corporate governance practices of the Group.

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.

To ensure a proper dialogue with directors, the Chairman of the Board holds meetings with the non-executive directors without the executive directors to assess their views. In addition, the non-executive directors have met without the Chairman present to appraise the Chairman's performance. The Chairman also ensures that shareholder communications 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

Mr T C W Ingram undertook the role of Senior Independent Director until his retirement from the Board at the Annual General Meeting on 2 March 2011. Ms R Markland took over the role from that point. This role provides a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman. She is available to consult with shareholders and also chairs meetings of the non-executive directors without the Chairman present.

Committees of the Board

The three committees of the Board deal with certain specific aspects of the Group's affairs. These are the Remuneration Committee, the Audit Committee and the Nomination Committee and details 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 considers that the 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. The Secretary acts as secretary to all the Committees.

Remuneration Committee

The 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 I Mason and Mr M E Rolfe.

Under its terms of reference, the Committee meets at least four times in the year. In the year under review, nine meetings of the Committee were held of which four were held on full notice and five were shorter meetings held by telephone on a shorter notice. All members in office at the time attended all the meetings other than Mr Mason who was unable to attend one meeting and Ms T Ingram who was unable to attend three meetings. 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. 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. The Committee also monitors remuneration for those senior executives below Board level. Remuneration consultants advise the Committee.

The Board itself determines the remuneration of the non-executive directors.

In the year under review, the Committee addressed the remuneration issues related to a number of senior executive appointments and the retirement of an executive director as well as its general review of remuneration policies. It paid particular attention to bonus arrangements in support of the goals of the Group set out on pages 58 and 59.

Details of the Company's policies on directors' remuneration are given in the Remuneration report on pages 58 to 66, together with further details of the Remuneration Committee.

Audit Committee

The Audit Committee is chaired by Mr M E Rolfe. The other members of the Committee are independent non-executive directors, 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 Code. The other members of the Committee have a wide range of business experience, which is evidenced in their biographies on pages 42 and 43. The Board makes appointments 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:

- 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 and advise the Board on the effectiveness of the Company's internal control environment, including its "whistleblowing" procedures;
- 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;
- make recommendations on the appointment and remuneration of external auditors and to monitor their performance and independence; and
- 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.

In order to fulfil its duties, the Committee receives sufficient, reliable and timely information from management. The terms of reference of the Committee are reviewed on an annual basis and are available at www.sage.com. In its most recent review the Committee was satisfied that the terms enabled 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 four times with all members present on each occasion and reported its conclusions to the Board. It met privately with the internal and external auditors without executives present. It also met with executive management and executive directors.

The Committee discharged its obligations in respect of the financial year in the following ways:

- **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 considered 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 and discussions with senior management. The Committee monitored the effectiveness of the Group's risk management process, which considered the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks.

- **Internal audit**
  Internal audit activities and responsibilities are provided by an in-house internal audit team, supplemented under co-source agreements by third party providers. The role of Head of Internal Audit is 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 Chief Financial Officer.

  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, 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 appraising the Audit Committee regularly 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 2011 the audit fee was £2.2m.

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 £1.4m, all of which was attributable to tax services (£1.1m to tax compliance work and £0.3m to tax advisory services). Further details of fees paid to auditors are set out on page 82.

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 February 2012. 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 four independent non-executive directors, 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. Seven meetings of the Committee took place in the year under review at which all the members of the Committee in office at the time were present other than on one occasion when Mr Mason was unable to attend and three occasions when Ms Ingram was unable to attend.

The Nomination Committee is responsible for a number of matters relating to the composition of the Board and its committees including proposing candidates for appointment to the Board, having regard to its balance and structure and considering issues of succession. Recruitment consultants are used to assist in the process. The Nomination Committee is also responsible for an annual review of the membership of the Board, evaluating the balance of skills, knowledge, experience and diversity 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 terms of reference of the Committee, available on www.sage.com, require the Committee to have regard to diversity in considering appointments to the Board. In making its decisions it has regard to the diversity policy referred to on page 36.

In the year under review, the Committee dealt with a number of issues relating to senior executive appointments and the retirement of an executive director from the Board. Details of these changes are referred to at 48.

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.

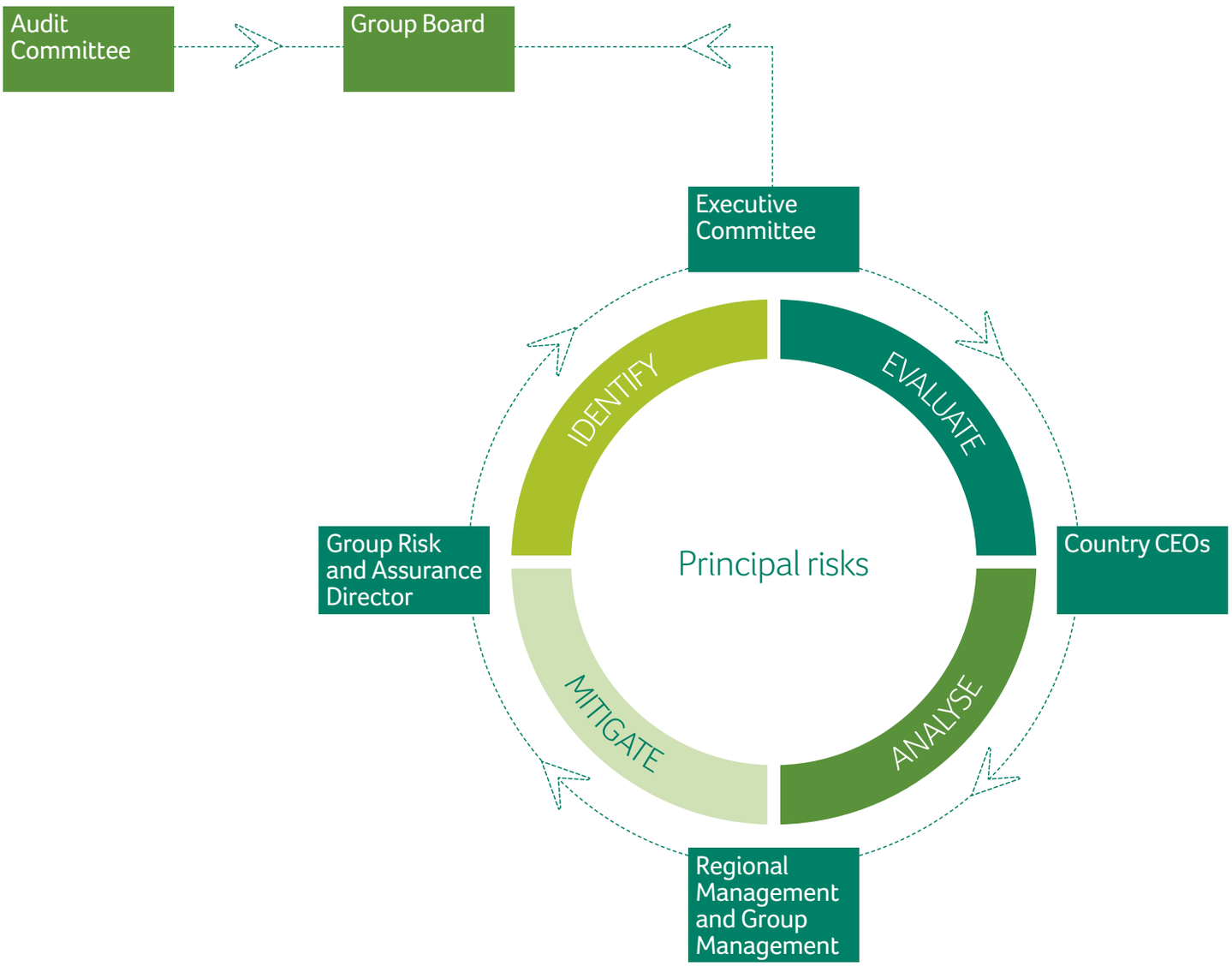
The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed and by their nature can only provide reasonable but not absolute assurance against misstatement or loss. The effectiveness of this process has been reviewed by the Audit Committee, which 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 governance framework for risk management and the key procedures, which the directors have established with a view to providing effective internal control, are set out on the following page.

Risk management processes and responsibilities

The processes to identify and manage the key risks to the success of the Group are an integral part of the internal control environment.



Risk management and key responsibilities

1 Executive Committee

The Executive Committee is responsible for the identification, reporting and ongoing management of risks and for the stewardship of the risk management approach.

The Executive Committee identifies and assesses the key strategic risks to the Group. The output of the assessment is sent to the Group Board for review and to the country CEOs for inclusion in their risk assessment exercises.

2 Country CEOs

Country CEOs are responsible for the identification, reporting and ongoing management of risks in their respective countries.

The country CEOs facilitate their risk assessment exercise with the key strategic risks and identify the top five local risks within their country. The output of the assessment is sent to regional management and the Group Risk and Assurance Director for review and challenge.

3 Regional management and Group management

Regional management and Group management are responsible for the reporting, challenge and ongoing management of risks.

Regional management, with support from the Group Risk and Assurance Director, review and challenge the risk information from the countries and agree the regional response to the key strategic risks and the top five region risks. Group management identify top risks from central functions (for example, tax and treasury). All outputs are sent to the Group Risk and Assurance Director.

4 Group Risk and Assurance Director

The Group Risk and Assurance Director is responsible for the facilitation and implementation of the risk management approach throughout the Group and regions.

The Group Risk and Assurance Director consolidates the regional risk reports and creates the Group Risk Report containing the responses to the key strategic risks and the top five to ten "local" risks for the Group as a whole. The Group Risk Report is sent to the Executive Committee for review and challenge.

5 Audit Committee

The Audit Committee is responsible for the independent review and challenge of the adequacy and effectiveness of the risk management approach.

The Audit Committee review and challenge the Group Risk Report. The Group Risk Report is then submitted to the Group Board for review.

6 Group Board

The Group Board has overall responsibility for risk management and implementation of the risk management policy.

The Group Board reviews the output from the Executive Committee. The risk assessment exercise is repeated six months later as an update exercise.

During the year, new, more detailed risk management processes and procedures were established around the Group. The new processes, as outlined above, ensure that risks are identified from a top down strategic perspective as well as a bottom up local perspective. Facilitated risk workshops have been completed with the Executive Committee and major territories around the Group. The results from risk management activities were previously reported to the Risk Committee. However, it is considered best practice that the Executive Committee take prime responsibility for the management of risk. Therefore, the Group's Risk Committee has been disbanded. Results from risk management activities are now reported and discussed directly with the Executive Committee after each six monthly risk management exercise.

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 continues to seek 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. As a result of these structures, the Board considers that it receives 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 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 the provision of subsequent training and development. 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 Executive Committee meets regularly to agree strategy, monitor performance and consider key business issues. As part of its review, it considers the risks associated with the delivery of strategy and important governance issues within the operating companies.

Within the Group team, based in Newcastle upon Tyne, there are a number of central administrative functions such as Group Treasury, Corporate Communications, Group Legal and Business Development. These functions report to the Board through its executive members and the members of the Executive Committee.

A number of Group-wide policies issued by the central Group team and administered both centrally and at local level, ensure compliance with key governance standards. These policies cover areas such as finance, data protection and mergers and acquisitions.

The conduct of Sage's individual businesses is delegated to the local executive management teams. Details of the authority delegated to local and regional management is set out in a delegation of authority matrix which is communicated to management throughout the business. These teams are accountable for the conduct and performance of their businesses within the agreed business strategy. They have full authority to act subject to the reserved powers and sanctioning limits laid down by the Board and to Group policies and guidelines.

Internal audit

The Group has an in-house internal audit team supplemented under co-source agreements with third-party providers 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.

Relations with shareholders

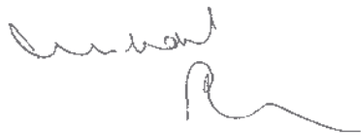
Communication with shareholders is given high priority. A full Annual Report & Accounts is sent to all shareholders who wish to receive one. The Company also has a website (www.sage.com) which contains up-to-date information on Group activities and published financial results. There is regular dialogue 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.

Information included in the Directors' report

Certain information that fulfils the requirements of the Corporate Governance Statement can be found in the Directors' report in the sections headed "Substantial shareholdings", "Deadlines for voting rights", "Repurchase of Shares", "Amendment of the Company's articles of association", "Appointment and replacement of directors" and "Powers of the directors" and are incorporated into this corporate governance section by reference.

By order of the Board



M J Robinson
Secretary

30 November 2011

Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 30 September 2011.

Principal activities

The Sage Group plc is a holding company. 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 small and medium-sized enterprises ("SMEs").

Business review

The Group achieved a profit before taxation of £330.8m on revenue from continuing operations of £1,334.1m.

The Companies Act 2006 requires us to present a fair review of the business of the Group during the year to 30 September 2011 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group. The information that fulfils the Companies Act requirements can be found in the following parts of the report which are incorporated by reference: Chairman's letter, Chief Executive's review, Executive Committee, Our business model, Market overview, Financial review, Key Performance Indicators, Principal risks and uncertainties, Our priorities, Delivering our priorities, People and organisation, and Corporate responsibility.

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 are set out on page 69.

Dividends paid and proposed are set out on page 85. The Board proposes a final dividend of 7.07p per share (2010: 5.22p per share) taking the proposed full year dividend to 9.75p per share (2010: 7.80p per share).

Statement by the directors on compliance with the provisions of the UK Corporate Governance Code

The Company has been in full compliance with the provisions set out in the UK Corporate Governance Code throughout the year. Information that fulfills the requirements of the Code can be found in the Corporate governance report on pages 46 to 53 and is incorporated into this Directors' Report by reference.

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.

Research and development

During the year, the Group invested £151.9m (2010: £158.9m) 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 Financial review.

Charitable contributions and political donations

During the year, charitable contributions totalling £0.5m were made. 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, their interest in its long term performance share plan and details of their options over the ordinary share capital of the Company are given in the Remuneration report on pages 58 to 66. 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 2011, 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 36 and 37.

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 49 days (2010: 53 days). The Company has no trade creditors (2010: £nil).

Substantial shareholdings

At 25 November 2011, 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	%
LLoyds Banking Group plc	5,756,790	0.44	61,105,949	4.62	66,862,739	5.06
Aviva plc	66,981,616	5.07	–	–	66,981,616	5.07
BlackRock, Inc.	–	–	75,700,610	5.74	75,700,610	5.74

In addition to the number of shares noted in the table above, Aviva plc hold an additional 166,000 shares by way of contracts for difference and BlackRock, Inc. hold 1,457,375 shares by way of contracts for difference.

Future developments

The Group's future developments are described in the business review on pages 1 to 40.

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 29 February 2012 will be 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 2011) to buy back up to 131,736,058 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 29 February 2012.

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).

On 30 September 2011 the Group appointed Deutsche Bank AG to manage an irrevocable buyback programme during the closed period which commenced on 4 October 2011 and will run up to 30 November 2011. From 4 October 2011 to 25 November 2011, the latest practical date prior to publication of the Annual Report & Accounts, 7,495,884 ordinary shares of 1p each were repurchased through Deutsche Bank AG at an average price of 269.20 pence per share. The highest and lowest prices paid for these shares were 275.00 pence per share and 247.60 pence per share respectively. The purchased shares will all be held as treasury shares. The total number of ordinary shares in issue (excluding shares held as treasury shares) at 25 November 2011 is 1,316,481,232.

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 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, every director shall 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.

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 Banking Group 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 prepay 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 prepayments. Where a holder of notes accepts the offer to prepay, 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 prepayment 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.

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 whether IFRSs as adopted by the European Union, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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 on pages 42 and 43, 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.

Financial risk management

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 13 of the accounts.

Capital risk

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

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 2011 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 interest rate risk on floating rate deposits. All principal borrowings, the private placement loan notes, are at fixed interest rates. At 30 September 2011, the Group had £118.5m of deposits.

The Group regularly reviews forecast debt, deposits and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decide this is appropriate. At 30 September 2011 the Group's principal borrowings comprised US private placement loan notes of £192.6m (2010: £190.4m), which have an average fixed interest rate of 4.6%.

Foreign currency risk

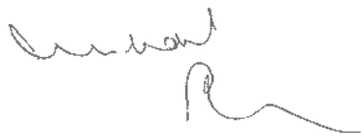
Although a substantial proportion of the Group's revenue and profit is earned outside the UK, subsidiaries generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries. The Group's principal exposure 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. The Group is also exposed to a foreign exchange transaction exposure from the conversion of surplus cash generated by its principal overseas subsidiaries. During the year this risk was partially mitigated by repaying debt in the same currency as the surplus cash to provide a natural hedge.

The Group's US Dollar denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the USA. The foreign exchange movements 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 entity involved. At 30 September 2011 and 30 September 2010, these exposures were immaterial to the Group.

By Order of the Board



M J Robinson, Secretary

30 November 2011

Remuneration report

This report sets out the remuneration policy and remuneration details of the executive and non-executive directors of the Company. The report has been prepared in accordance with 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.

Composition and terms of reference 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.

The current members of the Remuneration Committee are Ms R Markland (Chair), Mr A J Hobson, Ms T Ingram, Mr I Mason and Mr M E Rolfe. All members of the Committee have been members throughout the year. In addition, Mr T C W Ingram was a member of the Committee during the year until 2 March 2011 when he ceased to be a director.

The Committee advises the Board on remuneration policy, and defined remuneration packages for executive directors, the Chairman and other members of senior management. The Committee 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.

Advisers to the Remuneration Committee

The Remuneration Committee continues to receive advice from Deloitte, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance and institutional investor views, as well as providing specific advice in connection with individual executive appointment terms and the development of the Company's incentive arrangements. During the financial year, the wider Deloitte business provided limited tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services.

The Committee receives assistance from Ms K Geary (Group Director of Human Resources), Ms R Fyffe (Director of Performance and Reward) and Mr M J Robinson (Company Secretary), who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed. The Chairman does not participate in discussions relating to his own remuneration. The Committee met 9 times during the year. Attendance is detailed on page 48.

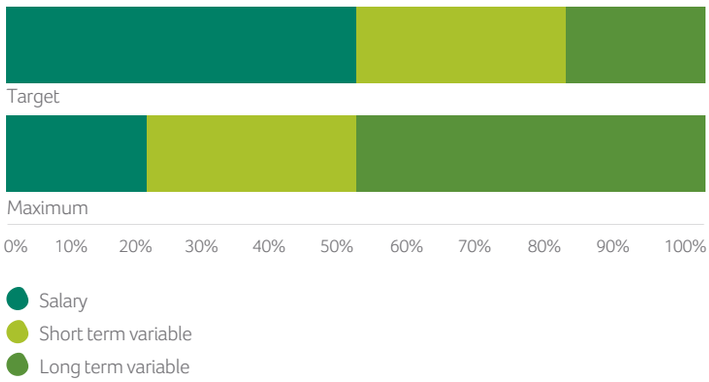
Remuneration policy

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 by receiving information on bonus levels and base salary reviews for other managers around the Group.

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.



Components of executive director compensation

Component	Rationale
Base salary	To provide broadly market competitive base pay compared with 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) whilst also considering corporate performance and pay increases for employees throughout the Group
Annual bonus	Designed to reward outstanding performance against financial and quantifiable metrics that demonstrate the delivery of the business strategy Bonus is linked to demanding strategic targets for the Group and for the individual operating companies, the meeting or out-performance of which is a significant achievement
Bonus deferral	To strengthen the link between short-term decision making and reward with long-term value creation; and to support the shareholding requirements applicable to all executive directors
Performance share plan	Designed to establish a motivational and performance-orientated structure that focuses on the creation of shareholder value, through the delivery of strong financial (EPS) and market (TSR) performance
Pension	To provide a competitive retirement benefit, in a way that manages the overall cost to the Company
Benefits	To provide a competitive and cost-effective benefits package appropriate to the role

Base salary

Going forward, the cycle for director salary reviews will be aligned with the calendar year (reflecting the review cycle for the wider workforce). Accordingly, any increment awarded by the Committee will take effect from January 2012 rather than the start of the financial year. In considering any potential salary increases, the Committee takes full account of proposed pay increases for employees throughout the Group. Accordingly, it is anticipated that executive directors will receive salary increases of between 2.5% and 3%, from January 2012, reflecting the level of salary budget increases in our key employment markets.

Annual bonus

The maximum bonus potential is 125% of salary (with "target" set at 75%) for executive directors.

Bonus structure and outcomes for 2011

For 2011, the bonus structure for Group executive directors without divisional responsibilities (Guy Berruyer, Paul Harrison and David Clayton) was as follows: 75% based on Group profit before tax and amortisation; 20% based on revenue growth; and the balance of 5% based on quantifiable customer metrics. For regional CEOs (Paul Stobart) 25% of bonus was 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.

In respect of performance for 2011, the Committee considered the level of financial performance achieved against the targets set at the start of the year and confirmed the bonus awards for executive directors as shown in the emoluments table on page 63. These represent bonus payments that are ahead of "target" (but significantly below the maximum) bonus levels for individuals subject to the Group measures. These outcomes reflect strong performance for the Group in both profitability and revenue. We achieved Group profit before tax growth of 8% and revenue growth of 4%, as well as year-on-year improvement against our customer metrics.

Bonus structure for 2012

Following review by the Committee, the bonus structure for 2012 has been rebalanced to improve the focus on growth in profits, supported by organic revenue growth, in a way that is consistent with the medium-term objectives set for the business.

For Paul Harrison and Guy Berruyer, the greater proportion of the bonus remains weighted to profitability (55%), with the weighting given to organic revenue growth (45%) increased from that which applied in the prior year to reflect the strategic importance of growing the Group's business. David Clayton now has responsibility for the Sage Pay business. Accordingly, 65% of his bonus opportunity relates to the Group performance metrics, in line with the other executive directors; with the balance (35%) relating to organic revenue growth and EBITA margin for the Sage Pay business. The Committee has determined that no bonus will be payable for achievement against the revenue growth metric unless a predetermined profit underpin is achieved.

Targets for both metrics are set at the start of the financial year. In confirming bonus outcomes, the Committee will review underlying business performance to ensure, in particular, that growth in revenue is consistent with delivering value to shareholders over time.

The Committee believes that this structure will ensure that the annual incentive is directly aligned with the Group's current strategic priorities.

Bonus deferral

Where any bonus is awarded in excess of 75% of salary, 25% of that excess is to be satisfied in deferred shares if the executive director has not yet achieved the target holding of shares. Deferred shares 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.

Performance Share Plan

The Committee established the Performance Share Plan ("the Plan" or "PSP") as the Group's main long-term equity incentive to drive financial and market performance. The structure of awards and the manner in which performance conditions apply are discussed below.

The individual limit on award levels under the Plan is 300% of salary. PSP awards 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 Committee would expect to consult with shareholders if awards were to be made routinely above current levels.

The Committee expects to make long-term incentive ("LTI") awards under the current PSP in 2012. However, the Committee intends to commission a review of the current LTI arrangements during the course of the financial year, to ensure that these continue to meet the needs of the business and provide an appropriate and effective incentive to deliver on the Group's strategic objectives. Depending on the outcomes from this review, the Company will consult with a representative group of its institutional shareholders to the extent that any changes are material or otherwise require shareholder approval ahead of the Annual General Meeting in 2013.

Pension

All the executive directors' pension arrangements are defined contribution, with a standard contribution rate of 25% of base salary (only) subject, where appropriate, to limits set by HM Revenue & Customs ("HMRC"). An individual may elect to receive some of their pension contribution as a cash allowance (which is not consolidated with base salary, and does not impact bonus or LTI award levels). No components of remuneration, other than base salary, are pensionable.

Benefits

Benefits at executive director and senior executive level reflect local market norms, and typically comprise a car benefit (or cash equivalent), private medical insurance, permanent health insurance, and life assurance.

Vesting information for long-term incentives

Long-term incentive awards are made under the Performance Share Plan 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%. Awards vest on a straight-line basis between these targets, 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, or 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 2012 for TSR purposes will comprise the following companies:

- Adobe Systems
- ARM Holdings
- Blackbaud
- Cap Gemini
- Cegid
- Dassault Systemes
- Exact
- Intuit
- Logica
- Micro Focus International
- Microsoft
- Misys
- Oracle
- Salesforce.com
- SAP
- 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.

Fees of non-executive directors

The remuneration policy for 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 year ended 30 September 2011, 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 for 2012.

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, there has been no increase to his annual fee of £270,000.

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

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.

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.

Service contracts

In relation to contracts with executive directors, the Remuneration Committee aims to set notice periods that are no longer than one year.

At every Annual General Meeting of the Company, every director shall retire from office (but shall be eligible for election or re-election by the shareholders). The appointment of the non-executives is for a fixed term of one year, during which period the appointment may be terminated by the Board on notice, ranging from six to 12 months. 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.

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.

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 2011, or on date of contract if later	Notice period under contract
Executive directors			
G S Berruyer	1 October 2010	12 months	12 months from the Company and/or individual
D H Clayton	25 July 2007	12 months	12 months from the Company and/or individual
P S Harrison	1 April 2000	12 months	12 months from the Company and/or individual
P L Stobart	26 September 2003	See note below	See note below
Non-executive directors			
A J Hobson	30 September 2010	2 years	12 months from the Company and/or individual
T Ingram	25 November 2010	2 years	6 months from the Company and/or 1 month from individual
T C W Ingram	3 March 2010	0 months	6 months from the Company and/or 1 month from individual
R Markland	13 September 2009	1 year	6 months from the Company and/or 1 month from individual
I Mason	30 September 2010	2 years	6 months from the Company and/or 1 month from individual
M E Rolfe	25 November 2010	2 years	6 months from the Company and/or 1 month from individual

Notes:

- T C W Ingram ceased to be a director on 2 March 2011 and his contract of employment ended on that date.
- P L Stobart ceased to be a director on 30 May 2011 and his contract of employment ended on 30 September 2011.
- There are no other benefits in the contracts relevant to termination payments.

Executive changes

P L Stobart's cessation as a director

As announced on 20 April 2011, Mr Stobart's role as CEO of Sage Northern Europe (along with executive responsibilities with all Group Companies) ceased on 31 May 2011. Mr Stobart's appointment terms provided for a 12 month contractual notice period from the date of announcement, with an entitlement to receive his base salary and the value of contractual benefits only. Such payments are made by the Company on a phased (monthly) basis and, in accordance with the mitigation provisions which apply, payments to Mr Stobart ceased with effect from 1 October 2011 (being four months into the twelve month period).

The bonus payment made in respect of 2011 (disclosed in the emoluments table on the following page) was determined by the Committee on the basis set out for executive directors for 2011, based on targets established at the start of the financial year. The PSP award made in March 2011 will lapse in its entirety; other outstanding PSP awards will continue in effect, adjusted by the Committee to reflect the extent to which the performance period has elapsed, and may then vest subject to assessment of performance conditions on their normal vesting dates. Vested but unexercised share options, for which performance conditions have been previously satisfied, may remain exercisable for a short period following cessation (which may be extended if necessary to ensure compliance with applicable dealing restrictions).

Mr Stobart is not entitled to participate in any of the Group's incentive arrangements in respect of the proportion of his notice period that falls within the year commencing 1 October 2011.

Paul Walker's cessation as CEO

As disclosed in last year's report, Mr Walker's role as Chief Executive of the Group ceased on 30 September 2010. Mr Walker was asked to remain with the company until 1 December 2010 in order to ensure a smooth transition of executive responsibilities.

During this two-month period, Mr Walker received his monthly salary only, with corresponding pension and insurance benefits, but with no entitlement to participate in any bonus scheme over the period. As such, salary payments made to Mr Walker in the period amounted to £131,000.

External appointments

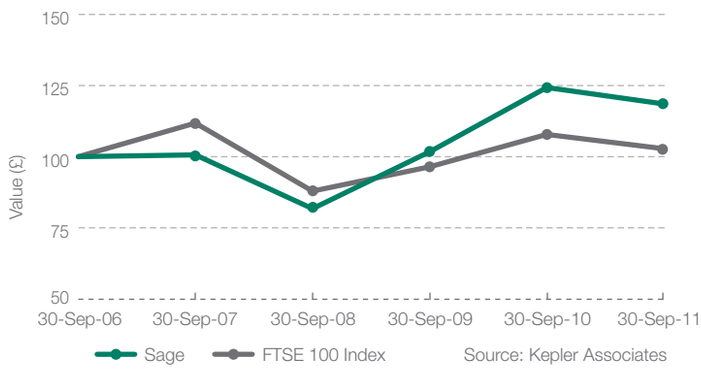
Executive directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Mr D H Clayton is a non-executive director of SDL plc and Mr P S Harrison is a 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 £41,250 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.

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. 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.



This graph shows the value, by 30 September 2011, of £100 invested in The Sage Group plc on 30 September 2006 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

TSR performance to 30 September 2011 for PSP awards made to date was as follows:

- 2009 awards – TSR ranking of 8 out of 18 comparators
- 2010 awards – TSR ranking of 10 out of 18 comparators
- 2011 awards – TSR ranking of 10 out of 18 comparators

Directors' remuneration

The information set out on the following page has been subject to audit as required by part 3 of Schedule 8 of the Companies Act 2006.

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 "Remuneration policy" on page 58.

Director	Salary and fees '000	Bonus '000	Bonus deferred into shares[1] '000	Benefits in kind '000	2011 Total '000	2010 Total '000	2011 Pension contributions[2] '000	2010 Pension contributions '000
Executive directors								
G S Berruyer	**£700**	**£574**	**–**	**£121**	**£1,395**	€1,377	**£175**	–
D H Clayton	**£357**	**£287**	**£6**	**£18**	**£668**	£732	**£89**	£88
P S Harrison[3]	**£425**	**£341**	**£7**	**£18**	**£791**	£783	**£106**	£94
P L Stobart	**£454**	**£365**	**–**	**£18**	**£837**	£858	**£114**	£111
Non-executive directors								
A J Hobson	**£270**	**–**	**–**	**–**	**£270**	£250	**–**	–
T Ingram	**£55**	**–**	**–**	**–**	**£55**	£55	**–**	–
T C W Ingram	**£28**	**–**	**–**	**–**	**£28**	£65	**–**	–
R Markland	**£74**	**–**	**–**	**–**	**£74**	£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 2012, 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 2012.

2 Retirement benefits were accruing to four directors (2010: four). All pension contributions accrued under money purchase schemes. An individual may elect to receive some of their pension contributions as a cash allowance, taxed as income.

- No payments for compensation for loss of office or otherwise relating to termination of office or employment were made during the year.
- Total directors' emoluments were £4,245,000 (2010: £5,723,000).
- 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 £1,395,000 (2010: £1,592,000).
- In the table above an exchange rate of €1.15/£1 has been adopted.

3 The rationale for P S Harrison's salary positioning for 2011 was stated in last year's Annual Report and primarily reflects the increased scope of his role within the Group.

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 25 November 2011 (the last practical date prior to publication of this document), are set out below:

Limit	Current position
7.5% of Group's share capital can be used for discretionary share schemes	5.23%
10% of Group's share capital can be used for all share schemes	5.88%

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 the percentage becomes 2.89% under discretionary share schemes and 3.54% under all share schemes.

Executive share options (audited information)

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 2010 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2011 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	62,008	–	–	–	**62,008**	10 January 2010 – 10 January 2017
	214.00p	218,545	–	–	(218,545)	**–**	10 January 2011 – 10 January 2018
		889,007	**–**	**–**	**(339,849)**	**549,158**	
D H Clayton	214.00p	156,542	–	–	(156,542)	**–**	10 January 2011 – 10 January 2018
		156,542	**–**	**–**	**(156,542)**	**–**	
P S Harrison	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	49,777	–	–	–	**49,777**	10 January 2010 – 10 January 2017
	214.00p	156,542	–	–	(156,542)	**–**	10 January 2011 – 10 January 2018
		630,730	**–**	**–**	**(222,137)**	**408,593**	
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 March 2012
	171.00p	175,438	–	–	–	**175,438**	24 December 2006 – 31 March 2012
	198.00p	181,818	–	–	–	**181,818**	6 January 2008 – 31 March 2012
	258.50p	121,369	–	–	–	**121,369**	10 January 2009 – 31 March 2012
	270.00p	62,533	–	–	–	**62,533**	10 January 2010 – 31 March 2012
	214.00p	198,598	–	–	(198,598)	**–**	10 January 2011 – 10 January 2018
		1,084,940	**–**	**–**	**(319,902)**	**765,038**	
Total		**2,761,219**	**–**	**–**	**(1,038,430)**	**1,722,789**	

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 2011 was 256.40p and the lowest and highest market price during the year was 231.70p and 302.0p respectively.
- Lapses during the year relate to performance conditions not having been met in full.
- Mr P L Stobart ceased to be a director of the company on 31 May 2011.

All-employee share scheme (audited information)

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 2010 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2011 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 2011 14,996 units were held by Mr G S Berruyer at a price of €3.44 per share. On 30 September 2010 14,996 units were held at a price of €3.67 per share. Units are valued on a weekly basis.

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 2010 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Awarded 30 September 2011 number**	Vesting date
G S Berruyer	361,647	–	(95,167)	(266,480)	**–**	3 March 2011
	745,649	–	–	–	**745,649**	3 March 2012
	507,280	–	–	–	**507,280**	4 March 2013
	–	737,795	–	–	**737,795**	10 March 2014
	1,614,576	**737,795**	**(95,167)**	**(266,480)**	**1,990,724**	
D H Clayton	253,787	–	(66,783)	(187,004)	**–**	3 March 2011
	438,282	–	–	–	**438,282**	3 March 2012
	303,593	–	–	–	**303,593**	4 March 2013
	–	264,053	–	–	**264,053**	10 March 2014
	995,662	**264,053**	**(66,783)**	**(187,004)**	**1,005,928**	
P S Harrison	253,787	–	(66,783)	(187,004)	**–**	3 March 2011
	438,282	–	–	–	**438,282**	3 March 2012
	325,278	–	–	–	**325,278**	4 March 2013
	–	314,349	–	–	**314,349**	10 March 2014
	1,017,347	**314,349**	**(66,783)**	**(187,004)**	**1,077,909**	
P L Stobart	321,969	–	(84,726)	(237,243)	**–**	3 March 2011
	557,245	–	–	–	**557,245**	3 March 2012
	385,997	–	–	–	**385,997**	4 March 2013
	–	335,798	–	(335,798)	**–**	10 March 2014
	1,265,211	**335,798**	**(84,726)**	**(573,041)**	**943,242**	
Total	**4,892,796**	**1,651,995**	**(313,459)**	**(1,213,529)**	**5,017,803**	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 March 2011, the date of the awards made in the year ended 30 September 2011 was 272.1p.
- The market price of a share on 3 March 2011, the date the above awards vested in the year ended 30 September 2011 was 280.8p. The market price of a share on 3 March 2008, the date on which these awards were granted was 202.25p.
- 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 in March 2008, 25% 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. The performance condition for awards made in March 2009, 2010 and 2011 is set out above.
- Mr P L Stobart ceased to be a director of the company on 31 May 2011.
- For awards made in 2008, TSR performance was such that 26% of the shares originally awarded to executive directors vested.

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

Contents

Group financial statements

68 Independent auditors' report

Primary financial statements

69 Consolidated income statement
69 Consolidated statement of comprehensive income
70 Consolidated balance sheet
71 Consolidated statement of cash flows
72 Consolidated statement of changes in equity

Notes to the financial statements

73 Group accounting policies

Results for the year

79 Segment information
82 Profit before tax
83 Income tax expense
84 Earnings per share and dividends

Operating assets and liabilities

86 Intangible assets
88 Property, plant and equipment
89 Working capital
91 Retirement benefit obligations
93 Deferred income tax
95 Operating lease commitments – minimum lease payments
95 Contingent liabilities

Net debt and capital structure

96 Cash flow and net debt
98 Financial instruments
101 Equity

Other notes

109 Discontinued operations and non-current assets held for sale
110 Acquisitions and disposals
112 Related party transactions
112 Post balance sheet events
113 Principal subsidiaries

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 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of cash flows, the Consolidated statement of changes in equity, Group accounting policies 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 pages 56 and 57 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 46 to 53 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 54 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 UK Corporate Governance Code specified for our review.
- Certain elements of the report to shareholders by the Board on directors' remuneration

Other matter

We have reported separately on the parent Company financial statements of The Sage Group plc for the year ended 30 September 2011 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

30 November 2011

Consolidated income statement

For the year ended 30 September 2011

Continuing operations	Note	2011 £m	Restated 2010 £m
Revenue	1.1	**1,334.1**	1,277.7
Cost of sales		**(85.6)**	(86.3)
Gross profit		**1,248.5**	1,191.4
Selling and administrative expenses		**(905.2)**	(882.4)
Operating profit	1.2, 2.1	**343.3**	309.0
Finance income	2.3	**1.9**	3.3
Finance costs	2.3	**(14.4)**	(13.4)
Finance costs – net	2.3	**(12.5)**	(10.1)
Profit before taxation		**330.8**	298.9
Income tax expense	3	**(74.8)**	(84.4)
Profit for the year from continuing operations		**256.0**	214.5
(Loss)/profit for the year from discontinued operations	15.2	**(67.0)**	12.8
Profit for the year – attributable to owners of the parent	14.5	**189.0**	227.3
EBITA†	1.2	**365.1**	337.2
Earnings per share (pence)			
From continuing and discontinued operations			
– Basic	4.1	**14.35p**	17.29p
– Diluted	4.1	**14.24p**	17.23p
From continuing operations			
– Basic	4.1	**19.44p**	16.30p
– Diluted	4.1	**19.29p**	16.26p

† 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 2011

	Note	2011 £m	Restated 2010 £m
Profit for the year	14.5	**189.0**	227.3
Other comprehensive income:			
Currency translation differences	14.4	**6.5**	10.5
Actuarial gain/(loss) on post employment benefit obligations	14.5	**1.0**	(0.3)
Cash flow hedges	14.4	**1.0**	(0.7)
Other comprehensive income for the year, net of tax		**8.5**	9.5
Total comprehensive income for the year – attributable to owners of the parent		**197.5**	236.8

Consolidated balance sheet

As at 30 September 2011

	Note	2011 £m	2010 £m
Non-current assets			
Goodwill	5.1	**1,736.3**	2,031.1
Other intangible assets	5.2	**118.1**	179.1
Property, plant and equipment	6	**146.4**	149.6
Deferred income tax assets	9	**20.7**	10.4
		2,021.5	2,370.2
Current assets			
Inventories	7.1	**2.5**	4.1
Trade and other receivables	7.2	**285.4**	276.3
Cash and cash equivalents (excluding bank overdrafts)	12.3	**182.8**	70.8
		470.7	351.2
Non-current assets classified as held for sale	15.4	**251.1**	–
Total assets		**2,743.3**	2,721.4
Current liabilities			
Trade and other payables	7.3	**(261.2)**	(288.9)
Current income tax liabilities		**(47.4)**	(73.7)
Borrowings	12.4	**(1.7)**	(2.8)
Other financial liabilities	13.5	**(50.0)**	–
Deferred consideration		**(2.0)**	(2.7)
Deferred income	7.4	**(404.7)**	(402.7)
		(767.0)	(770.8)
Liabilities directly associated with non-current assets classified as held for sale	15.4	**(49.7)**	–
Non-current liabilities			
Borrowings	12.4	**(192.4)**	(249.3)
Other financial liabilities	13.5	**–**	(1.0)
Retirement benefit obligations	8	**(11.7)**	(11.3)
Deferred income tax liabilities	9	**(14.7)**	(39.6)
		(218.8)	(301.2)
Total liabilities		**(1,035.5)**	(1,072.0)
Net assets		**1,707.8**	1,649.4
Equity attributable to owners of the parent			
Ordinary shares	14.1	**13.2**	13.2
Share premium	14.3	**513.2**	499.8
Other reserves	14.4	**266.8**	259.3
Retained earnings	14.5	**914.6**	877.1
Total equity		**1,707.8**	1,649.4

The consolidated financial statements on pages 69 to 113 were approved by the Board of directors on 30 November 2011 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 2011

	Note	2011 £m	Restated 2010 £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	**405.1**	394.5
Interest paid		**(13.0)**	(11.6)
Income tax paid		**(92.5)**	(75.7)
Net cash generated from operating activities		**299.6**	307.2
Cash generated from discontinued operations	15.3	**15.4**	35.2
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.5	**(1.4)**	(7.5)
Disposal of subsidiaries, net of cash disposed	16.5	**2.0**	6.1
Purchases of intangible assets	5.2	**(9.3)**	(6.2)
Purchases of property, plant and equipment		**(23.0)**	(20.6)
Proceeds from sale of property, plant and equipment		**2.4**	0.7
Interest received	2.3	**1.9**	3.3
Net cash used in investing activities		**(27.4)**	(24.2)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	14.3	**13.4**	7.9
Purchase of treasury shares	14.5	**–**	(7.3)
Finance lease principal payments		**(0.6)**	(0.1)
Issue costs on loans		**–**	(4.4)
Repayments of borrowings		**(83.4)**	(324.4)
Proceeds from borrowings		**0.6**	126.2
Dividends paid to Company's shareholders	4.2	**(104.0)**	(98.6)
Net cash used in financing activities		**(174.0)**	(300.7)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)	12.2	**113.6**	17.5
Effects of exchange rate movement	12.2	**(2.2)**	1.8
Net increase in cash, cash equivalents and bank overdrafts		**111.4**	19.3
Cash, cash equivalents and bank overdrafts at 1 October	12.2	**70.6**	51.3
Cash, cash equivalents and bank overdrafts at 30 September	12.2	**182.0**	70.6

Consolidated statement of changes in equity

For the year ended 30 September 2011

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2010	**13.2**	**499.8**	**259.3**	**877.1**	**1,649.4**
Profit for the year	**–**	**–**	**–**	**189.0**	**189.0**
Other comprehensive income:					
Currency translation differences	**–**	**–**	**6.5**	**–**	**6.5**
Actuarial gain on post employment benefit obligations	**–**	**–**	**–**	**1.0**	**1.0**
Cash flow hedges	**–**	**–**	**1.0**	**–**	**1.0**
Total comprehensive income for the year ended 30 September 2011	**–**	**–**	**7.5**	**190.0**	**197.5**
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	**–**	**13.4**	**–**	**–**	**13.4**
– Value of employee services	**–**	**–**	**–**	**3.2**	**3.2**
– Equity movement of deferred income tax	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Closed period share buyback programme	**–**	**–**	**–**	**(50.0)**	**(50.0)**
Dividends	**–**	**–**	**–**	**(104.0)**	**(104.0)**
Total transactions with owners for the year ended 30 September 2011	**–**	**13.4**	**–**	**(152.5)**	**(139.1)**
At 30 September 2011	**13.2**	**513.2**	**266.8**	**914.6**	**1,707.8**

	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:					
Employee 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

Notes to the financial statements

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 23 countries worldwide in 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 30 November 2011.

a Basis of preparation

As an European Union ("EU") listed company, The Sage Group plc is required to prepare its Group financial statements using International Financial Reporting Standards ("IFRS"), as adopted by the EU.

The financial statements are also prepared in accordance with International Financial Reporting Standards Interpretations Committee ("IFRS IC") 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.

The results of discontinued operations are shown as a single amount on the face of the Consolidated income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. The Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the related notes for the prior year have been restated to exclude discontinued operations. Assets and liabilities of disposal groups are classified as held for sale and are shown separately on the face of the Consolidated balance sheet.

Standards, amendments and interpretations effective in 2011

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 IC interpretations

- IFRIC 15, "Agreements for the Construction of Real Estate"
- IFRIC 18, "Transfers of Assets from Customers"
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

Amendments to existing standards

- Annual Improvements to IFRSs 2009
- Amendment to IFRS 1, "First-time Adoption of IFRS"
- Amendment to IFRS 2, "Share-based Payment"
- Amendment to IAS 32, "Financial Instruments: Presentation and Classification of Rights Issues"

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. The accounting policies have been consistently applied across the Group. 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. 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 income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is 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 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.

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;

Group accounting policies continued

d Revenue recognition continued

- 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 arising from the acquisition of a subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the Group's share of the identifiable net assets acquired over the fair value of the Group's share of the identifiable net assets. In the case of a bargain purchase, when the consideration is less than the fair value of the net assets of the subsidiary acquired, 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 include 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 financial statements.

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.

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

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

The carrying amount of deferred tax assets is reviewed at 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.

Group accounting policies continued

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.

Hedge accounting

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.

Shares repurchased for cancellation

The Group also makes use of contingent contracts for the purchase of its own shares. These derivative contracts are accounted for as equity transactions and the contracts are not stated at their market values. The present value of the obligation to purchase the shares is recognised in full at the inception of the contract, even when that obligation is conditional. Any subsequent reduction in the total obligation arising from the early termination of a contract is credited back to equity at the time of termination.

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 Borrowings

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 these 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 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 8.

u Share-based payments

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

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

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

At 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 2011 the Group was organised into geographical segments based on the location of assets.

Group accounting policies continued

y Non-current assets held for sale and discontinued operations

A non-current asset (or disposal group) is classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset (or disposal group) is acquired as part of a business combination it is initially measured at fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale are shown separately on the face of the balance sheet.

The results of discontinued operations are shown as a single amount on the face of the income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. The Consolidated income statement, the Consolidated statement of other comprehensive income, the Consolidated statement of cash flows, and the related notes for the prior year have been restated to exclude discontinued operations.

z 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 Accounting Standards ("IAS")

- IAS 27 (revised 2011), "Separate Financial Statements"
- IAS 28 (revised 2011), "Investments in Associates and Joint Ventures"

International Financial Reporting Standards ("IFRS")

- IFRS 9, "Financial Instruments"
- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosures of Interests in Other Entities"
- IFRS 13, "Fair Value Measurement"

International Financial Reporting Standards Interpretations Committee ("IFRS IC") interpretations

- Amendment to IFRIC 14, "Prepayments of a Minimum Funding Requirement"

Amendments to existing standards

- Amendment to IFRS 1, "First-time Adoption of IFRS"
- Amendment to IFRS 7, "Financial Instruments: Disclosures"
- Amendment to IAS 1, "Presentation of Financial Statements"
- Amendment to IAS 12, "Income Taxes"
- Amendment to IAS 19, "Employee Benefits"
- Amendment to IAS 24, "Related Party Disclosures"
- 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.

The amendment to IAS 24, the Annual Improvements to IFRSs 2010 and the amendment to IFRIC 14 are the only amendments endorsed by the EU at the date of approval of these Consolidated financial statements. The other IFRSs, IFRS IC interpretations and amendments to existing standards are not yet endorsed.

A 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

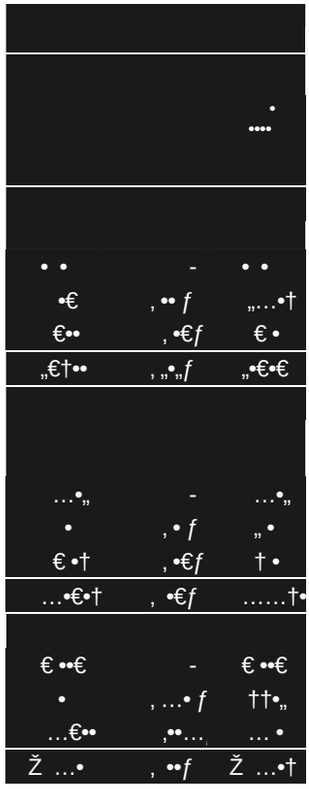
When acquiring a business, the Group has to make judgements and best estimates about the fair value allocation of the purchase price. The Group seeks appropriate competent and professional advice before making any such allocations. The Group tests the valuation of goodwill on an annual basis and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. These tests require the use of estimates (note 5.1).

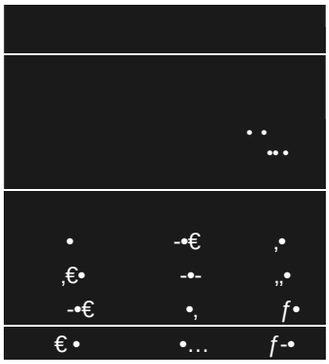
Impairment reviews

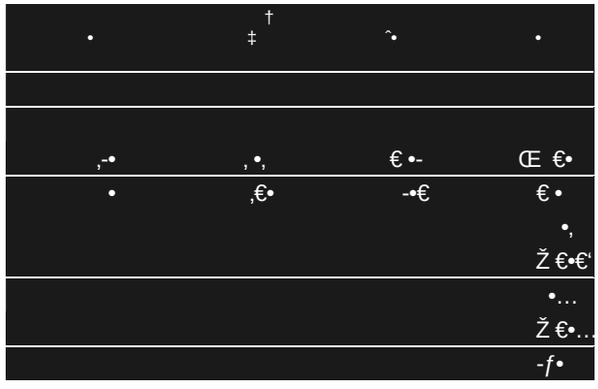
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 5.1).

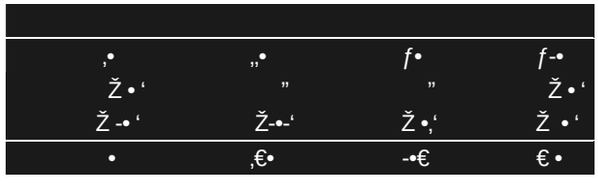
Income taxes

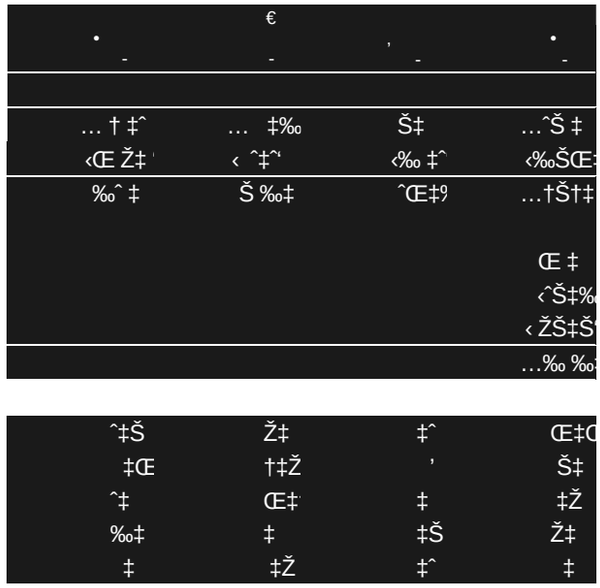
The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises 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.



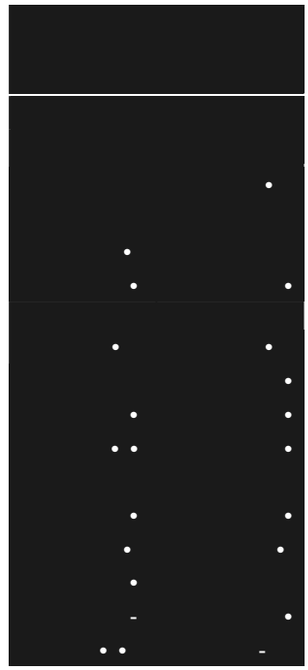


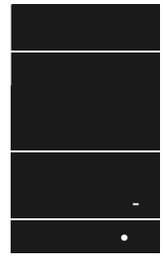


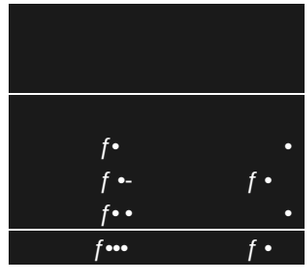


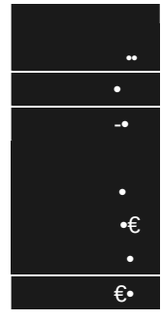

€
•
-
-
,
-
•
-
… † ‡ˆ
… ‡‰
Š‡
…ˆŠ ‡
‹Œ Ž‡
‹ ˆ‡ˆ‘
‹‰ ‡ˆ
‹‰ŠŒ‡
‰ˆ ‡
Š ‰‡
ˆŒ‡’
…†Š†‡
Œ ‡
‹ˆŠ‡‰
‹ ŽŠ‡Š
…‰ ‰

ˆ‡Š
Ž‡
‡ˆ
Œ‡C
‡Œ
†‡Ž
’
Š‡
ˆ‡
Œ‡
‡
‡Ž
‰‡
‡
‡Š
Ž‡
‡
‡Ž
‡ˆ
‡









• -€	€,-*f*	•-•	*f*-,	„-•	•*f*•-„	,*f*-
..	..	..	…	•-•	*f*-	€-
..	..	..	…	†,-€‡	..	†,-€‡
			…	•-	..	•-
..	†•- ‡	..	…	•-„	•-„	•-•
..	•-€	..	…	•-^	..	•-„
..	..	..	…	†•-•‡	..	†•-•‡
†^-•‡	†•,-•‡	..	…	†••-*f*‡	†*f*•-*f*‡	†^„-•‡
f-€	^•-€	•-•	*f*-,	*f*•-*f*	••^-•	•^•-*f*
•,-•	,•-•	•-	*f*-*f*	••-	^ -,	•^,-•
•-•	€-,	•-•	•-•	,-	€-^	•^-•
..	..	..	…	†,-,‡	..	†,-,‡
•-•	†•-•‡	..	…	•-	•-^	•-•
•-,	•-•	..	…	•-•	•-€	^-„
..	..	..	..	†•-•‡	..	†•-•‡
† -•‡	†••- ‡	..	…	†••-,‡	†•„-•‡	†*f*•-•‡
•,-	,•-•	•-•	*f*-,	••-^	„•-•	•,,-•
•€-,	••-„	..	…	••-„	,-•	••^-•

		•• ••	•
•	•-	€ •€	•
,	ƒ•€	€•„	•
… •†	… •-‡	… • ‡	… -• ‡
,	… • :	… • :	… • :
•-	… •†	… •-	… •†
,	•€	,	•€
,	… • :	,	… • :
… •ƒ	…-•†	… • :	…ƒ•
„ƒ•	- •-	€•-	„€•
•	„•	--•	€ •†
•„	-•	•-	•ƒ
… •†	… ƒ•- :	… • ‡	… „• ‡
,	… • :	… • :	… • :
•	… •€	… • :	… •ƒ
•	•-	•	•†
,	… • :	,	… • :
… • :	… •„ :	… • :	…€•
•-	•	ƒ•	-„•€
ƒ†•ƒ	- •	ƒ•-	-€•-

[redacted]

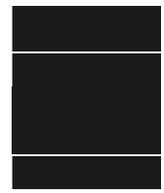
[redacted]

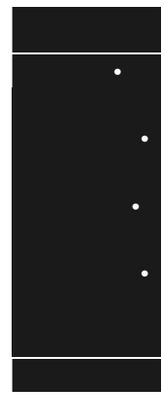
[redacted]

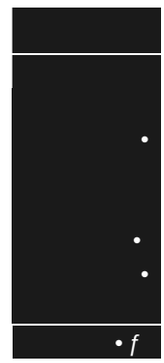
[redacted]

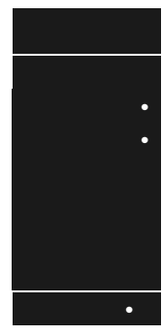
[redacted]

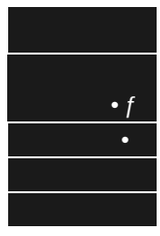
[redacted]







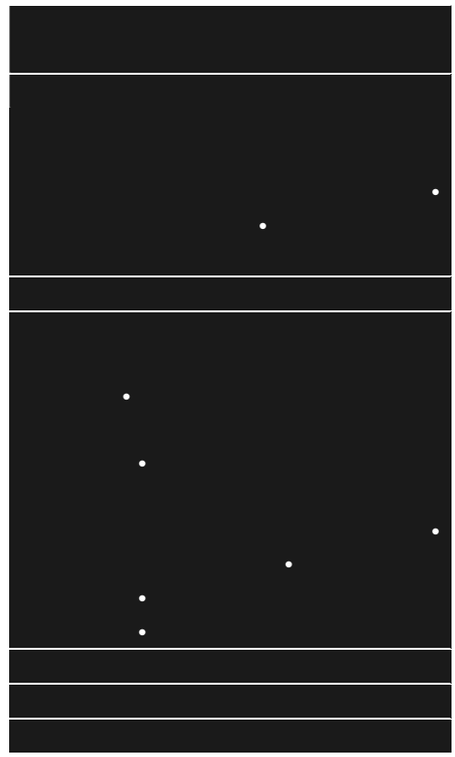


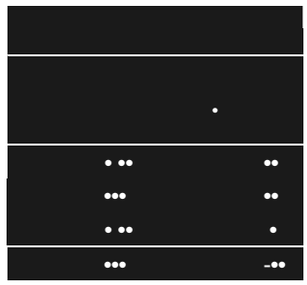


[redacted]

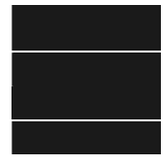
[redacted]

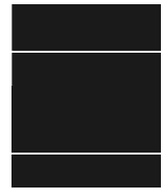
[redacted]

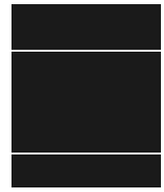


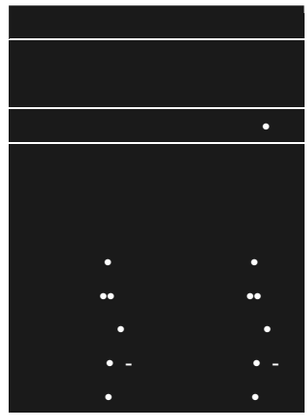


| | | |









14 Equity

14.1 Ordinary shares

Authorised	**2011 £m**	2010 £m
1,860,000,000 (2010: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	**2011 shares**	**2011 £m**	2010 shares	2010 £m
At 1 October	**1,317,360,582**	**13.2**	1,312,966,956	13.1
Proceeds from shares issued	**6,477,254**	**–**	4,393,626	0.1
At 30 September	**1,323,837,836**	**13.2**	1,317,360,582	13.2

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 270.00p under the share option schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Date of grant	Exercise price pence	Exercise period	**2011 number**	2010 number
10 January 2001	301.00p	10 January 2004 – 10 January 2011	**–**	1,590,456
17 January 2001	329.75p	17 January 2004 – 17 January 2011	**–**	459,833
16 May 2001	264.00p	16 May 2004 – 16 May 2011	**–**	1,233,474
2 January 2002	228.50p	2 January 2005 – 2 January 2012	**1,187,105**	2,077,630
31 December 2002	134.00p	31 December 2005 – 31 December 2012	**452,468**	992,122
12 May 2003	147.00p	12 May 2006 – 12 May 2013	**262,634**	410,940
24 December 2003	171.00p	24 December 2006 – 24 December 2013	**2,438,714**	3,843,134
24 May 2004	172.00p	24 May 2007 – 24 May 2014	**90,117**	123,908
6 January 2005	198.00p	6 January 2008 – 6 January 2015	**1,373,034**	2,228,315
12 May 2005	206.00p	12 May 2008 – 12 May 2015	**1,101,446**	1,337,271
10 January 2006	258.50p	10 January 2009 – 10 January 2016	**2,654,089**	3,164,375
10 January 2007	270.00p	10 January 2010 – 10 January 2017	**1,933,437**	2,761,175
20 June 2007	248.00p	20 June 2010 – 20 June 2017	**30,014**	126,034
10 January 2008	214.00p	10 January 2011 – 10 January 2018	**430,532**	7,655,202
17 June 2008	219.25p	17 June 2011 – 17 June 2018	**–**	246,209
			11,953,590	28,250,078

Under the above scheme, 5,985,737 1p ordinary shares were issued during the year for aggregate proceeds of £12.5m.

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	**2011 number**	2010 number
3 March 2008	3 March 2011	**–**	4,579,315
17 June 2008	17 June 2011	**–**	333,148
3 March 2009	3 March 2012	**11,379,360**	11,732,189
4 March 2010	4 March 2013	**7,842,033**	8,165,587
10 March 2011	10 March 2014	**7,998,296**	–
8 September 2011	8 September 2014	**84,413**	–
		27,304,102	24,810,239

14 Equity continued

14.1 Ordinary shares continued

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	**2011 number**	2010 number
1 March 2004	140.00p	1 March 2011 – 31 August 2011	**–**	27,556
1 March 2005	157.00p	1 March 2012 – 31 August 2012	**10,701**	16,918
1 August 2006	184.00p	1 August 2011 – 31 January 2012	**15,446**	114,465
1 August 2006	184.00p	1 August 2013 – 31 January 2014	**20,999**	20,999
1 August 2007	203.00p	1 August 2010 – 31 January 2011	**–**	69,521
1 August 2007	203.00p	1 August 2012 – 31 January 2013	**62,747**	69,199
1 August 2007	203.00p	1 August 2014 – 31 January 2015	**18,525**	18,525
1 August 2008	177.00p	1 August 2011 – 31 January 2012	**67,812**	393,133
1 August 2008	177.00p	1 August 2013 – 31 January 2014	**132,836**	160,745
1 August 2008	177.00p	1 August 2015 – 31 January 2016	**9,462**	9,462
1 August 2009	149.00p	1 August 2012 – 31 January 2013	**1,077,740**	1,173,389
1 August 2009	149.00p	1 August 2014 – 31 January 2015	**292,261**	301,293
1 August 2009	149.00p	1 August 2016 – 31 January 2017	**28,392**	50,403
1 August 2010	190.00p	1 August 2013 – 31 January 2014	**463,975**	537,227
1 August 2010	190.00p	1 August 2015 – 31 January 2016	**142,620**	166,228
1 August 2010	190.00p	1 August 2017 – 31 January 2018	**18,099**	18,099
1 August 2011	234.00p	1 August 2014 – 31 January 2015	**621,743**	–
1 August 2011	234.00p	1 August 2016 – 31 January 2017	**95,540**	–
1 August 2011	234.00p	1 August 2018 – 31 January 2019	**20,348**	–
			3,099,246	3,147,162

Under the above scheme, 491,517 1p ordinary shares were issued during the year for aggregate proceeds of £0.9m.

The market price of the shares of the Company at 30 September 2011 was 256.40p and the highest and lowest prices during the year were 302.00p and 231.70p respectively.

14.2 Share-based payments

The total charge for the year relating to employee share-based payment plans was £3.2m (2010: £10.0m, 2010 restated: £9.8m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £3.9m (2010: £8.1m). A reconciliation of share movements for options granted after 7 November 2002 to which IFRS 2, "Share-based Payment" is applicable is shown on the following pages.

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 the Retail Prices Index ("RPI") by 15% (an average of 5% per year) and 100% of those options will vest at that time only if the 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
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
Exercise price	£1.34	£1.47	£1.71	£1.72	£1.98	£2.06	£2.59	£2.70	£2.48	£2.14
Number of employees	45	14	163	8	47	81	253	353	6	57
Shares under option	452,468	262,634	2,438,714	90,117	1,373,034	1,101,446	2,654,089	1,933,437	30,014	430,532
Vesting period (years)	3	3	3	3	3	3	3	3	3	3
Expected volatility	62%	62%	62%	57%	52%	48%	40%	30%	25%	24%
Option life (years)	10	10	10	10	10	10	10	10	10	10
Expected life (years)	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%
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%
Fair value per option	£0.661	£0.678	£0.855	£0.794	£0.802	£0.777	£0.799	£0.762	£0.539	£0.390

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:

	2011		2010	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**22,888**	**2.13**	29,672	2.13
Granted	**–**	**–**	–	–
Forfeited	**(8,348)**	**2.18**	(3,433)	2.57
Exercised	**(3,774)**	**1.90**	(3,351)	1.72
Outstanding at 30 September	**10,766**	**2.17**	22,888	2.13
Exercisable at 30 September	**10,486**	**2.17**	14,728	2.10

	2011				2010			
			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
1.34 – 2.70	**2.17**	**10,766**	**–**	**3.7**	2.13	22,888	0.1	5.4

The weighted average share price during the period for options exercised over the year was 282.20p (2010: 243.83p).

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.

14 Equity continued

14.2 Share-based payments continued

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 2011 comprised the following companies:

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

If Sage's TSR is ranked at lower quartile in the group, the multiplier is 0.75. If Sage's TSR is ranked at median in the group, the multiplier is 1. If Sage's TSR is ranked at upper quartile in the group, then the multiplier is 1.5. Straight-line pro-rating applies between 0.75 and 1, and between 1 and 1.5, but the multiplier cannot be higher or lower than these figures.

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

Grant date	March 2009	March 2010	March 2011	September 2011
Share price at grant date	£1.62	£2.42	£2.70	£2.57
Exercise price	£0.00	£0.00	£0.00	£0.00
Number of employees	208	231	223	1
Shares under award	11,379,360	7,842,033	7,998,296	84,413
Vesting period (years)	3	3	3	3
Expected volatility	33%	32%	31%	29%
Award life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk free rate	1.5%	1.6%	1.6%	0.6%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%
Fair value per award	£1.434	£1.945	£2.121	£1.993

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

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

	2011		2010	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**24,810**	**–**	19,109	–
Awarded	**8,586**	**–**	8,173	–
Forfeited	**(4,925)**	**–**	(1,038)	–
Exercised	**(1,167)**	**–**	(1,434)	–
Outstanding at 30 September	**27,304**	**–**	24,810	–
Exercisable at 30 September	**–**	**–**	–	–

	2011				2010			
			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
N/A	–	27,304	1.3	1.3	–	24,810	1.6	1.6

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.

14 Equity continued

14.2 Share-based payments continued

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 2005	August 2006	August 2006	August 2007	August 2007	August 2008	August 2008	August 2008
Share price at grant date	£2.06	£2.28	£2.28	£2.28	£2.28	£1.98	£1.98	£1.98
Exercise price	£1.57	£1.84	£1.84	£2.03	£2.03	£1.77	£1.77	£1.77
Number of employees	2	11	8	32	5	43	47	5
Shares under option	10,701	15,446	20,999	62,747	18,525	67,812	132,836	9,462
Vesting period (years)	7	5	7	5	7	3	5	7
Expected volatility	54%	42%	51%	34%	45%	28%	27%	39%
Option life (years)	7	5	7	5	7	3	5	7
Expected life (years)	7	5	7	5	7	3	5	7
Risk free rate	4.7%	4.7%	4.6%	5.3%	5.2%	4.8%	4.8%	4.8%
Expected dividends expressed as a dividend yield	1.6%	1.6%	1.6%	3.0%	3.0%	3.0%	3.0%	3.0%
Fair value per option	£1.176	£1.028	£1.255	£0.750	£0.965	£0.476	£0.543	£0.746

Grant date	August 2009	August 2009	August 2009	August 2010	August 2010	August 2010	August 2011	August 2011	August 2011
Share price at grant date	£1.95	£1.95	£1.95	£2.43	£2.43	£2.43	£2.70	£2.70	£2.70
Exercise price	£1.49	£1.49	£1.49	£1.90	£1.90	£1.90	£2.34	£2.34	£2.34
Number of employees	436	61	11	336	53	7	544	47	10
Shares under option	1,077,740	292,261	28,392	463,975	142,620	18,099	621,743	95,540	20,348
Vesting period (years)	3	5	7	3	5	7	3	5	7
Expected volatility	33%	29%	35%	33%	29%	28%	29%	29%	27%
Option life (years)	3	5	7	3	5	7	3	5	7
Expected life (years)	3	5	7	3	5	7	3	5	7
Risk free rate	2.4%	3.1%	3.5%	1.5%	2.3%	2.9%	1.0%	1.7%	2.4%
Expected dividends expressed as a dividend yield	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	4.0%	4.0%	4.0%
Fair value per option	£0.565	£0.580	£0.682	£0.576	£0.600	£0.634	£0.448	£0.497	£0.507

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.

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

	2011		2010	
	Number '000s	**Weighted average price £**	Number '000s	Weighted average price £
Outstanding at 1 October	**3,147**	**1.68**	3,355	1.65
Awarded	**757**	**2.34**	732	1.90
Forfeited	**(328)**	**1.76**	(544)	1.69
Exercised	**(477)**	**1.78**	(396)	1.83
Outstanding at 30 September	**3,099**	**1.81**	3,147	1.68
Exercisable at 30 September	**83**	**1.78**	70	2.03

	2011				2010			
			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
1.49 – 2.34	**1.81**	**3,099**	**2.0**	**2.5**	1.68	3,147	2.3	2.8

14.3 Share premium

	£m
At 1 October 2009	492.0
Premium on shares issued during the year under share option schemes	7.8
At 1 October 2010	499.8
Premium on shares issued during the year under share option schemes	**13.4**
At 30 September 2011	**513.2**

14.4 Other reserves

	Translation reserve £m	Hedge reserve £m	Other reserve £m	Total other reserves £m
At 1 October 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
Currency translation differences	**6.5**	**–**	**–**	**6.5**
Cash flow hedges:				
– Fair value gains in the year	**–**	**1.0**	**–**	**1.0**
At 30 September 2011	**205.7**	**–**	**61.1**	**266.8**

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.

14 Equity continued

14.5 Retained earnings

	2011 £m	2010 £m
At 1 October	**877.1**	742.9
Profit for the year	**189.0**	227.3
Value of employee services	**3.2**	10.0
Dividends	**(104.0)**	(98.6)
Purchase of treasury shares	**–**	(7.3)
Closed period share buyback programme	**(50.0)**	–
Actuarial gain/(loss) on post employment benefit obligations	**1.0**	(0.3)
Equity movement of deferred income tax	**(1.7)**	3.1
At 30 September	**914.6**	877.1

The actuarial gain of £1.0m (2010: loss of £0.3m) is made up of a gain of £0.2m (2010: gain of £0.5m) on post employment benefits (note 8) and a gain of £0.8m (2010: loss of £0.8m) on other long-term employee benefits (note 8).

Treasury shares – share buyback programme

Shares to be repurchased relate to an irrevocable closed period buyback agreement for £50.0m (2010: £nil) for the purchase of the Company's own shares which was announced on 30 September 2011. Deutsche Bank AG has been appointed to manage the irrevocable buyback programme during the closed period which commenced on 4 October 2011 and will run up until 30 November 2011.

Treasury shares – employee share trust

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market for use in connection with the Group's share-based payments arrangements. The Trust holds 3,689,182 ordinary shares in the Company (2010: 4,986,267) at a cost of £9.5m (2010: £12.9m) and a nominal value of £36,891 (2010: £49,863). The Trust originally purchased the shares in February 2006, and 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, 1,297,085 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 2011 was £9.5m (2010: £13.8m).

Other notes

15 Discontinued operations and non-current assets held for sale

15.1 Discontinued operations – Sage Software Healthcare, LLC

On 22 September 2011 the Group announced that a definitive agreement to sell Sage Software Healthcare, LLC ("Sage Healthcare") had been reached for cash proceeds of £203.8m ($320.0m). Sage Healthcare offers practice management and electronic health record solutions to US physician practices.

The control of Sage Healthcare was passed to Vista Equity Partners on 10 November 2011. The proceeds are to be returned to shareholders through a share buyback programme.

15.2 Discontinued operations – Financial performance

Sage Healthcare is reported in the financial statements for the year ended 30 September as discontinued operations. The financial performance for the full year is below:

	2011 £m	2010 £m
Revenue	**149.7**	157.3
Operating costs	**(138.2)**	(136.3)
Impairment of disposal group to fair value less costs to sell	**(121.5)**	–
(Loss)/profit before taxation	**(110.0)**	21.0
Taxation	**43.0**	(8.2)
(Loss)/profit for the year from discontinued operations	**(67.0)**	12.8

Earnings per share information can be found in note 4.1.

15.3 Discontinued operations – Cash flow

The cash flow statement shows amounts related to discontinued operations.

15.4 Non-current assets and liabilities classified as held for sale

The assets and liabilities relating to Sage Healthcare have been presented as held for sale following the announcement on 22 September 2011 that a definitive agreement to sell Sage Healthcare had been reached. Costs to sell have been included in trade and other payables.

	2011 £m	2010 £m
Goodwill	**183.1**	–
Other intangible assets	**36.2**	–
Property, plant and equipment	**1.9**	–
Inventories	**1.0**	–
Trade and other receivables	**28.9**	–
Non-current assets classified as held for sale	**251.1**	–
Trade and other payables	**(19.7)**	–
Deferred income	**(30.0)**	–
Liabilities directly associated with non-current assets classified as held for sale	**(49.7)**	–
Net assets classified as held for sale	**201.4**	–

16 Acquisitions and disposals

16.1 Acquisitions made in the year

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

- ALCIOR SARL was acquired on 24 March 2011 for a cash consideration of £0.8m. The fair value of the assets acquired was £0.2m, resulting in goodwill of £0.6m.
- Hominex Global, S.A. was acquired on 7 September 2011 for a cash consideration of £0.2m. The fair value of the assets acquired was £nil, resulting in goodwill of £0.2m.

The net identifiable assets were recognised at their fair values. The residual excess over the net assets acquired has been recognised as goodwill. Details of net assets acquired and goodwill are as follows:

Acquisitions	Carrying values pre-acquisition £m	**Fair value £m**
Intangible assets	0.3	**0.3**
Trade and other receivables	0.2	**0.2**
Trade and other payables	(0.7)	**(0.7)**
Bank borrowings (unsecured) – current	(0.1)	**(0.1)**
Income tax – current	0.1	**0.1**
Income tax – deferred	0.6	**0.6**
Deferred income	(0.2)	**(0.2)**
Total net identifiable assets acquired	0.2	**0.2**
Goodwill		**0.8**
Consideration satisfied by cash		**1.0**

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

Acquisition related costs of £0.4m (2010: £0.1m) have been included in selling and administrative expenses in the Consolidated income statement for the year ended 30 September 2011. There is no contingent consideration payable on the acquisitions.

Contribution of acquisitions

From the dates of the acquisitions to 30 September 2011, the acquisitions contributed £0.3m to revenue and incurred a loss before tax of £0.2m. Had these acquisitions occurred at the beginning of the financial year, contribution to Group revenue would have been £0.5m and Group profit would have been reduced by £0.3m.

There were no other acquisitions made in the year.

16.2 Disposal of Sage Software (Shanghai) Co. Ltd

On 28 July 2011 the Group disposed of Sage Software (Shanghai) Co. Ltd. (“China”) for £nil consideration.

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

China disposal	**Carrying value pre-disposal £m**
Goodwill	**(1.3)**
Property, plant and equipment	**(0.1)**
Trade and other receivables	**(0.7)**
Bank borrowings (unsecured) – current	**1.1**
Deferred income	**0.2**
Cash and cash equivalents	**(0.1)**
Net assets disposed	**(0.9)**

The loss on disposal is calculated as follows:	**£m**
Disposal proceeds	**–**
Net assets disposed	**(0.9)**
Cumulative translation differences	**0.1**
Loss on disposal	**(0.8)**

The outflow of cash and cash equivalents on the disposal of China is calculated as follows:	£m
Disposal proceeds	–
Cash disposed	(0.1)
Net cash outflow	**(0.1)**

16.3 Other disposals made in the year

The following other disposals were made during the year:

– On 8 October 2010 the Group disposed of the Providex business unit based in North America

– On 29 October 2010 the Group disposed of the Carpe Diem business unit based in North America

There is no goodwill associated with the above disposals.

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

Other disposals	Carrying value pre-disposal £m
Goodwill	–
Trade and other receivables	(0.9)
Deferred income	0.8
Net assets disposed	**(0.1)**

The gain on disposal is calculated as follows:	£m
Disposal proceeds	2.1
Deferred consideration receivable	0.4
Net assets disposed	(0.1)
Gain on disposal	**2.4**

Contribution of disposals

Had these disposals occurred at the beginning of the financial year, Group revenue would have been £1,333.9m and Group profit before taxation would have been £331.0m.

16.4 Other

During the year ended 30 September 2011 adjustments were made in respect of goodwill on prior year acquisitions of £0.1m, due to a reduction in deferred consideration of £0.1m.

16.5 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
Acquisitions	16.1	(1.0)
Payment of contingent consideration		(0.4)
Acquisitions of subsidiaries		**(1.4)**
China	16.2	(0.1)
Other disposals	16.3	2.1
Disposal of subsidiaries		**2.0**
Net cash inflow in respect of acquisitions and disposals		**0.6**

16.6 Analysis of goodwill

The total additions and disposals to goodwill are calculated as follows:	Note	£m
Acquisitions	16.1	0.8
Adjustments in relation to previous years' acquisitions	16.4	(0.1)
Additions		**0.7**
China	16.2	(1.3)
Other disposals	16.3	–
Disposals		**(1.3)**
Net movement in goodwill on acquisitions and disposals		**(0.6)**

17 Related party transactions

The Group's related parties are its subsidiary undertakings and Executive Committee members. 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. Compensation paid to the Executive Committee is disclosed in note 2.2.

Supplier transactions occurred during the year between Softline (Pty) Ltd, one of the Group's subsidiary companies and Ivan Epstein, Chief Executive Officer, AAMEA. These transactions relate to the lease of three properties in which Ivan Epstein has a minority and indirect shareholding. During the year £0.8m (2010: £0.6m) relating to these transactions were charged through selling and administrative expenses. There were no outstanding amounts payable as at the year ended 2011 (2010: £nil).

Supplier transactions occurred during the year between Sage SP, S.L., one of the Group's subsidiary companies and Álvaro Ramírez, Chief Executive Officer, Europe. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the year £0.3m (2010: £0.2m) relating to these transactions were charged through selling and administrative expenses. There were no outstanding amounts payable as at the year ended 2011 (2010: £nil).

These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

18 Post balance sheet events

18.1 Disposal of Sage Software Healthcare, LLC

On 10 November 2011 the Group disposed of the entire share capital of Sage Healthcare for £203.8m cash.

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

Sage Healthcare disposal	**Carrying value pre-disposal £m**
Non-current assets classified as held for sale	**(248.0)**
Liabilities directly associated with non-current assets classified as held for sale	**47.9**
Net assets disposed	**(200.1)**

Net assets disposed of vary from those disclosed at 30 September 2011 in note 15.4, due to the movement of exchange rates net of trading activity between 1 October 2011 and the date of disposal.

The gain on disposal is calculated as follows:	**£m**
Disposal proceeds, less costs to sell	**199.8**
Net assets disposed	**(200.1)**
Cumulative translation differences	**60.4**
Gain on disposal	**60.1**

As at 30 September 2011 the sale was deemed highly probable and recorded in the Consolidated balance sheet as an asset held for sale and in the Consolidated income statement and Consolidated statement of cash flows as discontinued operations.

18.2 Share buyback

On 30 September 2011 the Group appointed Deutsche Bank AG to manage an irrevocable buyback programme during the closed period which commenced on 4 October 2011 and will run up to 30 November 2011. From 4 October 2011 to 25 November 2011, the latest practical date prior to publication of the Annual Report & Accounts, 7,495,884 ordinary shares of 1p each were repurchased through Deutsche Bank AG at an average price of 269.20 pence per share. The highest and lowest prices paid for these shares were 275.00 pence per share and 247.60 pence per share respectively. The purchased shares will all be held as treasury shares. The total number of ordinary shares in issue (excluding shares held as treasury shares) at 25 November 2011 is 1,316,481,232.

The total number of voting rights in Sage, excluding treasury shares, as at 25 November is 1,316,481,232. This figure may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, Sage under the FSA's Disclosure and Transparency Rules.

18.3 Acquisition of Alchemex (Pty) Ltd

On 1 October 2011 the Group completed the acquisition of the entire share capital of Alchemex (Pty) Ltd, for cash consideration of £2.9m and contingent consideration of £3.6m. The fair value of assets acquired was £0.4m, resulting in goodwill of £6.1m.

18.4 Archer Capital lawsuit

On 14 November 2011 the Group announced the claim for damages made by Archer Capital ("Archer") following the termination of discussions between the Group and Archer relating to the potential purchase of MYOB. The Group strongly rejects the claim, which it understands to be in the region of £80m (A$130m), and will defend itself vigorously.

19 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) Ltd	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 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

Contents

Company financial statements

115 Independent auditors' report

Primary financial statements

116 Company balance sheet

Notes to the financial statements

117 Company accounting policies

Results for the year

118 Dividends

Operating assets and liabilities

119 Investments
119 Cash at bank and in hand
119 Debtors
119 Creditors: amounts falling due within one year
119 Operating lease commitments – minimum lease payments

Net debt and capital structure

120 Creditors: amounts falling due in more than one year
120 Equity

Other notes

122 Capital commitments and contingent liabilities
122 Related party transactions
122 Post balance sheet events

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 2011 which comprise the Company balance sheet, Company accounting policies 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 pages 56 and 57, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011;
- 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 2011.

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

30 November 2011

Company balance sheet

At 30 September 2011
Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2011 £m	2010 £m
Fixed assets			
Investments	2	**1,449.6**	1,460.0
		1,449.6	1,460.0
Current assets			
Cash at bank and in hand	3	**121.8**	–
Debtors	4	**227.8**	215.8
		349.6	215.8
Creditors			
Amounts falling due within one year	5	**(802.9)**	(578.8)
Net current liabilities		**(453.3)**	(363.0)
Total assets less current liabilities		**996.3**	1,097.0
Creditors			
Amounts falling due after more than one year	7	**(189.9)**	(247.0)
Net assets		**806.4**	850.0
Capital and reserves			
Called up share capital	8.1	**13.2**	13.2
Share premium account	8.2	**513.2**	499.8
Other reserve	8.2	**51.6**	47.2
Profit and loss account	8.2	**228.4**	289.8
Total shareholders' funds		**806.4**	850.0

The financial statements on pages 116 to 122 were approved by the Board of directors on 30 November 2011 and are signed on their behalf by:

G S Berruyer
Director

P S Harrison
Director

Notes to the financial statements

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 £92.6m (2010: £113.2m). 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".

Results for the year

1 Dividends

	2011 £m	2010 £m
Final dividend paid for the year ended 30 September 2010 of 5.22p per share	**68.7**	–
(2010: final dividend paid for the year ended 30 September 2009 of 4.93p per share)	**–**	64.7
Interim dividend paid for the year ended 30 September 2011 of 2.68p per share	**35.3**	–
(2010: interim dividend paid for the year ended 30 September 2010 of 2.58p per share)	**–**	33.9
	104.0	98.6

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2011 of 7.07p per share which will absorb an estimated £93.1m of shareholders' funds. It will be paid on 2 March 2012 to shareholders who are on the register of members on 10 February 2012. These financial statements do not reflect this dividend payable.

Operating assets and liabilities

2 Investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2010	**1,460.0**
Reduction in year	**(10.4)**
At 30 September 2011	**1,449.6**
Provision for diminution in value at 30 September 2010 and 2011	**–**
Net book value	
At 30 September 2011	**1,449.6**
At 30 September 2010	1,460.0

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 2011, are shown in note 19 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 Cash at bank and in hand

	2011 £m	2010 £m
Cash at bank and in hand	**3.5**	–
Short-term bank deposits	**118.3**	–
	121.8	–

The effective interest rate on short-term deposits was 0.7% (2010: nil) and these deposits have an average maturity of 28 days (2010: nil). The Company's credit risk on cash and cash equivalents is limited because the counterparties are well established banks with high credit ratings.

4 Debtors

	2011 £m	2010 £m
Amounts owed by Group undertakings	**227.7**	215.5
Other debtors	**0.1**	0.3
	227.8	215.8

5 Creditors: amounts falling due within one year

	2011 £m	2010 £m
Bank overdraft	**0.8**	0.2
Other financial liabilities	**50.0**	–
Amounts owed to Group undertakings	**749.2**	573.8
Accruals	**2.9**	4.8
	802.9	578.8

Other financial liabilities relate to outstanding liabilities of £50.0m (2010: £nil) arising under an irrevocable closed period buyback agreement for the purchase of the Company's own shares which was outstanding at 30 September 2011. Refer to note 8.2 for further details on the buyback.

6 Operating lease commitments – minimum lease payments

The Company had no operating lease commitments during the year (2010: £nil).

Net debt and capital structure

7 Creditors: amounts falling due in more than one year

	2011 £m	2010 £m
US senior loan notes – unsecured	**189.9**	189.1
Bank loans – unsecured	**–**	56.9
Other financial liabilities	**–**	1.0
	189.9	247.0

Included in loans above is £189.9m (2010: £246.0m) of unsecured loans (after unamortised issue costs). These loans were taken out in connection with acquisitions.

The Company has US$300.0m (£192.6m, 2010: £190.4m) of US senior loan notes, which were issued into the private placement market. These notes mature $200.0m (£128.4m, 2010: £127.0m) in 2015, $50.0m (£32.1m, 2010: £31.7m) in 2016 and $50.0m (£32.1m, 2010: £31.7m) in 2017 and carry interest coupons of 4.39%, 4.78% and 5.15% respectively.

There were £nil drawings (2010: £56.9m) under the multi-currency revolving credit facility of £358.3m (2010: £357.4m) expiring on 31 August 2015, which consists both of US$271.0m (£174.0m, 2010: £172.0m) and of €214.0m (£184.3m, 2010: £185.4m) tranches.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £2.7m (2010: £4.0m). The Company has incurred total issue costs amounting to £4.4m (2010: £4.4m) in respect of these facilities. These issue costs were paid during the year ended 30 September 2010, no issue costs were incurred during the current financial year. These costs are allocated to the income statement over the term of the facility using the effective interest method.

Unsecured bank loans were drawn in US Dollar £nil (2010: £56.9m).

8 Equity

8.1 Called up share capital

Authorised	2011 £m	2010 £m
1,860,000,000 (2010: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2011 shares	2011 £m	2010 shares	2010 £m
At 1 October	**1,317,360,582**	**13.2**	1,312,966,956	13.1
Shares issued/proceeds	**6,477,254**	**–**	4,393,626	0.1
At 30 September	**1,323,837,836**	**13.2**	1,317,360,582	13.2

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 134.00p to 270.00p under the share option schemes approved by shareholders. Details of the number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given in note 14.1 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 those adopted by the Group under IFRS 2, "Share-based Payment". For details refer to note 14.2 in the Group financial statements.

8.2 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 2010	(12.9)	61.1	(1.0)	47.2	499.8	289.8	836.8
New shares issued	**–**	**–**	**–**	**–**	**13.4**	**–**	**13.4**
Utilisation of treasury shares	**3.4**	**–**	**–**	**3.4**	**–**	**(3.4)**	**–**
Closed period share buyback programme	**–**	**–**	**–**	**–**	**–**	**(50.0)**	**(50.0)**
Cash flow hedge	**–**	**–**	**1.0**	**1.0**	**–**	**–**	**1.0**
Retained profit for the year	**–**	**–**	**–**	**–**	**–**	**92.6**	**92.6**
Dividends	**–**	**–**	**–**	**–**	**–**	**(104.0)**	**(104.0)**
Equity-settled transactions	**–**	**–**	**–**	**–**	**–**	**3.4**	**3.4**
At 30 September 2011	**(9.5)**	**61.1**	**0.0**	**51.6**	**513.2**	**228.4**	**793.2**

Treasury shares – share buyback programme

Shares to be repurchased relate to an irrevocable closed period buyback agreement for £50.0m (2010: £nil) for the purchase of the Company's own shares which was announced on 30 September 2011. Deutsche Bank AG has been appointed to manage the irrevocable buyback programme during the closed period which commenced on 4 October 2011 and will run up until 30 November 2011.

Treasury shares – employee share trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market for use in connection with the Group's share-based payments arrangements. The Trust holds 3,689,182 ordinary shares in the Company (2010: 4,986,267) at a cost of £9.5m (2010: £12.9m) and a nominal value of £36,891 (2010: £49,863). 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, 1,297,085 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 2011 was £9.5m (2010: £13.8m).

Other notes

9 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 September 2011 (2010: 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.

11 Post balance sheet events

For details refer to note 18 in the Group financial statements.

Shareholder information

Financial calendar

Annual General Meeting	29 February 2012
Dividend payments	
Final payable – year ended 30 September 2011	2 March 2012
Interim payable – period ending 31 March 2012	June 2012
Results announcements	
Interim results – period ending 31 March 2012	9 May 2012
Final results – year ending 30 September 2012	5 December 2012

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 11 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.

Advisers

Corporate brokers and financial advisers

Deutsche Bank, 1 Great Winchester Street, London, EC2N 2EQ
Citigroup Global Markets, 33 Canada Square, Canary Wharf, London, E14 5LB

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

Independent Auditors

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

Registrars

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

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

Andrew Griffith & Murdo Montgomery

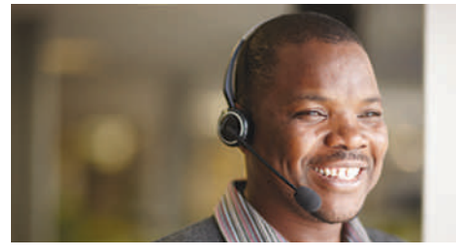
Director of Investor Relations
Tel: +44 (0)191 294 3000 Fax: +44 (0)191 294 0002
The Sage Group plc. Registered office: North Park, Newcastle upon Tyne, NE13 9AA.
Registered in England number 2231246

View our annual report online at www.sage.com

Interactive Annual Report 2011

The digital version of this report offers a richer experience and enhanced content:

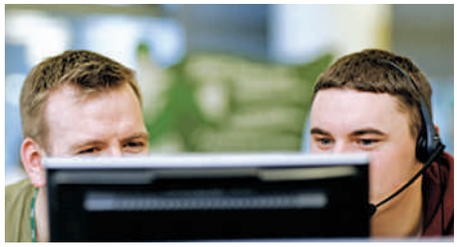
- **View our case study videos**
- **Page preview and thumbnail views**
- **Search tools**
- **Send to and quick links**
- **PDF and Excel downloads**
- **Printing to desktop**



This report is printed utilising vegetable based inks on Heaven 42 which is sourced from well managed forests independently certified according to the rules of the Forest Stewardship Council (FSC). This report was printed by an FSC and a carbon neutral printing company and Heaven 42 is manufactured at a mill that is certified to the ISO14001 and EMAS environmental standards

Designed and produced by Black Sun Plc

Printed by Royle Print



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

www.sage.com