The Sage Group plc
Annual Report & Accounts 2012

Giving small and medium sized companies the confidence and freedom to be successful

Sage is a business guided by the diverse needs of more than six million unique customers in all four corners of the world

From the intuitive design of our software to the expertise of our people, the fundamentals of our business are helping our customers achieve their ambitions, giving them the confidence and control they need to succeed.

In this year's Annual Report, we recognise some of our customers' successes and the stories behind their businesses. From start-ups to Formula 1 racing teams, we are proud to be associated with each of our valued customers and happy to help them to do what they do best.

Case studies showing how we are giving small and medium sized companies the confidence and freedom to be successful are on pages 34 to 39.

Highlights

- Strong growth in subscription revenues offset by a contraction in software revenues reflecting weakening economic environment in Europe and strategic shift to recurring revenue
- Underlying earnings per share of 19.86p (2011: 20.28p*), reflecting an increase in tax rate to 29% from 23%
- Good progress made with our three cornerstones to drive accelerated growth: focusing our business, capturing the technology opportunity and the benefits of subscription
- A significant presence established in Brazil through the acquisition of Folhamatic and the subsequent acquisitions of EBS and Cenize
- Strength of our offering to new and existing customers continues with the addition of 289,000 (2011: 261,000) new paying customers during the year and renewal rate on support contracts maintained at 81%

Contents

There is more information about the Sage Group online

www.sage.com

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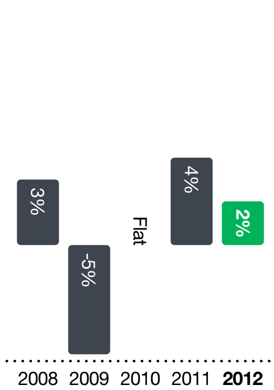
KPI

This symbol references Group KPIs. More information on our KPIs is on page 24

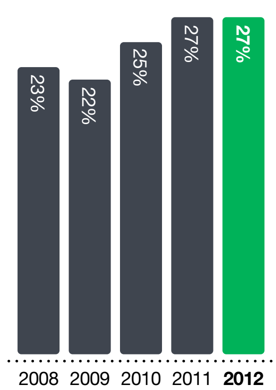
Organic# revenue growth

KPI 2%*



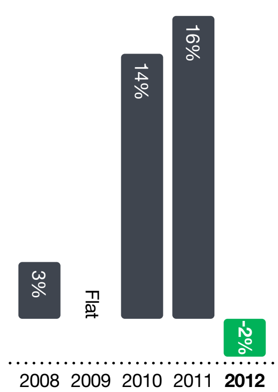
EBITA† margin

KPI 27%



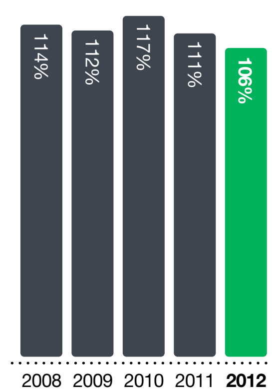
Underlying EPS growth

KPI -2%*



Cash generation from operations

KPI 106%^



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, acquisition-related items and imputed interest.

† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets, acquisition-related items and is after neutralising the impact of foreign exchange movements.

^ Cash generation from operations represents cash flows from operating activities divided by EBITA. EBITA for cash generation purposes is after acquisition-related items.

Donald Brydon,
Chairman

The Sage Group has again delivered a solid performance in the face of an economic backdrop which remained difficult and uncertain in many of our major markets

This is my first report as your Chairman and I am pleased to report that the Group performed creditably in the past year in the face of an economic backdrop which remained difficult and uncertain in many of our major markets. I have been impressed by the strong fundamentals of Sage's business: our unmatched footprint with small to medium sized companies, the recurring nature of our revenues and strong cash generation. Above all, it is the strength of our relationship with our customers and partners, and our ability to meet their needs, which differentiates us in the market and provides us with significant opportunities to grow.

A feature of the year has been continued good progress in driving recurring revenue and I am encouraged by the progress made with our initiatives to develop more active relationships with our customers. Embedding more valuable support contracts or integrating a payment solution with the core accounting function are important examples but there is considerable opportunity to continue to improve the value of our relationship with our customers.

A key characteristic of this relationship is giving our customers the confidence to achieve their business ambitions. The importance of this is amplified in a climate that makes such confidence fragile. The resilience of our performance demonstrates the value we add to customers through the products, services and support we provide to them. It is also testament to the quality of our people and the quality of what they do and it is important to recognise the excellence of our employees who help to support our customers.

We know how our business performs in the face of challenging markets and we will make business decisions appropriately. We are confident in our ability to grow recurring revenue strongly in all but the most severe of economic headwinds whilst we recognise that growth in licence revenue remains more closely linked to GDP growth. In the current environment, this means we can continue to invest in our strategic initiatives with confidence. I am pleased to report that we have done so during the year, not least with our significant investment in Brazil and in our technology priorities such as *Sage One*, hybrid cloud and *Sage ERP X3*. Importantly, we have made this investment whilst maintaining margins, demonstrating our relentless focus on the judicious use of capital and disciplined execution.

I believe this is an exciting time in the corporate evolution of Sage. The leadership team at Sage, ably led by Guy Berruyer, is focused on delivering a step-change in the level of growth and in the quality of revenue driving growth. Since joining the Board, I have been struck by the determination and focus across the business to execute the plans to deliver the full potential of Sage. Whilst we have been clear that it will take time for the strategy to bear fruit fully, it is also clear that the foundations are in place and that momentum has been established. It is not easy to make changes of this magnitude at a time of economic uncertainty, and I recognise the courage and commitment of everyone involved in driving the business forward on this important journey.

Elsewhere in this Report, the Chief Executive will set out progress against the strategy. A focus on shareholder returns is at the heart of the strategy and the work of the Board. The Board believes that high-quality and sustainable long-term revenue and earnings growth, combined with a disciplined approach to capital allocation, should drive superior returns for shareholders. Sage has a sound reputation for capital allocation discipline and the Board will continue to ensure such discipline is maintained.

Expectations about the value added by Boards are rightly high. There is much debate about corporate governance; good corporate governance is about helping to run the Company well and the exercise of a mindset to do what is right. A successful Board requires the right interaction between individuals and a mixture of skills and outlooks that brings balanced judgements and the ability to rise above the day-to-day detail. The Board sets the tone for the Company.

As to our Board itself, the past year has seen some important changes. In September 2012, Tony Hobson retired from the Board. Tony joined the Board in 2004, acting as Chairman since 2007. He made a considerable contribution to Sage, particularly as Chairman and in helping Guy to transition to the CEO role and to cement his senior team. David Clayton, formerly Group Director of Strategy and Corporate Development, retired from the Board at the Annual General Meeting in February 2012. David had been on the Board of Sage in both non-executive and executive roles since 2004, providing great authority and experience and making a significant contribution to the success of Sage in recent years. We wish both Tony and David well.

Sage remains in a strong position to weather any economic storms and to take advantage of the compelling opportunities to deliver accelerated growth from our core business. Whilst much remains to be done, a continued focus on disciplined execution means we can look forward to the future challenges and opportunities with increased confidence and optimism.

On behalf of the Board, I would like to thank Guy and all of our people for their dedication and focus on our commitment to performance improvement and value creation for shareholders.

What we do
We understand the diverse needs of our customers

Our vision is to be recognised as the most valuable supporter of small and medium sized companies by creating greater freedom for them to succeed

We understand customers' changing needs because we are in constant contact with them. Our 5,000 customer service people speak with customers 35,000 times a day on topics ranging from accounting questions to advice on new legislation to technical aspects of the software.

Our core business is the provision of accounting, ERP, payroll, accountancy and related software to start-up and small businesses through to mid-market companies. We also have adjacent businesses that support the core, typically involving technology which is highly integrated such as payments and CRM solutions.

We develop software specifically for start-up, small and medium sized businesses and the mid-market, because the requirements are different and one size does not fit all.

Where we do it
We create solutions for our customers all over the world

Our understanding of a wide range of different businesses operating in different markets means we are best placed to deliver the benefits of technology to our customers.

We use local, expert people with access to global technologies and resources to support our customers' needs. Local differences mean we adapt solutions to local legislation, tax requirements and accounting practices.

Our regions and their contribution to Group revenue

Europe 58%

Americas 31%

AAMEA* 11%

* Africa, Australia, Middle East and Asia

Cornerstones for growth
We have set out our strategy to accelerate growth

Our strategy for growth

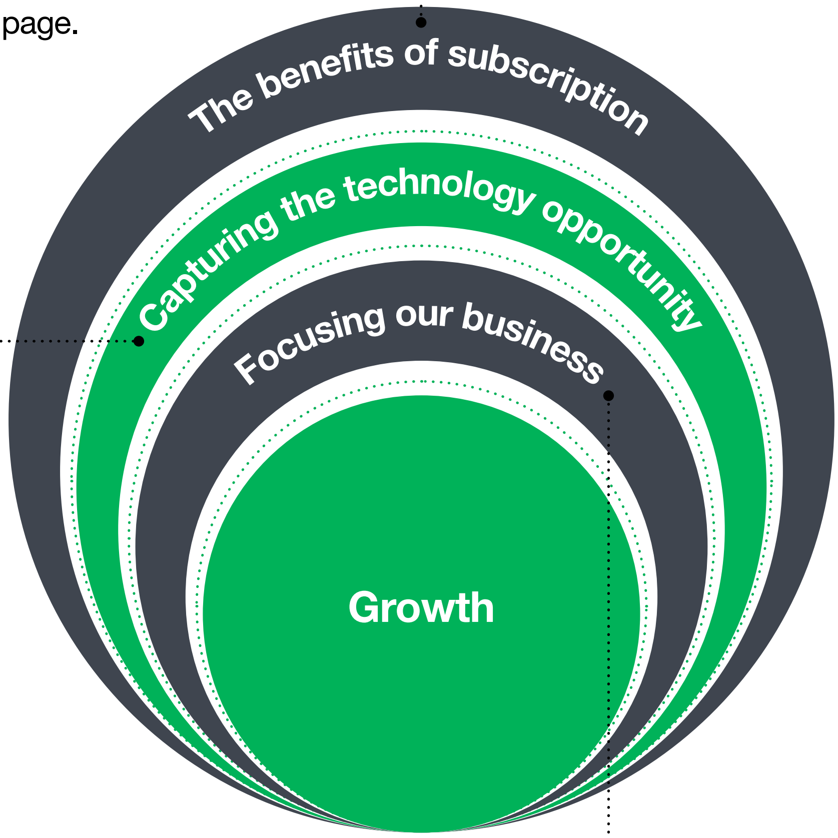
Our ambition is to double our long-term historic average organic revenue growth rate within the next three years, together with a targeted EBITA margin increase of 1 to 2 percentage points over the same period. We will achieve this through a relentless focus on our growth cornerstones, as set out on this page.

3. The benefits of subscription

As our customer relationships evolve, we are moving to a more flexible, affordable, higher value-added pricing model, providing more active customer relationships and long-term, high-quality recurring revenue streams.

More information on page 22

KPI



2. Capturing the technology opportunity

We are capturing the commercial opportunities presented by the technology disruption that is transforming what existing and potential customers need and expect.

More information on page 21

KPI

1. Focusing our business

We are reallocating resources to focus on our core business strengths and opportunities for greatest growth.

More information on page 20

KPI

KPIs

The measurement of success is important and we have developed a number of KPIs to measure our performance. We will continue to report on these as evidence of our progress.

More information on page 24

We maintain a disciplined approach to how we allocate capital

KPI

Financial strength

Our business model continues to be strongly cash generative and we are rigorous in allocating capital to business investment and targeted acquisitions. We also look to return surplus capital to shareholders and are doing so with our share buyback programme and progressive dividend policy. 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 by a combination of further capital returns to shareholders and targeted acquisitions.

Our business model
We deliver value through a model built on our core strengths

We have a strong business model offering significant growth potential, together with high levels of profitability and cash generation.

Our customers and markets

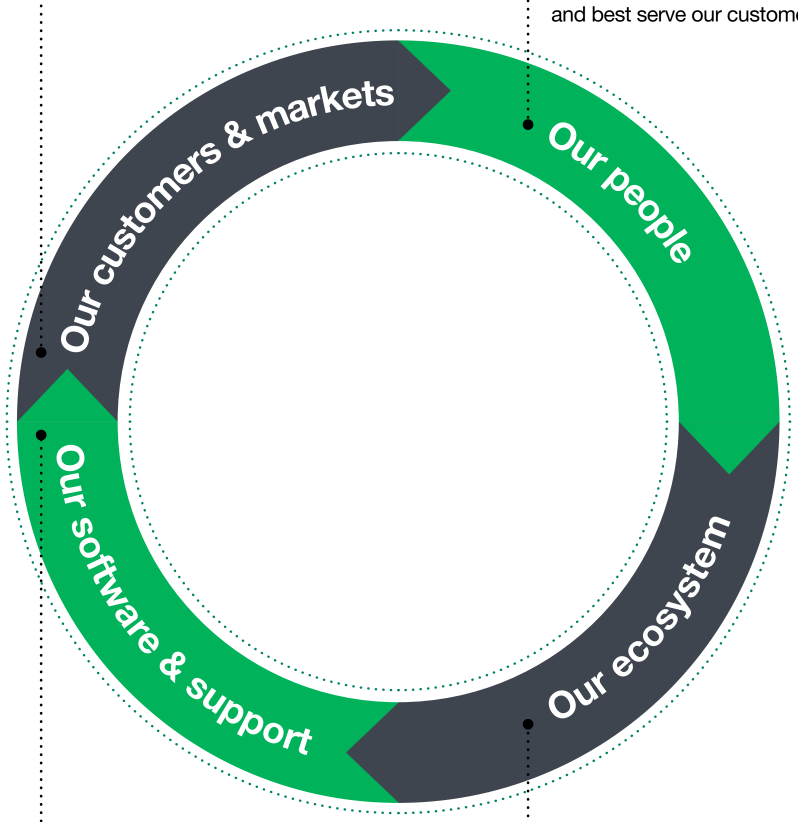
Our customers range from owners, to book keepers, to finance directors, in businesses ranging from start-up to mid-market companies, as well as accountants.

Whilst each of our customers is unique they all share common challenges. Helping them to solve problems and run efficient businesses remains at the centre of what we do.

Our people

Our people have the confidence to respond intuitively and with agility to enhance the Sage customer experience. We encourage our people to innovate constantly and challenge themselves to fulfil Sage's true potential, for the mutual benefit of all. Our people know what's right for our brand, our customers and our colleagues due to the training we undertake and the tools we provide to do the job.

Our guiding principles of Innovation, Integrity, Simplicity, Trust and Agility drive everything we do: how we think, plan and make decisions to deliver operational excellence and best serve our customers.



Our software and support

Our approach to technology is guided by the current and future needs of our customers and the unrivalled position Sage enjoys to lead small and medium sized companies to apply technology to best effect.

We recognise that requirements differ by customer, by segment and by market and that technology provides a catalyst for Sage to develop a more active relationship with these customers, both existing and new.

We view technology as an enabler to give customers control of their business, to work smartly and efficiently, to achieve success and grow.

Our ecosystem

We work with over 28,000 business partners and 40,000 accountants who recommend and market Sage products worldwide.

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

Accountants make up a key customer segment for Sage as well as being recommenders of our products.

Key risks

We manage risks carefully to ensure success for us and our customers

A key element in achieving our strategy and maintaining services to customers is the management of risks.

Our 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.

See how we are mitigating these risks on page 40

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 regularly reviewed by the Board and complies fully with the Turnbull guidance.

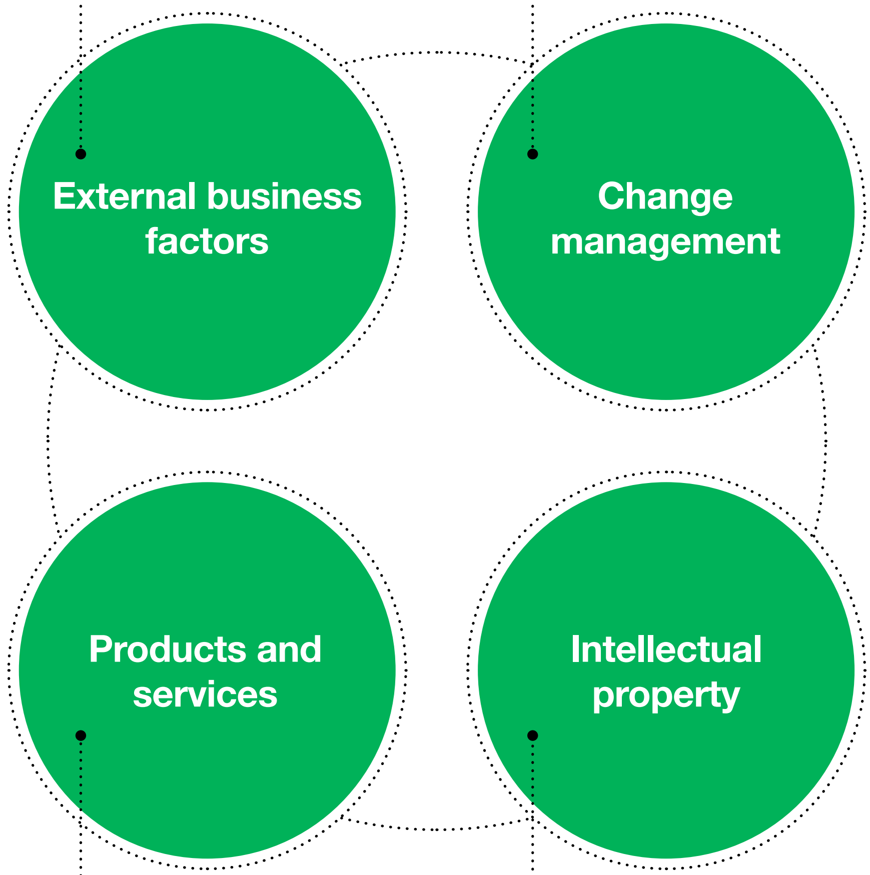
Detail of internal control and risk management is on page 57

External business factors

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.

Change management

Our strategy has sought to focus the business and appropriately prioritise resources. Given new business priorities, there are risks associated with the change management impact on employees, systems and the alignment of talent with prioritised business areas. In addition, 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 dependencies and loss of key management.



Products and services

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.

Intellectual property

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.

We remain confident we will continue to deliver on our strategic and financial goals

Overview of the year

We delivered 2%* organic revenue growth in the year (2011: 4%*), which reflects a solid performance in the context of a macro-economic environment which remained difficult in most of our markets. Growing organic subscription revenue by 6%* evidences our ability to grow recurring revenue even in challenging market conditions and the strength of our support offering to customers. The majority of the contraction in SSRS was attributable to weak market conditions, particularly in France and Spain with the shift to recurring revenue a factor in other markets. We have also focused on disciplined resource allocation, protecting margins at the same time as investing for growth. We are committed to driving strategic change and I am pleased with the momentum we have established with our growth initiatives.

A feature of the year has been the variable trading performance by geography. The trading environment in Europe remained challenging during the year. Spain has been the worst hit of our markets, and remains in deep recession, but uncertain and deteriorating conditions in France also impacted performance. The UK and Germany, by contrast, delivered strong revenue growth, notably so relative to the economic backdrop. North America showed the anticipated sequential improvement in the second half of the year, driven by good progress with *Sage Business Care* and with Sage Payment Solutions. AAMEA continued to deliver double digit revenue growth, with particularly strong growth in South Africa and Africa more broadly. This variance in market conditions calls for management discipline in allocating resources, directing investment to our growth opportunities, such as Brazil and our Invest products, whilst protecting profitability in weaker markets such as Spain.

Strategy for growth

Accelerating growth remains our key priority. At our Investor Day in July 2012, we set out our ambition to double our long-term historic average organic revenue growth rate within the next three years, together with a targeted EBITA† margin increase of 1 to 2 percentage points over the same period. The organic growth plans are underpinned by three cornerstones and we have made solid progress on these. We have developed a number of Key Performance Indicators ("KPIs") which reflect the measures by which we are running the business to deliver the cornerstones. Measurement is important and we will continue to report on these KPIs as evidence of our progress.

Focusing our business

We are changing the way we run our business to capture the considerable opportunities we have to accelerate growth from our core business. This starts with a clear assessment of our core business, which is the provision of accounting, ERP, payroll, accountancy and related products for customers ranging in size from start-ups to mid-market companies. Importantly, we also have adjacent businesses that support the core, typically involving technology which is highly integrated such as payments and CRM solutions.

There are three key areas where we are sharpening our focus on the core. Firstly, we have undertaken a systematic review of our portfolio of businesses to ensure it supports our strategy to accelerate growth. Proximity to Sage's core business and potential value creation are the principles used to assess the strategic fit of businesses within the portfolio and have guided our assessment of both acquisitions and disposals during the year. The disposal of our Healthcare business in the US and the acquisition of Folhamatic in Brazil both illustrate this approach. The rigour with which this approach is applied to our existing portfolio is also demonstrated by our identification of non-core businesses. These non-core businesses constitute approximately 10% of Group revenue.

Secondly, we are allocating investment to the most significant initiatives which will drive the Group's growth. We have completed a comprehensive review of our core business and have categorised our products as Invest, Harvest or Sunset. This determines where resources are allocated and we are reallocating R&D and sales and marketing resources to Invest products. We are reporting these measures as a KPI to track progress on our reallocation programme with 2012 as the base year. For 2012, the split by category for R&D is 35% for Invest, 53% for Harvest and 12% for Sunset and for sales and marketing investment the split is 42%, 49% and 9% respectively. 2013 we will see continued focus on reallocating investment towards Invest products. We have also centralised R&D in North America, which is an important example of how we are changing processes to accelerate our ability to align resources to our priorities. It will take time for this programme to deliver in full, but the approach to streamlining resources is embedded across the Group and will start to drive accelerated growth.

The third key element of business focus is leveraging our global scale and assets *Sage One* and *Sage ERP X3* are examples of Invest products which are global products in reach and where we are looking to leverage global resources, capability and expertise to drive growth. Our technology strategy is another important example of how we are investing in global platforms and initiatives, whilst maintaining a focus on the end-user requirements of the local market. This links in turn to our subscription strategy, where we are executing with a global mindset, recognising that leveraging the knowledge of subscription pricing disciplines across the business is vital to our success.

Capturing the technology opportunity

Our approach to technology is guided by the current and future needs of our customers and the unrivalled position Sage enjoys to lead small and medium sized companies to apply technology to best effect. It recognises that these requirements differ by customer, by segment and by market and that technology provides a catalyst for Sage to develop a more active relationship with these customers, both existing and new. As important as leading our customers is our focus on capturing the commercial opportunities resulting from a more active customer relationship. We have invested significantly in

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† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets and acquisition-related items and is after neutralising the impact of foreign exchange movements.

Guy Berruyer,
Chief Executive
Officer

our technology, our platforms and our products to capture the trends that are important to our customers, particularly the move to the cloud and the need for solutions that fully integrate and support mobility.

Sage One is the focus of our online investment for the start-up and small business segment. *Sage One* is a SaaS solution providing online bookkeeping and business management software to customers. It has been developed on a global technology platform which can be efficiently and effectively tailored to local market needs. We are satisfied with the momentum of *Sage One* in the UK & Ireland, with over 6,100 paying customers at the year end. We also launched *Sage One* in the US. We expect to establish momentum in the US during 2013 as we further enhance the solution and create the necessary distribution channels to drive customer adoption. We are also focused on growing the number of customers in the UK & Ireland as we benefit from the build-out of our channels and by targeting the 5 to 25 employee segment with a more advanced solution. We are also rolling-out *Sage One* to more countries, starting with Germany in early 2013 and to be followed by Canada, Spain and France. These priorities drive customer adoption which is the key measure of our success with *Sage One*.

Hybrid cloud is the focus of our investment for small to medium sized businesses ("SMB"), providing customers with compelling cost of ownership whilst retaining the choice of deployment, data control and tailoring their solution to their specific needs. Our partnership with Microsoft Azure, announced in May 2012, is a very significant development in delivering our hybrid cloud strategy. Building on the Azure platform allows us to speed up development of customer solutions, accelerate time to market and reduce duplication. The focus of development started in Europe with *Sage 200* "hybrid" in the UK and *Sage Murano* in Spain which will both be released to market in 2013. North America is also working closely with Microsoft to develop a new generation of *Sage ERP* hybrid cloud products on Azure. The number of SMB customers adopting hybrid cloud solutions is an important measure of progress with our technology strategy. The 115 customers reported for this year's results principally reflect existing customers on SageCRM.com. We expect to see that number grow as hybrid cloud accounting and ERP products are released to market during 2013 and beyond.

Sage ERP X3 is the focus of our investment at the mid-market level and revenue growth of *Sage ERP X3* is the key measure of our success with this segment. We are pleased with the progress of the international roll-out of *Sage ERP X3* which has been a driver of its recent growth, and demonstrates our capability to develop products which are successful on a global scale. *Sage ERP X3* revenue grew by 5%* in the year, with revenue outside of France growing by 17%* and now contributing 43% of *Sage ERP X3* global revenue. Notable developments during the year include the launch of a subscription pricing option in North America and the recent launch of *Sage ERP X3* v6.5 featuring integrated payments and other connected services.

We see mobile technology as a particularly compelling opportunity to develop more active relationships with our customers and to expand the number of our paying customers. We are evolving our product architecture to capture this growth opportunity. In October 2012, we launched four of the first business apps for Windows 8, namely *Sage 50* Accounts Pulse in the UK, *Sage eFactura Online* in Spain, *Sage Mobile Salary Calculator* in Germany and *Sage 100 Business Mobile* in France. In the UK, we also launched the *Sage Record Keeper* app, co-developed with HMRC. North America is also developing mobile solutions. Working prototypes for two of these, Mobile Sales and Mobile Service, were showcased at the Sage Summit in July 2012, as examples of products which expand our addressable market and will be integrated into our key accounting products and payments.

Payment services represent our largest connected service and our payments businesses in North America, the UK & Ireland and South Africa continue to deliver strong revenue growth. Integration of payments to our installed base of accounting software customers is a compelling strategic opportunity and is our measure of progress. Our North American business continued to demonstrate good momentum with integration, with an 18%* increase in cross-sell revenue and over 9,700 customers have now adopted integrated payments.

The benefits of subscription

The third cornerstone of our growth strategy is migrating our customers to a subscription pricing relationship. Subscription represents a significant opportunity to deliver greater value to our customers and to capture the benefits of a more active relationship with our customers. Technology is an important enabler of this strategy, both as a catalyst for changing the needs and requirements of our customers and providing us with opportunities to offer greater features and functionality which will drive adoption. Subscription pricing is a relatively small part of our business today but to reflect its strategic importance, we have introduced the annualised value of our subscriber base as a measure to track progress. 2012 is the base year for this measure, with a value of £80.5m.

The move to subscription pricing reflects the evolving nature of our relationship with our customers and builds on the success we have had in transitioning customers to premium support. This will continue to be an important feature of our business model, as evidenced by the proportion of our contracts which are premium in nature increasing to 71%. This increase was driven by the success of *Sage Business Care* in North America and premium support packages in the UK.

During the year, we have launched a number of subscription pricing options for selected products across the Group, alongside traditional licence and support alternatives. In April 2012, we launched subscription pricing options for certain North American mid-market ERP products. The early evidence of the dual model approach is in line with the measured adoption we are targeting, with approximately 20% of sales being made on a subscription basis. Further subscription pricing options have been launched in North America, Europe and South Africa. We will continue to develop subscription pricing offerings for other key products across the Group.

Summary and outlook

We delivered a solid performance in the context of a macro-economic environment which remained difficult in most of our markets. We achieved strong growth in recurring revenue and focused on disciplined resource allocation, protecting margins at the same time as investing for growth. We are committed to driving strategic change and I am pleased with the momentum we have established with our growth initiatives.

A feature of the year has been the variable trading performance by geography. Europe's performance reflected good growth by the UK and Germany, offset by the impact of weaker markets in France and Spain. North America delivered the anticipated improvement in the second half of the year while AAMEA continued to deliver very strong growth.

As we look forward, the global macro-economic outlook remains uncertain and we are watchful of the environment in Europe, particularly in France. We are making good progress with our strategy for accelerating growth and remain confident we will continue to deliver on our strategic and financial goals.

As we look forward, the global macroeconomic outlook remains fragile and we remain watchful of the environment in Europe, particularly in France. However, we remain confident that we will continue to deliver on our strategic and financial goals.

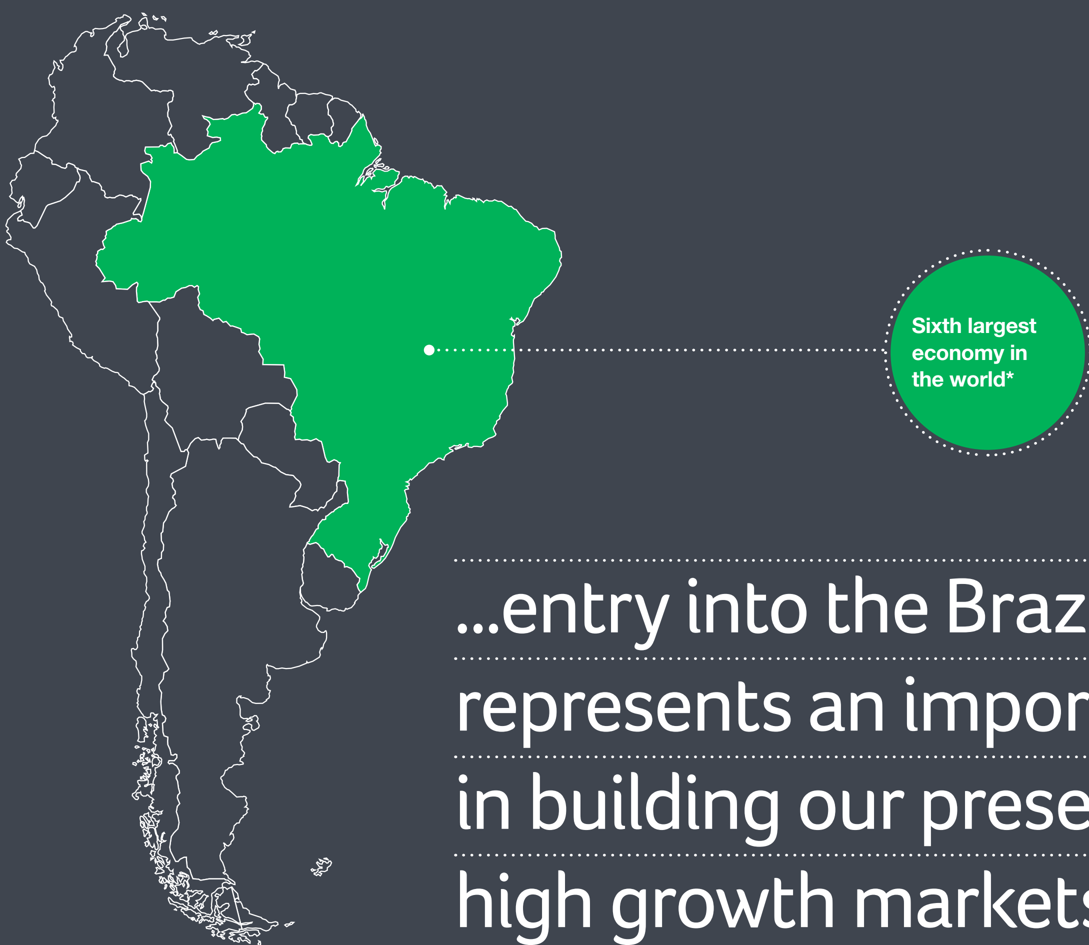
* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets, acquisition-related items and imputed interest

Now the sixth largest economy in the world, Brazil represents an attractive market with robust macro-economic fundamentals and a favourable, highly complex tax and regulatory environment. Our entry into the Brazilian market represents an important step in building our presence in key high growth markets, enabling a strategy focused on growth and a disciplined approach to returns.

In June 2012 we entered Brazil with the acquisition of a controlling interest in Folhamatic, a leading provider of accounting, tax and payroll and regulatory content software. We are excited about the growth opportunity that the combination of Sage and Folhamatic creates in this market. It provides us with a market leading position in the large and rapidly growing Brazilian market.

In September 2012 we progressed our strategy of expanding our footprint in Brazil with the acquisitions of EBS and Cenize. These businesses are high growth, with recurring revenue models and are focused on core accounting customers.

These acquisitions are in line with our strategy of expanding our footprint in Brazil. They are also highly complementary to our core business and extends the geographic breadth of our offering, particularly in the São Paulo and Southern region.



...entry into the Brazilian market represents an important step in building our presence in key high growth markets, enabling a strategy focused on growth

* Source: The Economist Intelligence Unit

Our goals are shared collectively and individually by our Executive Committee and senior management as a whole

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.

Guy Berruyer
Chief Executive Officer

Guy joined Sage in 1997 to run the France, Spain and Portugal operations. 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. 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. On 2 October 2012, Guy became a non-executive director of Meggitt PLC, a leading international company specialising in high performance components and sub-systems for the aerospace, defence and energy markets.

Ivan Epstein
Chief Executive Officer, AAMEA

After training at Price Waterhouse Ivan co-founded Softline in 1988. 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 Sage Southern Hemisphere. His role was expanded to include the Middle East and Asia in October 2010. Ivan has been recognised for his entrepreneurial contribution and in 1999/2000 was the recipient of “South Africa’s Best Entrepreneur Award”, awarded by Ernst & Young, of which he continues as a panel judge. Ivan was further recognised in South Africa for his contribution within the IT industry by receiving the Computer Society’s “IT personality of the year award 2009”.

Karen Geary
Group Human Resources Director

Karen has more than 25 years of international HR experience across a variety of industries where she has helped organisations through periods of large scale change and integration. 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 Sage for nine years, following five years as HR Director for Sage in the UK.

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. Following the acquisition of Folhamatic, Paul was given additional responsibility for the Brazil operation. In May 2007, Paul was appointed to the Board of Hays plc as a non-executive director and, in November 2011, became its Senior Independent non-executive director.

Pascal Houillon
Chief Executive Officer, North America

Pascal 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 nine years Pascal was Vice President of Syntec, the French software and IT association.

Amanda Jobbins
Group Chief Marketing Officer

Following the year end, Amanda was appointed to the newly created position of Group CMO. She joined Sage on 5 November 2012 from Cisco where, after leading European Marketing for all Cisco’s technologies, she was promoted to Global Vice President of Partner Marketing, based in San Francisco. Amanda was responsible for driving the global channel and strategic partner business across the enterprise, commercial and small business markets. Before Cisco she worked in senior marketing leadership roles for major technology companies in both the USA and Europe, including IBM and Symantec.

Álvaro Ramírez
Chief Executive Officer, Europe

Álvaro 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 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 flotations, mergers and acquisitions. In 2002 he joined Sage as Group Legal Director and Company Secretary.

Klaus-Michael Vogelberg
Group Chief Technology Officer

Klaus-Michael was R&D Director and a partner in 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 with 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.

The Executive Committee members pictured are: standing from left to right: Álvaro Ramírez, Klaus-Michael Vogelberg, Paul Harrison, Pascal Houillon, Amanda Jobbins
Seated from left to right: Ivan Epstein, Karen Geary, Guy Berruyer, Michael Robinson

Accelerating growth is our key priority and we remain focused on disciplined execution

At our Investor Day in July 2012, we set out our ambition to double our long-term average organic revenue growth rate within the next three years, together with a targeted EBITA† margin increase of 1 to 2 percentage points over the same period.

Our three growth cornerstones are set out below with more detail on how we are delivering.

1 Focusing our business

Reviewing the segments we serve

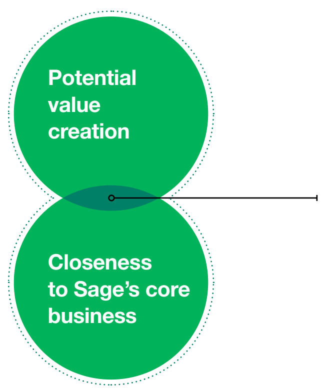
We have undertaken a systematic assessment of the segments that we serve in order to ensure that our portfolio of businesses has the best possible fit with our strategic and financial objectives.

This assessment starts with a definition of core business.

- Our core business lies in providing accounting, ERP, payroll, accountancy and related software and services to small and medium sized businesses.
- We will add value to our core business by targeting adjacent opportunities that are closely linked to the core and offer genuine synergies. These might include new market segments, new functionalities and new geographies. Typically, this occurs where technology is highly integrated; for example payments and CRM solutions.

As we assess existing and potential new businesses we evaluate how close they are to our core business as well as the potential for value creation. Our core businesses have a high degree of commonality in the type of customer they serve; they leverage our capabilities and technology in the provision of accounting, payroll and related software and services; and they are able to take advantage of our network of resellers and other partners, particularly accountants. In addition, they have the ability to share costs.

These criteria guide our management of our portfolio of businesses: both additions and disposals. Through these criteria we ensure the Group has the optimum portfolio of businesses, with the maximum possible strategic synergies, the biggest chance of success and the highest possible potential for value creation.



Degree of overlap in:
- Target customers
- Capabilities or technology
- Channel partners
- Potential to share costs

Reallocating resources to our biggest opportunities

We have completed a comprehensive review of our core product portfolio and are reallocating key resources to our biggest opportunities.

All products within our core businesses have been categorised as Invest, Harvest or Sunset:

- Invest products have the highest growth potential and will receive additional investment to secure their future and lead Group organic revenue growth.
- Harvest products are high margin, established products. Many will continue to receive current levels of investment; others will receive lower investment than in the past, as they have moved into a lower revenue growth phase.
- Sunset products have lower growth potential and, in the large majority, the needs they serve are better met by a more capable product within our core portfolio. These products will begin a sunset process and the associated investment will be redirected to the Invest portfolio.

† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets and acquisition-related items and is after neutralising the impact of foreign exchange movements.

The actions taken to streamline the portfolio will result in a reallocation of key resources towards the areas with highest potential that will support a significant improvement in growth. Our sales and marketing will become sharper; our portfolio less fragmented, offering a clearer choice to prospective and current customers; and we will leverage our considerable R&D resources more effectively as we innovate and transition to the next generation of products and technologies.

Leveraging our global scale and assets

The delivery of this strategy will see us leveraging our global assets and skills far more effectively, ensuring that we set global priorities and execute on them in a global manner.

A single, consistent global brand is a critical pillar of this strategy. We have launched a new powerful global brand proposition that sits at the heart of our business, guides our activities and ensures our relevance to all of our stakeholders.

2 Capturing the technology opportunity

We don't just make software products; we use technology to support the success of millions of small and medium sized businesses around the world, aiming to deliver an extraordinary customer experience. Our approach to technology is guided by the current and future needs of our customers and the unrivalled position Sage enjoys to lead small and medium sized companies to apply technology to best effect.

Technology is also providing the opportunity to expand our addressable market, by attracting a new generation of Sage customers, also supporting a step change in growth and performance.

We are delivering the benefits of the web to our three core market segments:

- *Sage One* – the focus of our online investment for the start-up and small business segment.
- Hybrid cloud solutions – the focus of our online investment for the SMB market.
- *Sage ERP X3* – the focus of our investment for the mid-market.

We are also developing new product architecture, including product innovation to embrace mobile technology. The importance of connected and payment services is very significant as a catalyst for growth.

Sage One

Sage One is a simple and efficient online bookkeeping and business management application, designed to address the needs of entrepreneurs and very small businesses.

To date, we have rolled out *Sage One* in the UK, Ireland, and North America. We are satisfied with the momentum of *Sage One* in the UK & Ireland, with over 6,100 paying customers at the year end.

We will enter more countries with *Sage One* in FY13 and will target a broader reach with a more advanced service, targeting larger customers with more sophisticated requirements.

Hybrid Cloud Solutions

Our partnership with Microsoft, announced in May 2012, is designed to deliver this vision to the market. Building on the Azure platform allows us to speed up development of customer solutions, accelerate time to market and reduce duplication.

The focus of development started in Europe with *Sage 200 "Hybrid"* in the UK and *Sage Murano* in Spain. The solutions will also be interoperable with Office 365, creating a single integrated on-demand business platform. The solutions are in development now and will be released to market in 2013.

Sage ERP X3 – the focus of our investment for the mid-market

Sage ERP X3 is our global offering in the mid-market segment and is designed to address the sophisticated needs of a large enterprise but the limited resources of an SMB.

We have 3,700 customers in 58 countries and 260 implementation partners. A subscription service was launched in the US in August 2012 and more countries will have a subscription offer in the coming months.

New product architecture

Our product architecture is continuing to evolve and represents a significant catalyst for growth in relation to both new and existing customers.

Mobility

We see the revolution in mobility as a particularly compelling opportunity to develop more active relationships with our customers and to expand the number of our paying customers.

Expanding the product architecture will grow the addressable market by significantly expanding the number of users who consume our services. Today, Sage reaches a narrow band of principal business users which only represents about 20% of the addressable user base within a company. The existence of a pervasive ecosystem for connected apps will allow us to extend the Sage experience to new roles in management, sales and to the workforce at large.

Connected apps can also act as an entry point into a paying Sage relationship. A good example is the free *Sage Record Keeper* app in the UK – co-developed with HMRC – that feeds into *Sage 50* and soon into *Sage One*.

Payments services

Our current activity in payments is in three distinct areas: merchant acquiring in North America (SPS); e-commerce and card holder present payments by customers in Europe (Sage Pay); and NetCash in South Africa.

The unique proposition that we offer is the capability to integrate all payment transactions with the customer's broader financial and support systems infrastructure. This integration capability offers our customers the compelling proposition of time savings and increased accuracy.

On payments integration, we have services live and available. For example, in the US we currently have over 9,700 paying customers. We connect various payment and vendor applications to the accounting environment and further to payment networks and fraud protection.

3 The subscription model

We are designing new pricing models to capture the value of the evolving relationship we have with our customers. Subscription is about serving our customers better through establishing an active, broad based relationship with them and capturing the commercial value of that opportunity.

We have moved with our customers, over time, from licence sales of the core application to basic maintenance to premium support and now to subscription. This is also the transition from a perpetual licence to a monthly subscription.

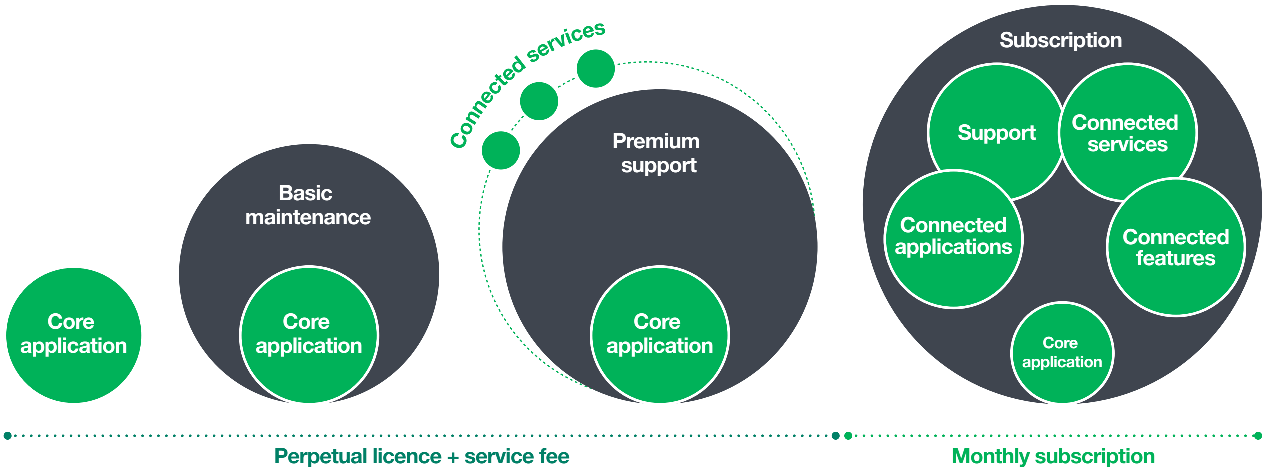
Our customers are attracted to subscription because it is affordable, flexible and is an easier, lower risk decision. Both new and existing customers will also get the best possible match between what they pay for and the benefits they receive. Subscription therefore allows us to address a wider range of customer needs.

The move to subscription provides the opportunity for our partners to differentiate themselves as well as help them to develop more active customer relationships. For many of our reseller partners the move to subscription will be a big change. Where we are introducing subscription we will work with our partners to ensure they are appropriately incentivised under this new model. For example, where we have introduced subscription in North America we are able to offer our partners alternative commission structures.

Ultimately, for our partners and for Sage, subscription will lead to higher, more sustainable revenues over time, with stronger, more predictable relationships with our customers.

In the short-term, we will progressively introduce subscription options for more products which will be offered alongside perpetual options. In the medium-term, we will accelerate the subscription rollout and make subscription the default option for key products. In the long-term, the perpetual option will be phased out entirely.

Subscription is the latest phase of the natural evolution of our customer relationships



Key performance indicators ("KPIs")
Measuring our progress...

Financial drivers

We monitor our financial performance against a number of different benchmarks. These are set in agreement with the Board and used to evaluate progress against our strategy.

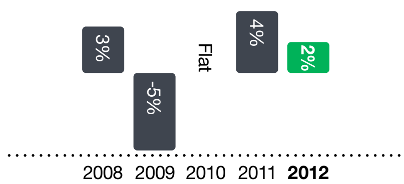
Our financial performance during 2012, including KPIs, is discussed in more depth in the Financial review on pages 28 to 30.

Financial performance

We delivered a solid performance in the context of a macroeconomic environment which remained difficult and uncertain in most of our markets. We have protected margins at the same time as investing for growth. The decline in EPS is due to an increase in tax rate from 23% to 29% as a result of one-off favourable tax settlements in the prior year.

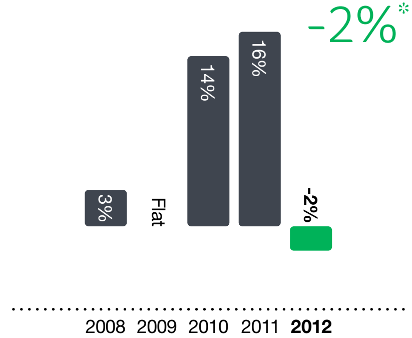
Organic# revenue growth

2%*



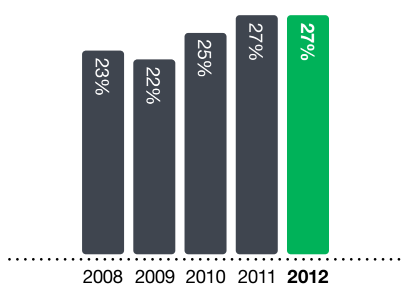
Underlying EPS growth

-2%*



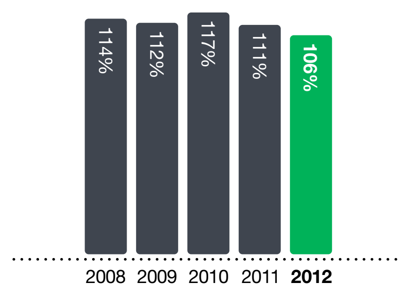
EBITA† margin

27%



Cash generation from operations

106%^

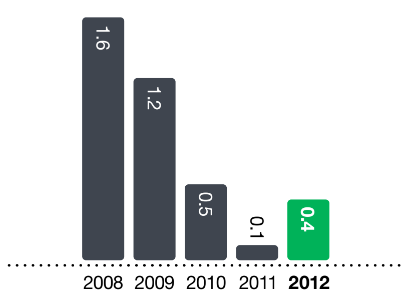


Financial strength and capital discipline

We continued to make progress towards our net debt level of a minimum of 1x EBITDA through a combination of our ongoing share buyback programme, an increase in our total dividend and a number of completed acquisitions.

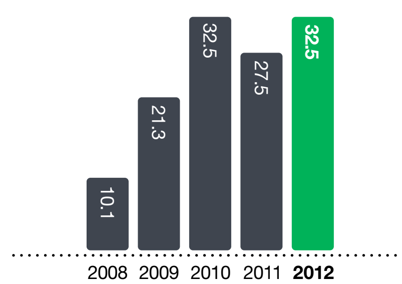
Net debt leverage

0.4:1



Interest cover

32.5



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, acquisition-related items and imputed interest.

† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets and acquisition-related items and is after neutralising the impact of foreign exchange movements.

^ Cash generation from operations represents cash flows from operating activities divided by EBITA. EBITA for cash generation purposes is after acquisition-related items.

Strategic drivers

The measurement of progress in delivering our strategy is important and we have developed a number of KPIs to measure performance. 2012 is our first year of reporting on these, and we will continue to report on them as evidence of our progress.

Our performance during 2012, including KPIs, is discussed in more depth in the Chief Executive's review on pages 14 to 16.

Growth cornerstones

The following KPIs relate to our three growth cornerstones: focusing our business, capturing the technology opportunity, the benefits of subscription.

1. Focusing our business

Portfolio management progress will be captured by reporting on the resource reallocation exercise in our core business. Research & Development, and Sales and Marketing spend in the year is categorised into the three categories of product: Invest: Harvest: Sunset and we will reallocate resources towards the invest category.

Research & Development spend by category

35:53:12

Sales and marketing spend by category

42:49:09

2. Capturing the technology opportunity

We are delivering cloud solutions to our three core market segments through *Sage One*, hybrid cloud and *Sage ERP X3.* Payment services are also a significant opportunity for growth.

Adoption of *Sage One*

6,100 customers

Adoption of hybrid cloud

115 customers

***Sage ERP X3* revenue growth**

5%*

Integration of payments

9,700 customers

3. The benefits of subscription

We will measure our progress on pure subscription pricing through customer adoption of our subscription offerings. This will be measured by the annualised value of the subscriber base which is an annual equivalent of subscription revenue from the last month of the year.

Annualised subscriber base

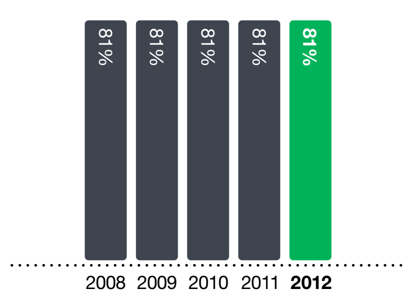
£80.5m

Customers

Our customers are at the heart of our opportunity and of our vision to support them. From 2013, we will track customer loyalty through Net Promoter Score. For 2012, we continue to use renewal rates as an important measure of the value of our relationships with our customers. Renewal rates are calculated as the number of subscription contracts which were renewed in the period divided by the number of contracts which were potentially renewable in the period.

Renewal rates

81%



Our latest Index shows that businesses are still worried about global and local economic issues. However, there are some positives to be taken from individual markets

Guy Berruyer, Chief Executive Officer

The fourth Sage Business Index published in September 2012, tracks the views of nearly 11,000 small to medium sized companies from across the globe, including Europe, North America, Africa, Asia and Brazil. This report highlighted that nervousness about the economy, both at global and country levels, continues to affect confidence. Unsurprisingly, countries in Europe feel the least confident, with France recording the biggest fall in confidence. However, businesses are taking actions to weather the storm and are more confident about their own prospects notwithstanding the economic headwinds. This is an important reminder of the resilience of our customers.

We knew that when we did this Index the Eurozone crisis would indeed be a major factor in the results, so we took the opportunity to find out a bit more about its impact. Two thirds of businesses felt that the Eurozone crisis had some or a significant impact on their business and only 15% felt that the Eurozone could continue in its current form.

So the very fact that, in light of all this uncertainty, businesses still feel confident about their prospects in the next six months is a testament to their strength and resilience. Indeed nearly 70% of those we surveyed have been in business already for over 10 years and are clearly equipped to deal with the changing landscape.

Exploring this in more detail we asked businesses if they felt that they had adapted to the challenges of the economic environment over the last three years. Seven in 10 felt they had and 88% of all businesses had made changes to this effect – from cutting operational costs to developing new products and services.

Despite the many government initiatives across the world to help small and medium sized companies, almost seven in 10 businesses still feel that their governments are just not doing enough for them. What they feel would really make a difference to their ability to survive and thrive are reducing bureaucracy, reducing business tax and providing more opportunity for skills development. Respondents who cited bureaucracy felt that tax law, labour law and public procurement procedures were the worst offenders.

As a global business with over six million customers, we have a duty to support small and medium sized companies and we do this by providing products and services that take care of the basics, allowing them to achieve their business ambitions. The Sage Business Index is an important part of helping us to stay close to what our customers are saying and what they are experiencing. We hope that it also proves a useful guide for governments and other stakeholders as to how we can all support these businesses better.

The Sage Business Index September 2012

We recently launched the fourth Sage Business Index, a global measure of confidence across small and medium sized companies.

Since our last Business Index in March 2012, we have extended the reach of the survey to include 10,861 businesses from 15 countries, this time adding Brazil, Poland, Portugal, Switzerland and Ireland. This has provided us with the clearest picture yet of the pressures and challenges faced by small and medium sized companies around the world.

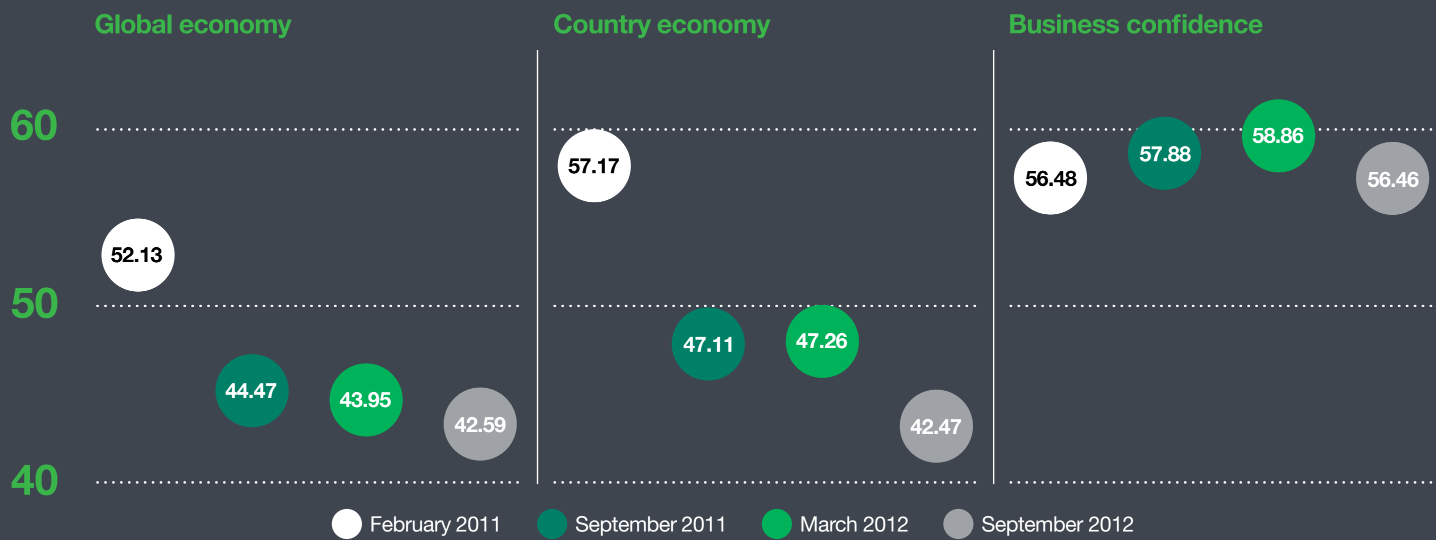
We first carried out the Index in February 2011 and with the addition of the most recent results, we now have two years' worth of insight into the challenges faced by small and medium sized businesses around the world.

More

Visit the index at
www.businessindex.sage.com

The Sage Business Index
International Business Insights

Business confidence and the economy



Business challenges, the top three concerns

1. **Inflation and rising costs of energy, fuel, raw materials**
2. **Instability/uncertainty in local economic market**
3. **Decreased consumer confidence**

In the past six months, has revenue…

Financial and operating review
Financial results

Reconciliation of operating to statutory results

EBITA† to operating profit	2012 £m	2011 £m	Variance %
EBITA†	**366.4**	356.0	+3%
Impact of movements in foreign currency exchange rates	**–**	9.5	
	366.4	365.5	–
Adjustments	**(21.5)**	(22.2)	
Operating profit	**344.9**	343.3	–

Underlying to statutory basic earnings per share	2012 pence	2011 pence	Variance %
Underlying basic EPS (continuing operations)	**19.86**	20.28	-2%
Impact of movements in foreign currency exchange rates	**–**	0.56	
	19.86	20.84	-5%
Adjustments	**(1.23)**	(1.40)	
Statutory basic EPS (continuing operations)	**18.63**	19.44	-4%

Adjustments relate to amortisation of acquired intangible assets, acquisition-related items and imputed interest, net of taxation.

Revenue

Revenue from continuing operations was £1,340.2m which increased by 3%* compared to the prior year (2011: £1,334.1m*). Organic revenue grew by 2%* compared to the prior year.

Total subscription revenue was £922.7m (2011: £860.0m*) which grew organically by 6%*, benefiting from growth in premium subscription contracts and payment services. Subscription revenue is recurring in nature and include stand-alone support, combined software and maintenance and support, and payment services.

Total revenue for software and software-related services were £417.5m (2011: £439.1m*), which declined organically by 5%*, reflecting challenging macro-economic conditions, most notably in the mid-market, and our strategy of increasing our recurring revenue. The majority of the contraction was attributable to weak market conditions, particularly in France and Spain. Elsewhere, SSRS was more affected by a shift to recurring revenue, reflecting the transition of customers to premium support. Software and software-related services include stand-alone software licence sales (including new licences, upgrades and migrations) and professional services, hardware and business forms.

Organic revenue growth in the second half of the year was 3%*, compared to 2%* in the first half of the year. The anticipated stronger performance in North America and the continued strong growth in AAMEA were offset by a weakening economic environment in Europe, particularly in France.

Profitability

EBITA† increased by 3%* to £366.4m* (2011: £356.0m*) with the Group's EBITA† margin maintained at 27% (2011: 27%*). The mixed market conditions in which we are operating call for agility in our business and focused resource allocation to protect profitability, whilst investing in our growth initiatives. During the year, we invested in growth opportunities, including products such as *Sage ERP X3*, *Sage One* and markets such as Brazil, whilst protecting margins in weaker markets like Spain.

Net finance costs declined to £10.6m (2011: £12.5m). The reduction in finance costs is primarily driven by reduced interest charges as the Group was in a net cash position for an extended period during the year. The average interest rate on borrowings during the year was 4.59% (2011: 3.96%). The income tax expense of £95.4m (2011: £74.8m), and the effective tax rate of 29% (2011: 23%) reflect an anticipated increase due to one-off favourable settlements in the prior year. Underlying earnings per share from continuing operations declined by 2%* to 19.86p (2011: 20.28p*) as a result of the increased tax charge. Statutory basic earnings per share from continuing operations for the year ended 30 September 2012 declined by 4% to 18.63p (2011: 19.44p). Statutory diluted earnings per share from continuing operations declined by 4% to 18.60p (2011: 19.29p).

Cash flows

The Group remains highly cash generative with an operating cash flow of £383.8m (2011: £405.1m), representing 106%^ of EBITA (2011: 111%). After interest, tax, net capital expenditure and discontinued operations, free cash flow was £247.9m. The net inflow from acquisitions and disposals completed in the year was £36.2m. After dividends paid of £136.5m, share buybacks of £297.5m and other movements of £13.3m, including exchange movements, net debt stood at £161.5m at 30 September 2012 (30 September 2011: £24.9m).

Balance sheet and capital structure

Debt and facilities

The Group has net debt of £161.5m at 30 September 2012 (2011: £24.9m). The Group is funded through retained earnings and multi-currency revolving credit facilities totalling £338.3m (2011: £358.3m) (US$271.0m and €214.0m tranches), which expire in 2015. At 30 September 2012, £15.0m of these facilities were drawn (2011: £nil). In addition, the Group has US private placement loan notes at 30 September 2012 of £185.8m (US$300.0m) (2011: £192.6m, US$300.0m). The Group continues to monitor opportunities to enhance and diversify its funding sources in the current capital market conditions.

Organic revenue growth
2%*
2011: 4%*

Underlying EPS growth
-2%*
2011: 16%*

EBITA margin maintained at
27%
2011: 27%*

Full year dividend of 10.15p per share up
4%
2011: 9.75p 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, acquisition-related items and imputed interest.
† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets and acquisition-related items and is after neutralising the impact of foreign exchange movements.
^ Cash generation from operations represents cash flows from operating activities divided by EBITA. EBITA for cash generation purposes is after acquisition-related items.

Paul Harrison,
Chief Financial
Officer

Capital structure and dividend

We continue to generate a high proportion of revenue through recurring contracts, providing both high-quality products and responsive and valuable services to our loyal customer base. We expect our associated strong cash generation to continue in the future. We are rigorous in allocating capital to business investment and targeted acquisitions. We also look to return surplus capital to shareholders.

In September 2011, we announced a share buyback programme to return the proceeds from the disposal of Sage Healthcare to shareholders. We have continued the share buyback programme beyond these proceeds, and have returned a total of £299.8m during the year. We continue to make progress towards our target net debt level of a minimum of 1x EBITDA, by a combination of further capital returns to shareholders and targeted acquisitions, with a net debt to EBITDA ratio at 30 September 2012 of 0.4x.

Consistent with this objective, and given the recent step-up of the dividend in 2011, we are pleased to propose a final dividend of 6.67p per share (2011: 7.07p per share), which increases our total dividend for the year by 4% to 10.15p per share (2011: 9.75p per share). This total dividend is covered 2x by profits. We intend to pursue a policy of further increasing our dividend broadly in line with underlying EPS growth over time.

Treasury management

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

Acquisitions and disposals

During the year we completed the following acquisitions. These acquisitions, detailed in the table below, further strengthen our offerings in key geographic areas, importantly establishing a leading market position in the large and growing Brazilian market, as well as enhancing our product and technology capability.

Date	Company	Amount acquired	Country	Enterprise Value
October 2011	Alchemex	100%	South Africa	£5.5m
February 2012	Integral	100%	Ireland	£14.0m
June 2012	Folhamatic	75%	Brazil	£143.8m
September 2012	Cenize	100%	Brazil	£3.9m

For the Folhamatic acquisition, the expected total cash consideration of £122.6m (R$398.0m) for 75% of the equity, includes a conditional payment of £24.0m to be paid if certain performance targets for the year to 31 December 2012 are met. We have also entered into a put and call arrangement over the remaining 25% of the equity which can be exercised in 2015. The transaction is consistent with our M&A strategy, being immediately earnings accretive and with the return on capital expected to meet our risk-adjusted hurdle rate in the third year post acquisition.

In November 2011, we completed the sale of Sage Healthcare to Vista Equity Partners. The net cash inflow from the sale was £198.8m which was returned to shareholders through a share buyback programme.

R&D and capex

The Group spent £159.4m in the year ended 30 September 2012 on research and development (2011: £148.9m*). No expenditure was capitalised and no amount (2011: £0.1m) was amortised to the income statement relating to prior years' expenditure which had been capitalised. Capital expenditure in the year ended 30 September 2012 (including the purchase of third-party software systems for internal use) was £26.2m (2011: £29.5m). The majority of this expenditure relates to IT infrastructure, both in new and replacement systems.

Foreign exchange

The financial results have been impacted by movements in exchange rates. The average Euro exchange rate used to translate the Consolidated income statement moved 6% compared to the prior year from £1 = €1.15 to £1 = €1.22, the average US Dollar exchange rate used moved 2% from £1 = $1.61 to £1 = $1.58 and the average South African Rand exchange rate used moved 14% from £1 = ZAR11.18 to £1 = ZAR12.72. In order to assess like-for-like performance, Group growth trends are shown on a foreign currency neutral basis where indicated.

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.

Going concern

Based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Archer Capital

On 14 November 2011, the Group reported a 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 £80.0m (A$130.0m), and will defend itself vigorously.

Events after the reporting period

Acquisition of Empresa Brasileira de Sistemas Ltda.

On 11 October 2012, the Group acquired EBS Empresa Brasileira de Sistemas Ltda. a provider of accounting, business management and tax software in Brazil for a cash consideration of up to £10.5m, including a payment of £1.8m linked to the future financial performance. The provisional fair value of the assets acquired was £0.1m, resulting in provisional goodwill of £10.4m.

Executive Committee change

On 9 October 2012, the Group announced the appointment of Amanda Jobbins as Group Chief Marketing Officer, who will join Sage's Executive Committee.

* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets, acquisition-related items and imputed interest.

† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets, acquisition-related items and is after neutralising the impact of foreign exchange movements.

Operating results
Europe

Álvaro Ramírez, Chief Executive Officer, Europe

Strategic highlights

- *Sage One* gathered momentum in the UK & Ireland
- Four of the first business apps for Windows 8 launched in the UK, Spain, Germany and France
- Subscription pricing options launched in the UK, France, Spain and Germany
- Card holder present capability added to payments offering in UK & Ireland following acquisition of Integral

Strategic priorities for FY13

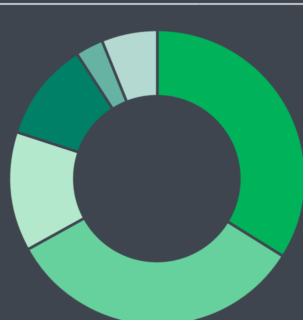
- Hybrid cloud products for the SMB segment to be launched on the Azure platform
- *Sage One* to be launched in key European markets
- Sage Pay will launch into mainland Europe starting with Germany

Key data

£m	2012	2011
Revenue	**£775.8m**	£765.1m
EBITA	**£219.1m**	£220.9m
EBITA margin	**28%**	29%

Country revenue

France	34%
UK & Ireland	33%
Spain	13%
Germany	11%
Sage Pay Europe	3%
Others	6%



Total Europe revenue grew by 1%* to £775.8m (2011: £765.1m*). On an organic basis, this growth was also 1%* (2011: 4%*). Organic subscription revenue grew at 5%* (2011: 5%*), with organic software and software-related services revenue contracting by 7%* (2011: 3%* growth).

Revenue in our French business was flat* in the year, with licence sales for our mid-market business in particular suffering from a decline in business confidence in the country. Subscription revenue grew strongly in the year, particularly from *Sage 100* and *Sage ERP X3*. We expect conditions in France to remain challenging in the foreseeable future.

Our UK & Ireland business grew by 4%* in the year. This growth was driven by a strong performance in maintenance and support, particularly in *Sage 50* and our Accountants' Division. Our mid-market business has also delivered good growth in the year and *Sage ERP X3* continued its momentum in the UK.

Our Spanish business contracted by 7%* with the bulk of the contraction attributable to revenue shortfalls within the small business division and software for local authorities. As we expected, the market in Spain has remained challenging, with a decline in the number of small and medium sized businesses and low business confidence. In response to the continued weakness in the Spanish market, we restructured the business with an associated reduction in headcount, resulting in a charge towards the end of the year of £6.5m.

Revenue in Germany grew by 5%* with a solid performance in both SSRS and subscription revenue. Our German business continued to deliver good growth due to new releases of our core products generating demand and a continued strong performance from our HR products.

Swiss revenue contracted by 3%* and our Polish business contracted by 20%* with a particularly difficult comparative due to the one-off VAT stimulus in the prior year. Our Portuguese business continued to benefit from legislative changes with growth of 2%* in the year.

Our Sage Pay business also performed very strongly, with organic revenue growth of 25%* for the year, driven by new customers and the successful introduction of pricing increases. The Integral acquisition in February 2012 was another important development, giving Sage Pay a cardholder present capability. This business has been successfully rebranded to Sage Pay. The launch of Sage Pay in Germany in October 2012 also represented a significant milestone in the roll-out of Sage's payments capability across Europe.

The EBITA† margin for Europe was 28% (2011: 29%*), reflecting both the cost of the restructuring of our Spanish business and a focus on protecting profitability, notwithstanding challenging markets.

Americas

Pascal Houillon,
Chief Executive Officer, North America

Paul Harrison,
Brazil

Strategic highlights

- The strategic shift to subscription continues to be a key theme with a continued uptake in the adoption of *Sage Business Care*, our premium support contract
- *Sage One*, our SaaS solution for start-up and small business, was launched to the US market in May 2012
- Subscription pricing options for our North America mid-market products launched in April 2012
- Strong payments revenue growth in North America driven by cross-sell and higher merchant and volumes
- Entry into Brazil with the acquisitions of Folhamatic, EBS and Cenize

Strategic priorities for FY13

- Subscription pricing option for *Sage ERP X3* to launch in North America
- Integration of EBS and Cenize into Folhamatic leveraging broader geographical reach with a streamlined product portfolio

Key data

£ m	**2012**	2011
Revenue from continuing operations	**£411.7m**	£395.8m
EBITA	**£106.1m**	£100.9m
EBITA margin	**26%**	25%

Country revenue

North America	97%
Brazil	3%

Total revenue from continuing operations in the Americas grew by 4%* to £411.7m (2011: £395.8m*), with organic revenue growth of 2%* (2011: 3%*). Organic subscription revenue grew 4%* (2011: 4%*), while organic software and software-related services revenue contracted by 6%* (2011: 3%* contraction). Organic revenue growth for the second half of the year was 3%* compared with 1%* for the first half of the year, demonstrating the anticipated sequential improvement in performance.

The EBITA† margin for Americas increased to 26% (2011: 25%*), reflecting an increase in margin of our North American business.

North America

In North America, we continue to see the impact of the strategic switch to recurring revenue. Adoption of *Sage Business Care*, our premium support offering, was a key feature of the year particularly for *Sage 50 US Edition* and *Sage 50 Canada Edition*, which both delivered good revenue growth. In April 2012, we announced the launch of a pure subscription option for our mid-market products including *Sage 100 ERP, Sage 300 ERP* and Sage *500 ERP* and have also launched this option for *Sage ERP X3* in North America and *Sage 50 Canadian Edition*.

Our payment services business showed good growth of 6%*, driven by growth in merchant numbers and volumes and 18%* revenue growth in the cross-sell of integrated payment solutions into our accounting base.

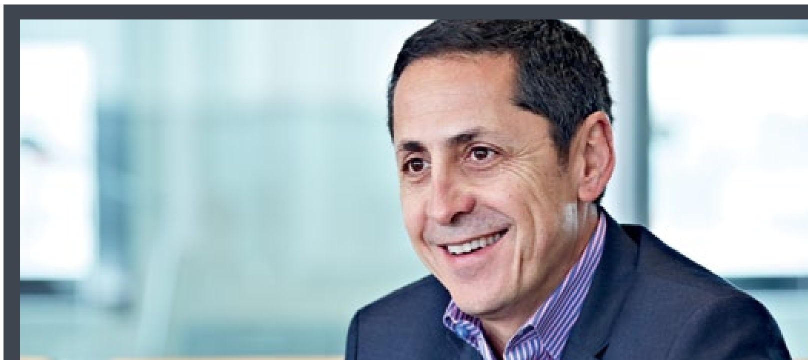
Brazil

Folhamatic has continued to perform well in the short period since the acquisition, contributing revenue of £12.2m and EBITA† of £3.0m, which is in-line with our expectations. We are also pleased with progress made on integration. We have supplemented the management team around Mauricio Frizzarin, the founder and CEO of Folhamatic, with key appointments in senior finance and HR roles.

We have subsequently strengthened our footprint in Brazil with the important in-fill acquisitions of EBS and Cenize, as announced in September 2012. The acquisition of EBS, a provider of accounting, business management and tax software in Brazil, strengthens Sage's market leadership position in the accounting firm market in Brazil and extends the geographic breadth of our offering, particularly in the Southern region. The acquisition of Cenize, a provider of accounting software to small and micro businesses in Brazil, extends Sage's reach to an attractive market segment with significant growth potential.

* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets, acquisition-related items and imputed interest.
† EBITA is defined as earnings before interest, tax, amortisation of acquired intangible assets, acquisition-related items and is after neutralising the impact of foreign exchange movements.

AAMEA



Ivan Epstein, Chief Executive Officer, AAMEA

Strategic highlights

- Expansion into Africa continues to deliver strong growth and remain a key opportunity for the future
- *Sage ERP X3* has delivered exceptional growth in South Africa, with 100 new customers added

Strategic priorities for FY13

- Integration of our South Africa payments offering, NetCash, into our core accounting and ERP solutions
- Rebranding of Softline in South Africa to Sage to leverage the global brand

Key data

£ m	2012	2011
Revenue	**£152.7m**	£138.2m
EBITA	**£41.2m**	£34.2m
EBITA margin	**27%**	25%

Country revenue

- South Africa 58%
- Australia 31%
- Middle East and Asia 11%

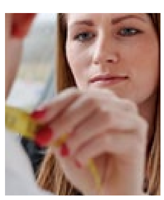
Total revenue in AAMEA grew by 10%* to £152.7m (2011: £138.2m*). Organic revenue grew 12%* (2011: 10%*). Organic subscription revenue showed strong growth of 15%* (2011: 13%*), while organic software and software-related services revenue grew by 8%* (2011: 6%*).

South Africa continued to deliver strong organic revenue growth of 16%*. Our core mid-market products such as *Pastel* and *VIP* have performed well in the year, and *Sage ERP X3* has made significant progress in the country during the year. Sales into the broader African continent have continued to grow well and remain a good future opportunity.

Australia grew by 7%* led by good growth in subscription revenue from our key products in the country. Together, our Middle East and Asian businesses grew by 4%*, with a particularly strong performance in Singapore.

The EBITA† margin was 27% (2011: 25%*), reflecting strong revenue growth and cost discipline.

Our business in action



The following pages illustrate how we are giving small and medium sized companies the confidence and freedom to be successful

Making it safe and easy for our customers to pay us is essential to the survival of our business

Simon Procktor, Housebites

Housebites was created by a team of passionate foodies with busy lives. Not content with the current “order-in” options – in terms of both quality and service – they decided to come up with a solution. They created a service that allows customers to order food from top chefs in their neighbourhood and have it delivered to their door.

Originally working with another payment gateway, Housebites were looking to revolutionise their customer experience. They quickly found that Sage Pay’s Token product and service were ahead of its competitors. “We felt that Sage Pay offered the best system at the best price,” says Simon.

Security and fraud are always a worry for any online business and keeping up with security rules and regulations can be a full-time job in itself. The Token system is a fully PCI compliant process that negates the need for Housebites to hold or store any card data so customers can be sure that their details are completely secure.

Sage Pay key facts

- Sage Pay is the UK & Ireland’s leading independent payment service provider (PSP).
- Every year Sage Pay processes billions of pounds worth of secure payments for its customers and makes the process of accepting payments online, over the phone, or in person simpler, faster, safer and more profitable for businesses of all sizes.
- Our payment services range from the simple to sophisticated tailored solutions and because they are easy to integrate and manage, our customers have more time to spend on growing their businesses.
- Sage Pay recently entered the German market focused on driving e-commerce growth for small and medium sized businesses.

40,000

Sage Pay customers in the UK & Ireland

Scan this code to view the video on a mobile device or visit www.investors.sage.com/2012annualreport

Sage One
Garbeau made-to-measure shirts

I was using Excel to start with for managing my finances for the business but, as the business has grown, it just wasn't working

Jessica McLean, Garbeau

Garbeau is a made-to-measure shirt tailoring company set up by Jessica McLean. Jessica researched and developed her idea for the business during her final year at university studying Fashion Marketing.

Garbeau has been trading for nearly five years now and has supplied shirts to over 600 customers, many of whom place repeat orders. The company targets sports organisations as well as business people and wedding parties.

Sage One user Jessica said: "I was using Excel to start with for managing my finances for the business but, as the business has grown, it just wasn't working. *Sage One* is really efficient, really easy to use; especially for people like me who aren't good with numbers and finances."

24/7

Free 24 hour support by phone, email or on the web.

Sage One key facts

- *Sage One* was developed with customers at its heart. Sole traders, small business owners and accountants have all been involved from the beginning in shaping the feature set, design and language.
- *Sage One* is one of the industry's best value for money accounting software packages: no upfront costs, no installation charges, no maintenance or support fees and free, automatic upgrades. The *Sage One* pricing model is well suited to business owners who want to spread costs and manage their cash flow.
- *Sage One* has been built from scratch, using Sage's deep expertise and the latest web technologies to address specific customer pain points.
- *Sage One* has a simple, flexible architecture with an appealing look and feel, developed using Ruby on Rails. It is designed to support both Mac and PC and features highly customisable options.

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Sage ERP X3
Marussia F1™ Team

Sage ERP X3 will enable us to automate complex business processes and dramatically increase operational efficiencies

Kevin Lee, Marussia F1™ Team

The Marussia F1™ Team is a young and ambitious Anglo-Russian challenger, competing in the FIA Formula One World Championship. Headquartered at the new Marussia Technical Centre in Banbury, UK, the team is majority-owned by the Russian supercar marque, Marussia, based in Moscow.

With just two seasons of F1 competition under its belt, the team has enjoyed an extraordinary journey. It was founded in 2009, under the Resource Restriction Agreement that has redefined the sport's commercial landscape, paving the way for exciting new entrants to challenge tradition and expectation.

Kevin Lee, Operations Manager at Marussia F1™ Team, explained: "Before investing in *Sage ERP X3*, we, like many businesses, were operating a number of disparate IT systems and needed a centralised ERP solution that could look after the entire lifecycle of the products and thousands of parts that we deal with. Offering a complete end-to-end business management system that can scale seamlessly to break down departmental and geographical silos, *Sage ERP X3* will enable us to automate complex business processes and dramatically increase operational efficiencies."

Sage ERP X3 key facts

- 3,700 customers representing 195,000 users worldwide chose *Sage ERP X3* because it is easy to use, fast to deploy and cost effective.
- *Sage ERP X3* is a proven and comprehensive ERP solution, addressing mid-market companies' specific requirements and challenges in various industries from manufacturing services to distribution and many more.
- *Sage ERP X3* is present in 58 countries and counts a network of more than 2,000 Sage professionals and 260 partners in its ecosystem.
- Good momentum in the international roll-out of *Sage ERP X3* during the year.

260

***Sage ERP X3* partners worldwide**

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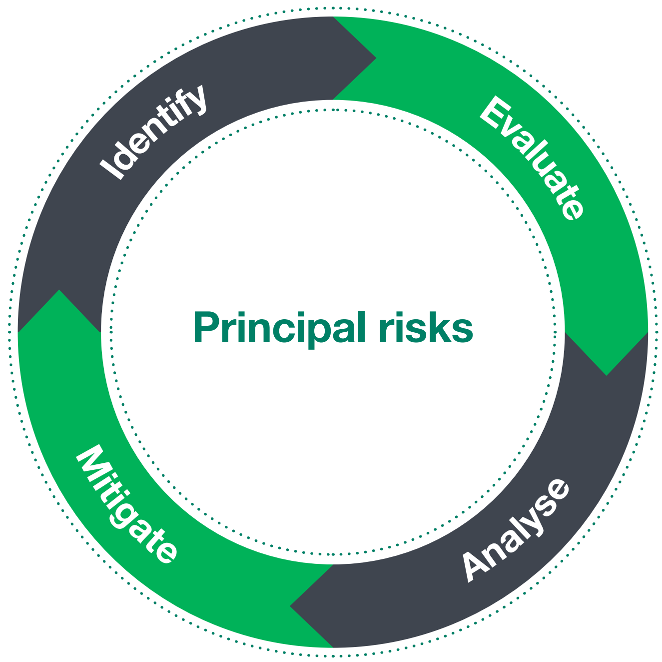
Risks can materialise and impact on both the achievement of business strategy and the successful running of our business

A key element in achieving our strategy and maintaining services to our customers is the management of risks. Our 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.

In addition to the principal risks and uncertainties set out below, we have reviewed our plans in light of potential risks to achieving our strategic objectives. Principal risks and uncertainties have been updated to reflect high level strategic risks. Lower level strategic risks are analysed and mitigated via the normal embedded risk management processes.

	External business factors	Products and services
Risk	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 and changes thereto are not appropriately addressed. Such adverse impacts could affect Sage's competitive position, revenue and margin, 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 is 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 increase the potential impact of the risk.
Mitigation process	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 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 thorough quality assurance processes and initiatives relating to the level of service provided to customers. Sage has a detailed framework to control the risks associated with the provision of online services and the protection of customers' data.



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.

More information on page 57

	Change management	Intellectual property
Risk	Our strategy has sought to focus the business and appropriately prioritise resources. Given new business priorities, there are risks associated with the change management impact on employees, systems and the alignment of talent with prioritised business areas. In addition, 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 dependencies 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	If the change management implications of resource prioritisation are not identified and managed, talent and resources key to successful strategic delivery could be lost. Loss of key knowledge or personnel, or failure to update systems to respond to changing business priorities 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 process	A change management programme including a talent review and systems requirements review is in place to ensure change management implications are addressed. 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.

People and organisation
A unique promise

How we change the way we work is about unlocking growth at Sage by shifting a business with multiple histories to becoming a truly global organisation where we can better leverage scale and expertise and create efficiencies along the way

Karen Geary – Group HR Director

Our Guiding Principles

Simplicity
Whether it is software which is easy to use or support that is easy to access, simplicity is a key driver of our business.

Trust
Our customers place important, confidential information in our hands so it is imperative that they fully trust us to deliver.

Integrity
Whether providing reliable, high quality products or giving advice on business critical topics, integrity is critical to us when building long-term customer relationships.

Innovation
We need to think ahead, to anticipate our customers' needs and be creative in how we develop our software and services, continually innovating to improve the customer experience we deliver.

Agility
We have to be responsive to customer needs and market changes and ensure we are agile enough to adapt our products and services to meet these demands.

Changing the way we work

Our success has been built on our in-depth understanding of customers, our exceptional service ethos and great people. To keep ahead of the evolving market, we are changing the way we work – not abandoning the strengths that come from our local heritage, but bringing a more global spirit. This underpins our growth plans. Our teams around the world will take more global responsibilities and work with each other with a strong, common purpose. We will collaborate more closely across borders, reduce reinvention and leverage innovation from around the organisation. This means we can spend more time focusing on customers; and it is this closeness that has been the cornerstone of our success.

The Employee Experience

To build business confidence in our customers, we are nurturing a culture that inspires confidence. In 2012 we began our journey to create a more common culture across Sage that has inner confidence at its heart and touches every touch point in our employee experience. We believe that a culture of inner confidence is essential to hire the right talent and inspire our people. The more engaged our people feel, the better they can support our customers. We strive to give our people the tools, know-how and support that help them do a great job for our customers. We want them to feel valued, challenged, fulfilled and above all understand the significant role they have in freeing up customers to achieve their business ambitions.

Employees	Europe	Americas	AAMEA	Group and central operations	Total
2012	7,593	3,695	1,929	292	13,509
2011	7,685	2,753	1,785	166	12,389

The History of Payments mural illustrates Sage Pay's vision perfectly; make life easier for businesses by giving them the tools to trade quickly and securely and together we will build a better future! The mural starts from the left with early man dwelling in caves, through the romans and early coinage, the commercial revolution, twentieth century capitalism, through to where we are today; mobile payments and e-commerce. The wider Sage business is reflected too as an enabler of business growth. This mural was created by Joe Steele, graphic designer for Sage Pay, pictured with the mural on the opposite page.


sage
PLEASE INSERT YOUR CARD

Equipping our people

Our priorities focus on the following:

Communication

Our goals unite our people behind a common purpose; and cross border collaboration is key to our success. To facilitate global communication, we have invested in Cisco's Telepresence and WebEx capabilities in all our key locations. Already we are seeing remote teams working seamlessly together and, at the same time, reducing travel costs. Our global enterprise platform, Open…, is a collaboration tool providing a social network where everyone across Sage, regardless of their location, can talk, share, create and innovate within teams.

Leadership

During 2012 we created a community called the Global Leadership Team, comprising our top 30 key leaders who are accountable for driving our global priorities. To support our new way of working, we have introduced a common set of executive competencies against which each will be measured in respect of their long-term capability, and their short-term performance and reward. This is supported by systematic investment in their development, resulting in true global succession planning. A new global mobility policy enables us to move our talent around the globe, with over 40 assignments in 2012.

Accolades

We are proud to call ourselves much more than a software provider and our customer experience continues to be recognised. This year we earned the accolade of European Call Centre and Customer Service – large Contact Centre of the year award. In South Africa, we have won 'Best Companies to Work For' in our category for the second year in a row, and most recently in North America – 'Texas Best Company to Work For'.

Diversity

As a global company we aim to treat our people with dignity and respect. We emphasise the importance of treating individuals in a non-discriminatory manner across the full employment lifecycle, including hiring, reward, development, promotions, mobility and departure. 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. In many of our operational companies we have guidelines to help our businesses meet the Group requirements and to manage diversity within the context of different national legislation and cultures. At Sage we are proud of the various initiatives taking place globally related to gender, age, disadvantaged backgrounds, disabilities and ethnic minorities. These include internships, apprenticeships, disability awards and targets; schemes to support ethnic minorities and those with disadvantaged backgrounds. Highlights of which can be found in the Corporate Responsibility section on page 45.

Gender

At Sage we value the aims and objectives of The Davies Report on Women on Boards. In considering appointments to the Board and to senior executive positions, it is our policy to evaluate the skills, experience and knowledge required by a particular role with due regard for the benefit of diversity on the Board and at senior management level and make an appointment accordingly. The Board of Sage currently comprises 29% women and we would expect to maintain a similar balance through 2013 to 2015. It is of the utmost importance to maintain strong leadership at Sage and we will therefore continue to appoint only the most appropriate candidates. Our top leadership population is 24% female; the majority of our core operating companies have top leadership teams in excess of 20% female; and 46% of our total workforce profile is female.

Examples of some of the local gender specific-initiatives include Spain with a Gender Diversity Plan to help ensure equality and Portugal's Womens' Day celebration. The UK has an Enterprise for Women network aimed at supporting and encouraging womens' career development which includes running networking events, training sessions, bi-monthly newspapers and a Twitter account with many followers. Currently, in the UK, 39% of employees are females with 35.5% of those in leadership positions. Other highlights include North America, whose leadership teams have worked towards comprising 30% women, while in South Africa we have 62% female employees and 48% women in leadership teams.

Board diversity

29%

	2012	2011
Total Members	**7**	8
Women	**2**	2
%	**29%**	25%

Top leadership diversity

24%

	2012	2011
Total Members	**99**	97
Women	**24**	25
%	**24%**	26%

Total workforce diversity

46%

	2012	2011
Total Members	**13,509**	12,389
Women	**6,214**	5,451
%	**46%**	44%

Corporate Responsibility
Acting responsibly

Corporate Responsibility ("CR") provides us with an opportunity to be a good citizen while supporting our Group-wide vision: to be recognised as the most valuable supporter of small and medium sized companies by creating greater freedom for them to succeed. Our commitment to being a good corporate citizen is inherent in our Guiding Principles. We are aware of our impact and seek to enhance the positive while minimising the negative.

Making a difference

Everything we do in CR reflects our core strategic values, while local legal standards are our absolute minimum.

Our simple, pragmatic approach to CR focuses on areas that mean the most to our business, our employees and our customers. And we are always looking for innovative ways we can improve our practices.

To make a real and positive contribution, we are committed to focusing on a few key areas where we believe we can make a difference. Our policy is to set out high level expectations to ensure that the impact of our actions is at the heart of our business. This provides our operating companies with the flexibility to select where they will invest resources locally, depending on what has the most meaning and impact. By thinking like a global business with a strong local spirit, we can maximise the potential of our size and work within local communities responsibly and effectively.

We share the best of what we do throughout our organisation and always aim to achieve best practice in the local context of each country where we operate. This flexible, continually updated approach serves us well, giving our business the freedom to focus on what's important to both Sage and local customers.

For example, in Spain we gave grants to four entrepreneurs to support them in new projects in technology and sustainability. Each entrepreneur received director level support for six months, training on Sage business software, free space within the Spanish office and tools to support them in their work.

Board reporting: The Company Secretary regularly updates the Board on CR risks and opportunities.

Ethics: Our Code of Ethics is integral to our organisation and we continue to build on ways employees can anonymously report any concerns about bribery, fraud or corruption. Our leadership signs a declaration relating to the Code of Ethics to make sure any additional business commitments or client and supplier relationships they may have are clear and transparent.

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.

People

Our approach to our people is set out on pages 42 to 44.

More

For more on corporate responsibility

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

Industry

We work closely with our customers and pay attention to the issues that are important to their businesses – we regard it as the cornerstone of our business philosophy. Our focus on industry is at a local level, so we can understand and react to problems and opportunities our customers face every day.

Understanding issues small and medium sized businesses face

Our strength is our deep knowledge and understanding of our six million plus customers – we know and understand them and never treat them all the same. We have the largest footprint of small and medium sized businesses globally and appreciate the different needs in our segments: start-up and small businesses, small and medium sized businesses ("SMB"), mid-market and accountants. Twice a year we carry out global research that gives us a clear picture of the challenges our customers face.

Our "Sage Business Index – International Business Insights" is our fourth comprehensive survey into the mindset of small and medium sized businesses around the world. This bi-annual survey is the largest yet, and includes responses from nearly 11,000 businesses from a variety of sectors in 15 countries.

The report focuses on business confidence and the economy, each country as a place to do business, the role of government, business challenges and the role of technology.

For more information on The Sage Business Index, see page 26.

Supporting local businesses and organisations

Helping non-profit organisations with free business software is an important part of what we do. In North America we partner with TechSoup, a body which helps charities manage their operations. In the past year, we have given more than 1,000 organisations software to the value of $459,000.

We also encourage our business partners to serve their local communities through volunteering and charity work. For example, every year in North America we select a partner for a Sage Community Service Award.

We also provide valuable, free information to small businesses on how they can prepare for legislative change, such as the forthcoming changes to Pay as You Earn reporting in the UK.

Developing tomorrow's business leaders

Sage's foundations are in entrepreneurism, and we are passionate about helping to create the entrepreneurs and the business leaders of tomorrow.

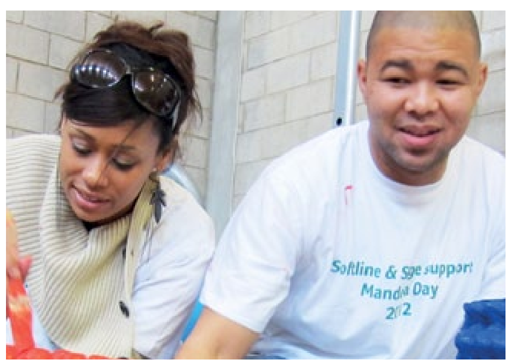
To do this we encourage small businesses where we can. For example, in the US we co-sponsor the SBA Small Business Week. In South Africa we sponsor a small business award where nominations for outstanding service come from local radio station listeners. Sage South Africa also supports The Life College Xchange, a non-profit educational centre which encourages the development of entrepreneurial skills. Students launch their own businesses and are judged on their innovation and profitability. In North America, we gave free accounting software to 4,500 schools last year and in Malaysia we also gave free software to educational and non-profit organisations.

Doing business

More than ever, in an increasingly crowded market place, we need a clear point of difference. That's the Sage brand. It's what we stand for and how we act and behave. We pride ourselves on our integrity and professionalism in all our dealings with customers, suppliers and other third parties. Our Guiding Principles and our Code of Ethics show that we do business responsibly and in line with all relevant laws and regulations as a minimum.

With customers, we act with honesty, integrity and openness. Customer data is handled sensitively and with respect, in a way that meets the requirements of Data Protection laws in the countries in which we operate and ensures that it is safe and secure in our hands. For example, all our operating companies' policies as a minimum cover methods and safeguards to be adopted to adhere to local Data Protection laws and regulations, a named person responsible for Data Protection issues and a process for informing employees on steps necessary to ensure compliance with the policy and any training to be provided.

Understanding and knowing our customers inside and out gives them reassurance that the basics are taken care of – simply and safely – so they can get on with growing their business.



Corporate Responsibility
Community

We want our involvement in local communities to be more than about business, so our Corporate Responsibility policy empowers each operating company to set their own targets and goals where they know locally that it will really make a difference. No Group level requirements are set for Community. This is because we truly want to make the communities in which we trade better places to be. So, if we can make a positive contribution we will – through fundraising, sponsorship or giving our time.

Giving our time

Organisations tell us that Sage volunteers are important to their business. Our employees tell us that our volunteering programme is a chance to share their skills and experience with charities or local bodies that reflect our commitment to education, the community and the environment. It is also a personal development opportunity for our people, some of whom take extra paid leave to volunteer. In North America for example, Employee Volunteer Day Benefit is offered so our people can take a day off to volunteer for a local charity. 111 people exercised their right to a volunteer day this year which amounted to a total of 850 hours donated.

In Europe, volunteering in Spain takes place during working hours and the UK offers our people two days per year to volunteer. This year, UK staff gave more than 3,800 hours to many good causes, including 1,000 hours working with more than 200 children as part of the Right to Read literacy programme.

Helping charities

Every year our employees all around the world take the same day every July to celebrate "Sage Day". The day is an opportunity to raise money for charity and get involved in local communities where they work.

In the UK alone, employees raised £60,000 for a national cancer charity. In North America, employees again gave through our "Giving is Living" payroll programme last year. Sage matched their contributions by 50% to give a total of $93,810 to charities. Our North America employees also support local charities close to their offices through initiatives including food bank volunteer programmes and working in local schools.

As well as raising funds, sometimes a relatively small effort can make a big difference. For example, our US and Canada employees gave away nearly 4,000 unwanted pieces of business clothing to local charity donation centres.

In Spain, our employees turned a major office move into an opportunity to work with community groups in Barcelona. They donated old office furniture and equipment to charities and hired in catering services from a foundation that employs disabled people.

Investing in young people

Supporting young people often from disadvantaged backgrounds is an important focus for us. We concentrate on their education and helping them with vital life and business skills.

We provide educational bursaries across our locations. We also design and run internal undergraduate and internship programmes to give young people the chance to succeed academically while considering their careers.

This year in Poland we sponsored a competition for gifted young scientists concentrating on algorithms and computer science. In Spain, we ran a summer training programme to introduce unemployed 16 to 24-year-olds to the workplace, and also supported "e-skills week", where 13-year-old students visited the office and learned about future career skills.

In South Africa, our people volunteer their time to help to equip school children from disadvantaged backgrounds with essential life and business skills before they leave school. We also work closely there with a local charity involved in six of the most impoverished communities to help disadvantaged and vulnerable children.

Investing in young people is also an important focus for our UK teams, where 12 apprentices aged between 17 and 20 years old are working in the business to help them learn essential business skills.

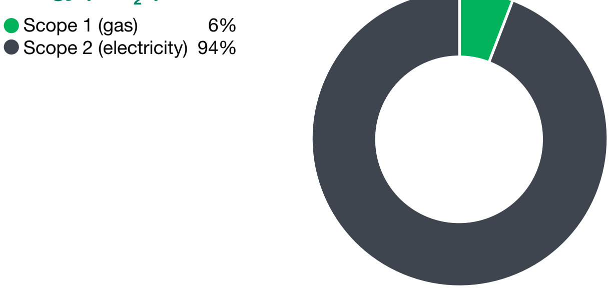
Our aim is to reduce the energy our business uses and make the most of recycling opportunities. Our operating companies can choose to focus where they feel they can have the greatest impact, while complying with local laws as a minimum. Sage continues to take part in the global Carbon Disclosure Project, an independent non-profit organisation focusing on the reduction of greenhouse gas emissions and sustainable water use by business and cities. We are also a member of the FTSE4Good Index.

Data on carbon emissions

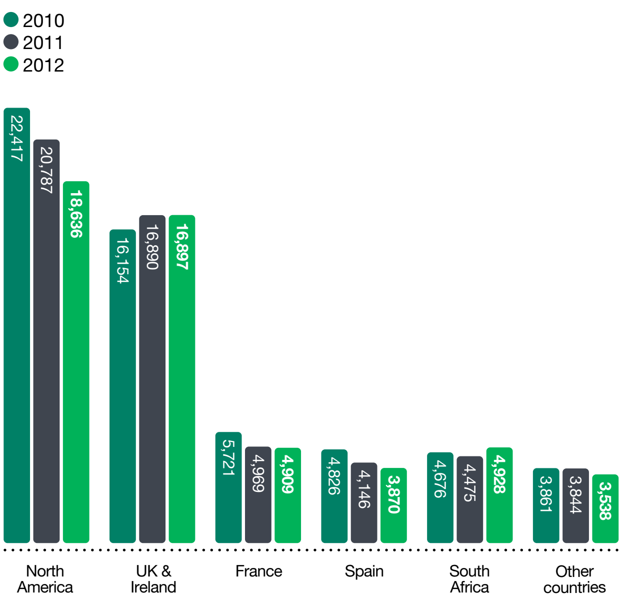
We work hard to keep down our carbon footprint by raising awareness among our employees to reduce energy and water use, minimise travel and by switching to green energy suppliers wherever possible. We continue to monitor our carbon footprint and have published data on our carbon emissions since 2009. This year we recorded a carbon footprint of 24,493 tonnes CO_2 equivalent, achieving a reduction of 4.8% compared with 2011.

During 2012 we installed Telepresence equipment at key locations to work collaboratively while reducing the need to travel. In addition, we have signed a Group-wide WebEx deal which enables us to work globally on Instant Messenger and meetings with up to 1,000 attendees. Open…, our global enterprise platform, also enables our employees to work in virtual teams and reduces the need to travel.

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



MWh of energy used within Sage business



All our operating companies are focused on ways to reduce their environmental impact locally. In the US, we reduced electricity by consolidating servers or installing virtual ones, using one dedicated server location for associated ventilation and air conditioning on site.

The UK installed LED lighting which uses 75% less energy. Motion sensors were installed in car parks so electric lights turn off when not in use. We continue to highlight energy efficient measures during office re-fits. In Spain, two new "intelligent" offices also exploit natural light and reduce the use of gas and electricity. The air con system works with water instead of gas and there are sectored spaces for more efficient energy use. Light, temperature and humidity levels are measured twice a month in common zones to control optimum efficiency and low consumption. Solar panels provide hot water to the building. In Australia, window tinting is applied to reduce heating and air conditioning requirements.

Total CO_2 emissions from energy (in nearest whole tonnes)

	2012	2011*
Europe	**9,621**	9,795
North America	**9,295**	10,885
AAMEA	**5,577**	5,044
Total	**24,493**	25,725

* 2011 North American data has been restated to align with more accurate emissions factors used for the Canadian and US operations this year.

Scope 1 and scope 2 carbon emissions are measured from the electricity and gas consumption 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 Sage employees. This excludes companies acquired during the year.

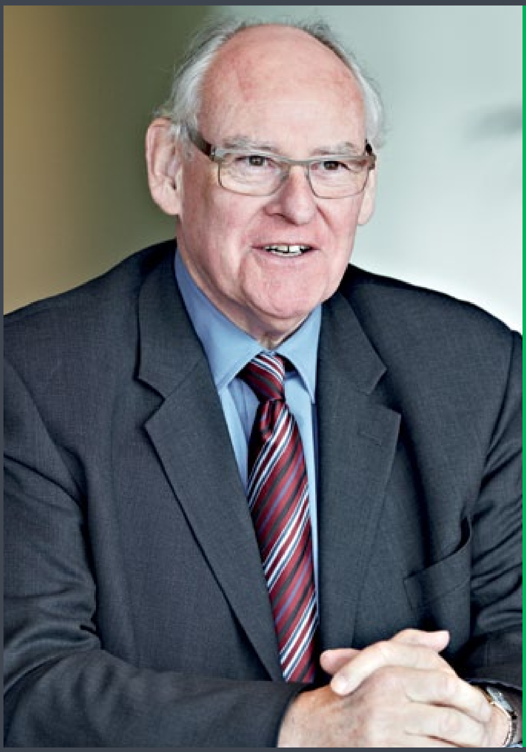
Reducing waste

We look for ways to promote recycling and the use of recycled materials, as well as increase electronic materials to reduce print and packaging. Open…, our global enterprise platform, means we can store vital content electronically, so it is accessible to those who need it wherever they are located. During 2012, the number of Open… users increased by 88%, and there are 1,100 active teams across Sage. Most of our software user guides are also now online and we continue to reduce the use of paper wherever we can.

We are making progress in cutting down on our in-house waste and, this year, we have achieved zero waste to landfill at our Newcastle headquarters. In South Africa, employees have to enter a PIN to print documents and payslips are emailed. The target is to progress to a paperless environment, and all recyclable paper goes to Afrika Tikkun, a local charity that works with children.

North America eliminated printing of an additional 15,000 downloaded documents, while the Sage Summit Tote bag replaced paper again in 2012. There have been many good initiatives around Sage, for example in the US we have tested a paper towel dispenser that conserves waste and re-uses waste products and the UK is harvesting used water for use on gardens and flower beds.

Dear fellow shareholder



Statement of compliance

Throughout the year ended 30 September 2012, the Company has complied with the provisions of the UK Corporate Governance Code ("the Code") published in May 2010.

Good corporate governance is about helping to run the Company well.

It involves ensuring that an effective internal framework of systems and controls is put in place which clearly defines authority and accountability and which promotes success whilst permitting the management of risk to appropriate levels. It involves the exercise of judgement as to the definitions of success, the appropriateness of risk and the levels of delegation to the executive. The exercise of this judgement is the responsibility of the Board and involves consideration of processes and assumptions as well as outcomes.

It also involves the creation of a sensitive interface for the views of shareholders and other stakeholders to be given appropriate consideration when reaching these judgements.

The Financial Services Authority requires UK listed companies to explain how they have applied the main principles set out in the UK Corporate Governance Code ("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.

D H Brydon

Donald Brydon, CBE, Chairman

Board of directors
Committed leadership


Donald Brydon CBE


Guy Berruyer


Paul Harrison


Tamara Ingram OBE


Ruth Markland


Ian Mason


Mark Rolfe

The Board of Sage is committed to the highest standards of corporate governance. It provides leadership to the business as a whole, having regard to the interests and views of its shareholders

Donald Brydon CBE

Chairman

Donald joined the Board in July 2012 and succeeded Tony Hobson as Chairman on 1 September 2012. He is Chairman of the Royal Mail Group and Smiths Group plc. Donald had a 20-year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management and acting Chief Executive of BZW, followed by 15 years with the AXA Group, including holding the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington. He has also recently been Chairman of the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc and the ifs School of Finance and a Director of Allied Domecq plc and Scottish Power plc. He is a past Chairman of EveryChild.

Nomination Committee – Chairman, Remuneration Committee

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. 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. On 2 October 2012, Guy became a non-executive director of Meggitt PLC, a leading international company specialising in high performance components and sub-systems for the aerospace, defence and energy markets.

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. Following the aquisition of Folhamatic, Paul was given additional responsibility for the Brazil operation. 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.

Tamara Ingram OBE

Independent non-executive

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

Ruth Markland

Senior Independent non-executive

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

Audit Committee, Nomination Committee, Remuneration Committee – Chairman

Ian Mason

Independent non-executive

Ian joined the Board in November 2007. He is Group Chief Executive of Electrocomponents plc and has previously worked for McKinsey and The Boston Consulting Group (BCG). He has an MBA from INSEAD.

Audit Committee, Nomination Committee, Remuneration Committee

Mark Rolfe

Independent non-executive

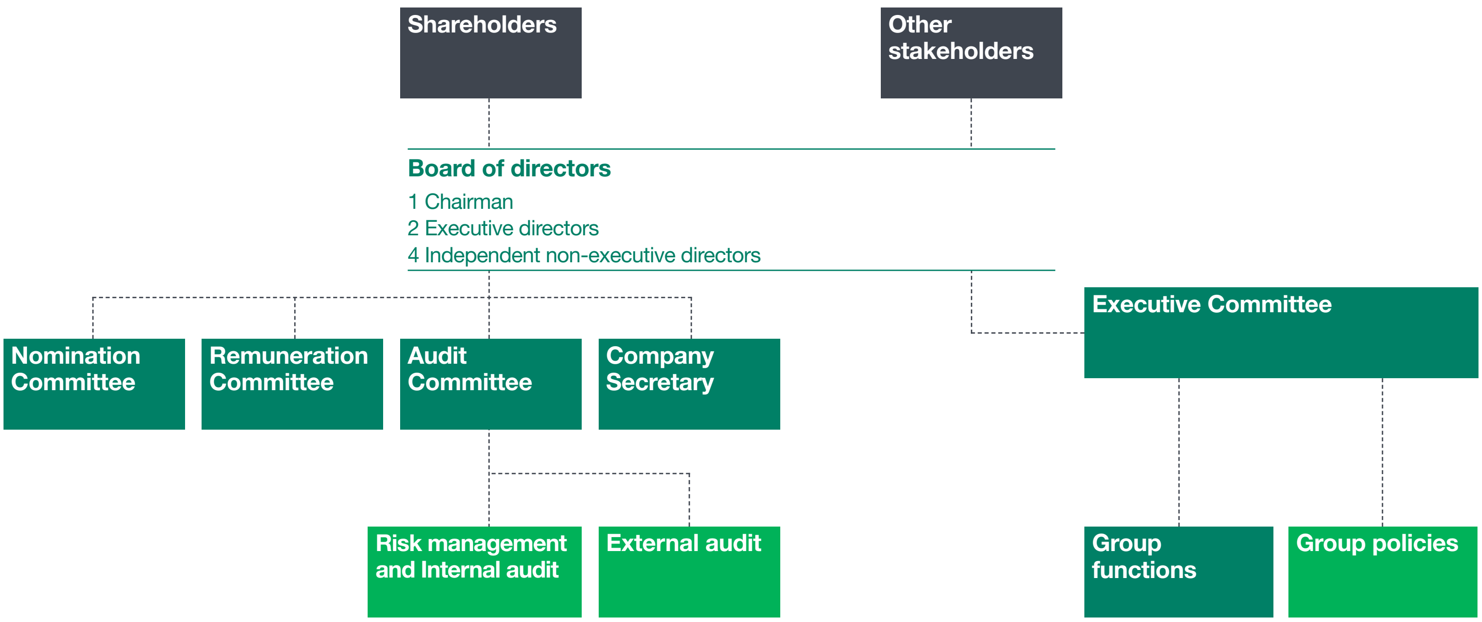
Mark joined the Board in December 2007. After qualifying as a chartered accountant with Coopers and Lybrand, Mark joined Gallaher Group plc in 1986, where he was Finance Director for seven years, retiring in 2007. He is also a non-executive director of Hornby plc, Barratt Developments plc and Debenhams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

Audit Committee – Chairman, Nomination Committee, Remuneration Committee

Corporate governance report

Our governance framework

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



The Board

The Board is responsible for the overall management of the Company, its strategy and long-term objectives. It provides leadership to the Company, having regard to the interest of shareholders.

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 64 to 73.

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 55 to 56.

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.

Risk management and Internal audit

The risk management and 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 55.

External audit

The external audit function provides independent audit and review. Further details of the work of external audit are provided on page 56.

Executive Committee

This Committee is chaired by the Chief Executive and is responsible for overseeing operations in the Group's regions and the Group's functional areas. It comprises the senior executives within the Group. Further details of the work of the Executive Committee are provided on pages 18 and 19.

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 within which the businesses and Group functions can operate.

How our governance framework operates

The Board

The Board is responsible for the overall management of the Company, its strategy and long-term objectives. It provides leadership to the Company, having regard to the interest of shareholders and other stakeholders.

Board meetings

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 typically during the week before the meeting is held. These supporting papers provide the Board with appropriate information it needs to enable the Board as a whole to discharge its duties.

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

Board composition

The Board currently comprises the Chairman, the Chief Executive, one other executive director and four 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 page 51, 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. 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. Mr D H Brydon joined the Board in July 2012 and became Chairman of the Board on 1 September 2012. The Board considered Mr Brydon to be independent on his appointment both to the Board and to the role of Chairman. All directors are subject to re-election at each Annual General Meeting.

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 Company is also very supportive of the aims and objectives of The Davies Report on Women on Boards. The Board of Sage currently comprises 29% 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.

Board evaluation

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. In the past, the Board has evaluated its performance through the completion of detailed questionnaires and discussions between individual directors and the Chairman. The Code encourages the Board to seek the assistance of a third-party in its evaluation at least once in every three years. In the year under review, therefore, the directors were 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 services for the Group other than assisting in directors' evaluations. Dr Long met each of the directors for an in-depth interview and attended Board and strategy meetings to view the Board in action. She also reviewed the papers prepared for the Board. Following this review, she prepared a summary of the Board's strengths and weaknesses, her observations and recommendations. These were shared with all members of the Board and discussed with the Chairman, Chief Executive and Senior Independent director. As a result of the review, the Board is considering practices in a number of areas.

Board practices

The Board has formally adopted a schedule of matters 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.

Under the Companies Act 2006 a director must avoid a situation where he or she has, or could 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 considers the approach to operate effectively.

The Chairman

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

The role of Senior Independent director provides a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman. Ms R Markland, who undertakes this role in the Company, 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 specific aspects of the Group's affairs. These are the Remuneration Committee, the Audit Committee and the Nomination Committee. Further details of these Committees are set out below. Whilst the Board notes that all independent non-executive directors (other than the Chairman) 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, Mr D H Brydon, and the other independent non-executive directors, Ms T Ingram, Mr I Mason and Mr M E Rolfe.

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 64 to 73.

The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration. It 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. Independent remuneration consultants advise the Committee. The Board itself determines the remuneration of the non-executive directors.

Under its terms of reference, the Committee meets at least four times in the year. In the year under review, eight meetings of the Committee were held of which five were held on full notice and three were shorter meetings held by telephone on short notice. All members in office at the time attended all the meetings other than on two occasions when Ms Ingram was unable to attend meetings held on full notice and one occasion when each of Mr Brydon and Ms Ingram were unable to attend meetings held on short notice. All directors receive Board and committee papers in advance of any meeting and have the opportunity to comment on them prior to the relevant meeting. The Chief Executive may, by invitation of the Committee, attend meetings (except when his own performance or remuneration is under review) but he is not a member of the Committee.

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 seen in the Remuneration report on pages 64 to 73, the Committee undertook a full review of remuneration policy and related consultation with shareholders. It paid particular attention to bonus arrangements in support of the goals of the Group set out on pages 8 and 9. Details of the Company's policies on directors' remuneration are given in the Remuneration report, 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 under 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 page 51.

The Audit Committee oversees the Company's financial reporting, risk management and internal control procedures, and the work of its internal and external auditors.

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.

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.

Work of the Committee in the financial year

In the financial year, the Audit Committee met four times with all members present on each occasion (except one meeting which Ms Markland was unable to attend and one meeting which Ms Ingram was unable to attend) 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 invites executive directors, management, external and internal auditors to attend meetings as it considers appropriate for the matters being discussed.

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.

Risk topics

At specific Audit Committee meetings, time is allowed for deep dive reviews of particular risk topics. Topics reviewed in the year include the finance organisation, risks within the strategy and the provision of online services.

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.

The scope of work covered by internal audit provides assurance coverage across both key risks to Sage and the main functions within Sage. Over and above financial and IT control reviews, areas of coverage during the year included compliance, online services, treasury, source code storage and business continuity.

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' reports.

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 or other factors 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 informing 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. In the year under review, all non-audit services provided by the external auditors were in accordance with these rules. 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 2012 the audit fee was £2.0m.

The Company's auditors, PricewaterhouseCoopers LLP, also perform non-audit services for the Group (principally tax advice) over and above the external audit. The fees in relation to these services were £0.8m, of which £0.6m was attributable to tax compliance services, £0.1m to tax advisory services and £0.1m to other services. Further details of fees paid to auditors are set out on page 90.

There are no contractual restrictions on the choice of the Committee as to external audit and, having considered the services provided by the current external auditors, their independence and knowledge of the Group and the factors referred to above, the Committee has determined to recommend to the Board the reappointment of the auditors at the Annual General Meeting in March 2013. 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, Mr D H Brydon 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.

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, having regard to its balance and structure. It also considers issues of succession. Recruitment consultants are used to assist in the process. 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.

The Nomination Committee is responsible for a number of matters relating to the composition of the Board and its committees. The Nomination Committee is also responsible for reviewing the structure of the Board, evaluating the balance of skills, knowledge, experience and diversity of 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 44.

The Nomination Committee meets not less than once a year. Three meetings of the Committee took place in the year under review at which all the members of the Committee in office at the time were present other than on one occasion when Ms Ingram was unable to attend.

In the year under review, the Committee dealt with a number of issues including the appointment of a new Chairman, a number of senior executive appointments and the retirement of an executive director from the Board. The then Chairman took no part in the discussion at meetings of the Committee relating to his successor. In identifying a potential new Chairman, the Committee retained the services of an executive search consultant. That consultant provided a list of potential candidates having regard to the policies of the Group and the terms of reference of the Committee. A number of candidates on that list met members of the Committee, who then determined to approach the current Chairman. The current Chairman was independent on his appointment to the Board. The Committee settled the terms of his appointment which were recommended to the Board.

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.

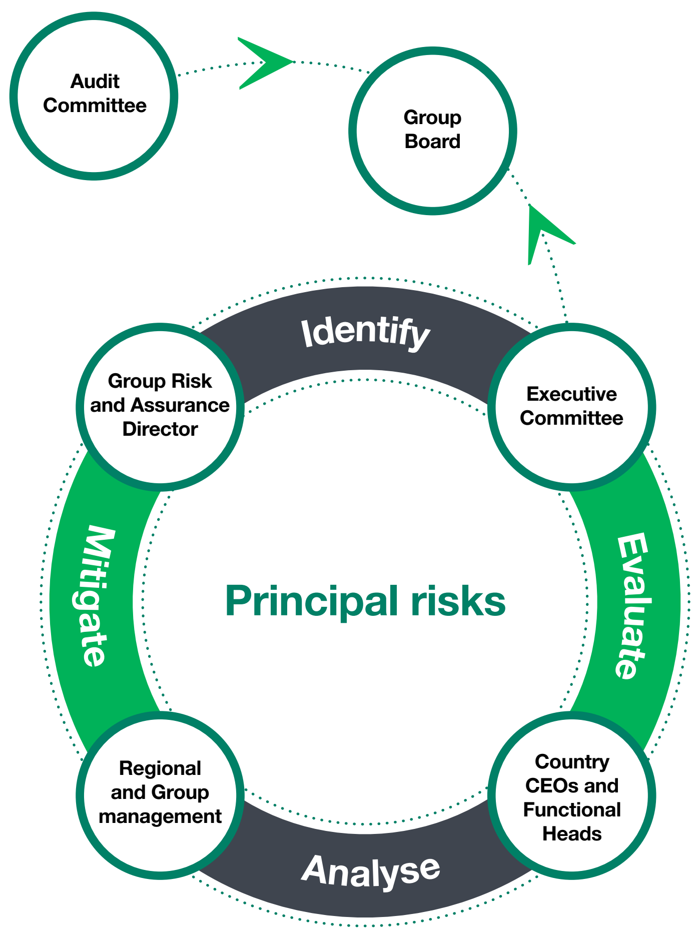
The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed and by their nature can only provide reasonable but not absolute assurance against misstatement or loss. The effectiveness of this process has been reviewed by the Audit Committee, which 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 below.

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.



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 on at least an annual basis. 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 and Functional Heads

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

The country CEOs and functional heads facilitate their risk assessment exercise to review the key strategic risks and to identify the top local risks within their country of function. 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 in their respective regions and functions.

Regional management, with support from the Group Risk and Assurance Director, review and challenge the risk information from the countries and agree the top regional risks and the regional response to the key strategic risks. Group management, facilitated by the Group Risk and Assurance Director, identify top risks from central functions (for example, tax and treasury) for inclusion in the functional level risk report.

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.

The Group Risk and Assurance Director consolidates the regional risk reports and creates the Group Risk Report containing top local risks and the responses to the key strategic 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.

During the year the risk management processes and procedures set to ensure that risks are identified from a top down strategic perspective as well as a bottom up local perspective, have operated as described above. Facilitated risk workshops have been completed with the Executive Committee and major territories around the Group. Results from risk management activities have been reported to and discussed directly with the Executive Committee during the year.

Whistleblowing

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.

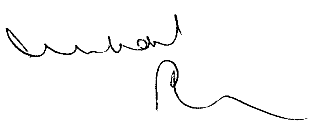
Relations with shareholders

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, published financial results and the Annual Report and Accounts. 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
5 December 2012

Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 30 September 2012.

Principal activities

The Sage Group plc is a leading global provider of business management software to small and medium sized companies. Sage has over six million customers and more than 13,500 employees in 24 countries covering the UK & Ireland, mainland Europe, North America, South Africa, Australia, Asia and Brazil.

Business review

The Group achieved a profit before income tax of £334.3m on revenue from continuing operations of £1,340.2m.

The Companies Act 2006 requires us to present a fair review of the business of the Group during the year to 30 September 2012 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 business review which is incorporated by reference. The business review can be found on pages IFC to 48.

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 70. Dividends paid and proposed are set out on page 87. The Board proposes a final dividend of 6.67p per share (2011: 7.07p per share) taking the proposed full year dividend to 10.15p per share (2011: 9.75p per share).

Compliance with the UK Corporate Governance Code and Corporate Governance Statement

The Company has been in full compliance with the provisions set out in the UK Corporate Governance Code throughout the year. The Code is publicly available at the website of the FRC, www.frc.org.uk. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate governance report on pages 49 to 58 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 £159.4m (2011: £151.9m) in research and development.

Charitable contributions and political donations

During the year, charitable contributions totalling £0.4m 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 64 to 73. 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 2012, 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 42 to 44.

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 those terms. Creditor days for the Group have been calculated at 44 days (2011: 49 days).

The Company has no trade creditors (2011: £nil).

Substantial shareholdings

At 29 November 2012, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests in the ordinary share capital of the Company:

Name	Direct shares	%	Indirect shares	%	Total shares	%
BlackRock, Inc.	–	–	75,700,610	5.74	75,700,610	5.74
Aviva plc	66,981,616	5.07	–	–	66,981,616	5.07
Lloyds Banking Group plc	–	–	61,336,505	5.00	61,336,505	5.00

Future developments

The Group's future developments are described in the business review on pages IFC to 48.

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, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to 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 1 March 2013 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 (although not so as to prevent dealings in shares taking place on an open and proper basis) 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 29 February 2012) to buy back up to 131,353,609 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 1 March 2013.

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 2012 the Group appointed Deutsche Bank AG to manage an irrevocable buyback programme during the close period which commenced on 1 October 2012 and will run up to 5 December 2012. From 1 October 2012 to 29 November 2012, the latest practical date prior to publication of the Annual Report & Accounts, 17,925,641 ordinary shares of 1p each were repurchased through Deutsche Bank AG at a weighted average price of 308.89p per share. The highest and lowest prices paid for these shares were 322.00p per share and 298.70p per share respectively. The purchased shares have not been cancelled and are held as treasury shares. The total number of ordinary shares in issue (excluding shares held as treasury shares) at 29 November 2012 is 1,210,714,269.

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 or her term of office. The office of director shall be vacated if: (i) he or she resigns; (ii) he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months, or by reason of his or her mental health a court has made an order that prevents the director from acting and, in either case, the Board resolves that his or her office is vacated; (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 Articles of Association, 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 prepayment 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 prepayment 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 ("EU") 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 EU, 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; and
- 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 50 and 51, 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 13.2 of the accounts.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it with respect to changes in economic conditions and the strategic objectives of the Group. The Group have set a minimum leverage target of one times net debt to EBITDA and are working towards achieving this. Further detail is provided in the Financial review on pages 28 and 30.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital. 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 operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational 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 2012 the Group did not see 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 and borrowings. The US private placement loan notes, which comprise 93% of borrowings, are at fixed interest rates and bank debt, which comprises 7% of borrowings, are at floating interest rates. At 30 September 2012, the Group had £61.6m of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate. At 30 September 2012, the Group's principal borrowings comprised US private placement loan notes of £185.8m (2011: £192.6m), which have an average fixed interest rate of 4.58% and bank debt of £15.0m (2011: £nil), which has an average floating interest rate of 1.73%.

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, which would be hedged where appropriate.

The Group's US Dollar denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US. The foreign exchange movements on translation of the borrowings into Sterling have been recognised in the translation reserve.

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 2012, these exposures were immaterial to the Group.

By Order of the Board

M J Robinson, Secretary
5 December 2012

Dear fellow shareholder

It is my pleasure to present this year's Remuneration Report for the year ended 30 September 2012.

Remuneration overview

As stated in last year's report, during the year the Remuneration Committee commissioned a review of the short and long-term incentive arrangements, 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.

In addition, during the year management reviewed and realigned the strategy of the business to accelerate organic revenue growth, drive margins and improve EPS performance. This strategy was articulated at the Investor Day held in July 2012.

I was delighted to be able to engage with many of our major investors and representative bodies on the incentive changes proposed by the Remuneration Committee in response to these strategic aims.

Following the extensive consultation, we have made a number of changes to our remuneration framework to further align with the Group's strategic objectives.

Key changes to the operation of the bonus plan for 2012/13 onwards are:

- Introduction of strategic performance measures.
- Simplification and extended scope of our deferral policy.

Key changes to the operation of the Performance Share Plan for 2012/13 onwards are:

- Introduction of an organic revenue growth performance measure and simplification of the measurement approach in respect of the EPS and TSR performance measures.
- Reduction of the level of award that will be available for stretch performance (i.e. the level of vesting for meeting targets consistent with the level of stretch under our 2011 framework) from 210% to 200%. Introduction of an additional 50% of base salary to reward exceptional performance (i.e. for exceptional performance, the maximum award would be 250% of base salary; this would remain within the overall Plan limit of 300% of base salary).

We have also extended our shareholding guideline policy to all members of our Executive Committee. Further details of the proposed changes are set out on page 66.

Remuneration for 2011/12

For the year ending 30 September 2012, underlying pre-tax profit increased by 4%, organic revenue growth was 2% and the profit underpin for annual bonus purposes was achieved; this resulted in annual bonus payments of between 26% and 30% of base salary for the executive directors.

Performance share awards granted in 2010 are primarily based on EPS targets; these targets were not met during the year and therefore no part of the awards will vest in March 2013.

Remuneration disclosure

We are committed to maintaining an open dialogue with shareholders.

We have made a number of improvements to the Remuneration Report this year and have sought to make our disclosure more transparent. Notably we have added a single figure of remuneration for each executive director.

I hope that you find the report clear and informative.

Ruth Markland
Chairman of the Remuneration Committee

Ruth Markland

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.

The current members of the Remuneration Committee are Ms R Markland (Chair), Ms T Ingram, Mr I Mason, Mr M E Rolfe and Mr D H Brydon. Mr A J Hobson was a member of the Committee during the year until 1 September 2012 when he ceased to be a director. All current members of the Committee have been members throughout the year except for Mr D H Brydon who was appointed on 6 July 2012 and succeeded Mr A J Hobson as Company Chairman on 1 September 2012.

The Committee advises the Board on remuneration policy, and defines remuneration packages for executive directors, the Chairman and other members of senior management. The Committee's terms of reference are reviewed every year and are available on request from the Company 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 and in the development of the Company's incentive arrangements. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. During the 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 Human Resources Director), Ms R Fyffe (Director of Performance and Reward) and Mr M J Robinson (Company Secretary) and other members of management, who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed. The Company Chairman does not participate in discussions relating to his own remuneration. The Committee met eight times during the year. Attendance is detailed on page 54.

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 line with 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, 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 and a strong alignment of interest with shareholders.

The chart below illustrates the anticipated mix between each element of pay for executive directors under Sage's remuneration policy from 2013.

Reflecting our pay for performance policy, bonus and share awards are linked to performance conditions with pre-determined thresholds. No payment is made below threshold levels of performance and over 70% of total compensation value is delivered through performance-related incentives at stretch levels of performance.

Table 1 – Executive director compensation summary

Component	Alignment with strategy/purpose	Operation for 2011/12	Operation for 2012/13
Base salary	Set at an appropriate level for the role and skills of the individual. Reviewed by reference to companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30). Pay decisions are made in the context of corporate and individual performance and pay increases for employees throughout the Group, and any increases apply from January.	Increased by 1.5%-3% in line with the wider employee population to: • CEO: £711,000 • CFO: £437,750	Increased by 1.5% in line with the wider employee population to: • CEO: £721,750 • CFO: £444,500
Annual bonus	Designed to reward performance against pre-determined financial and quantifiable metrics that demonstrate the delivery of the business strategy.	Maximum of 125% of base salary (target 75%) Performance measures: • 55% profitability (PBTA) • 45% organic revenue growth (with PBTA underpin) for the CEO and the CFO.	No changes to incentive opportunity. Performance measures: • 50% profitability (PBTA) • 30% organic revenue growth with PBTA underpin • 20% strategic measures
Bonus deferral	Strengthens the link between short-term decision making and reward with long-term value creation. Supports shareholding requirements.	Executive directors must defer up to 25% of any bonus in excess of 75% of base salary into shares if they have not achieved the target shareholding guideline of 150% of base salary.	20% of any bonus will be deferred until the executive meets the target shareholding guideline.
Performance share plan	Establishes a motivational and performance-orientated structure that focuses on the creation of shareholder value, through the delivery of strong financial and market performance aligned with the long-term business strategy.	Overall individual limit: 300% of base salary. Core award of up to 140% of base salary depending on EPS growth in excess of RPI. Award potentially increased to up to 210% of base salary for upper quartile TSR performance against a comparator group of industry peers.	Performance assessed against three independently measured metrics: • 1/3 organic revenue growth with a margin underpin • 1/3 EPS growth • 1/3 relative TSR performance against the FTSE 100 (excluding financial services and extraction companies) Up to 200% of base salary available for stretch performance (reduced from 210%). An additional 50% of base salary (i.e. overall award of up to 250% of base salary) will be available for the achievement of exceptional targets.
Pension	Provides a competitive retirement benefit, in a way that manages the overall cost to the Company.	All the executive directors' pension arrangements are defined contribution, with a contribution rate of 25% of base salary. Individuals may elect to receive a portion of their pension contribution as a cash allowance.	
Benefits	Provides a competitive and cost-effective benefits package appropriate to the role and location.	Directors are entitled to a car benefit (or cash equivalent), private medical insurance, permanent health insurance, and life assurance.	

Base salary increases in line with the wider workforce

In considering any potential salary increases, the Committee takes full account of proposed pay increases for employees throughout the Group. Accordingly, executive directors will receive salary increases of 1.5% from January 2013; this is a similar level of increase as was awarded for 2012 and reflects the level of salary budget increases in our key employment markets. The salary levels for 2012/13 are £721,750 for the CEO and £444,500 for the CFO.

Annual bonus outcome for 2012

The bonus structure is summarised in table 1 on page 66. The Committee considered the level of performance achieved against targets set at the start of the year. Performance was between threshold and target. The bonus paid to each director is shown in the table on page 70.

Simplified bonus deferral policy

As highlighted in table 1 on page 66, we have simplified our deferral policy so that from 2013, 20% of any annual bonus will be deferred into 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 better aligned with our strategy

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 is summarised in table 1 on page 66. Further details on performance conditions and targets for 2012 and 2013 are provided below.

Policy for 2012 and prior years

As outlined in table 1 on page 66, for awards made in 2012, 25% of the core 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 in between.

Awards are then subject to a Total Shareholder Return ("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). The multiplier is:

- 0.75 if Sage's TSR is ranked at lower quartile and below;
- 1 if Sage's TSR is ranked at median; and
- 1.5 if Sage's TSR is ranked at upper quartile or above.

Performance in between these points is calculated on a straight-line basis.

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 Committee considers this to be consistent with the presentation and assessment of results to shareholders.

The comparator group for awards made in the year to 30 September 2012 for TSR purposes comprised the following companies:

Adobe Systems	Exact	Oracle
ARM Holdings	Intuit	Salesforce.com
Blackbaud	Logica	SAP
Cap Gemini	Micro Focus International	Software AG
Cegid	International	
Dassault Systèmes	Microsoft	

TSR is calculated in local currency.

EPS growth in respect of share awards granted in 2010 was 12.3%, and therefore 0% of the awards will vest in March 2013.

Policy for 2013

As summarised in table 1 on page 66, we have amended the measures and targets under our PSP and performance for each measure will be assessed independently and account for vesting of up to one-third of the total award:

- **Organic revenue growth (with margin underpin)** We have introduced an organic revenue growth measure to further align the remuneration policy with our strategy.
- **EPS growth** We have removed RPI from the EPS measurement approach recognising that Sage is an international business therefore the link to UK RPI is less relevant.
- **TSR against the FTSE 100 (excluding financial services and extraction companies)** TSR is considered to be a key measure of performance for a number of our shareholders. Measurement against the FTSE 100 (excluding financial services and extraction companies) recognises the difficulty in defining an appropriate sector TSR peer group of sufficient size.

The performance targets for awards to be made in 2013 are as follows:

	Performance targets	
Measure	**Between target and stretch**	**Between stretch and exceptional**
Compound EPS growth	Between 6% and 12%	Between 12% and 15% (or above)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)
Compound Organic Revenue Growth	Between 4% and 8%	Between 8% and 10% (or above)
% of base salary vesting in respect of each performance measure	Pro-rata on a straight-line basis between 16.7% and 66.7% of base salary	Additional pro-rata between 0% and 16.7% of base salary
Overall % of base salary receivable	50% of base salary if all targets met; 200% if all stretch targets are met	250% of base salary if all exceptional targets are met

Pension

All the executive directors' pension arrangements are defined contribution, with a standard contribution rate of 25% of base salary 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.

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, and will next be reviewed in 2013. No changes to the fee levels and structure were made in 2012.

Non-executive director	Fees
Basic fee	£55,000
Chairman of the Audit Committee	£17,000
Chairman of the Remuneration Committee	£13,000
Senior Independent Director	£10,000

Mr D H Brydon was appointed to the Board on 6 July 2012 and received the same basic fee (pro-rata) as other non-executive directors until his appointment as Chairman on 1 September 2012. The Chairman's fees have been set at £360,000 per annum and have been fixed for five years.

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 held units granted under the Sage Plan d'Epargne d'Entreprise ("PEE"), which is an all-employee plan designed to enable French employees to invest in 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. In addition to the bonus deferral arrangements described above, 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.

During the year we have extended these shareholding guidelines to key management below the main board, to align further the interests of management with those of shareholders.

The table below summarises the executive directors' shareholdings as at 30 September 2012:

Executive director	Total owned	Shareholding requirements met?
G S Berruyer	663,360	Yes
P S Harrison	278,277	Yes

Service contracts

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).

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.

The appointment of the non-executives is for a fixed term of three years, during which period the appointment may be terminated by the Board on notice of six months, with the exception of Mr D H Brydon whose term is fixed for five years subject to notice of termination of six months.

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. 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 2012, 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	0 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
Non-executive directors			
D H Brydon	6 July 2012	5 years	6 months from the Company and/or individual
A J Hobson	30 September 2010	0 months	12 months from the Company and/or individual
T Ingram	25 November 2010	1 year	6 months from the Company and/or 1 month from individual
R Markland	10 September 2012	3 years	6 months from the Company and/or 1 month from individual
I Mason	30 September 2010	1 year	6 months from the Company and/or 1 month from individual
M E Rolfe	25 November 2010	1 year	6 months from the Company and/or 1 month from individual

Notes:

- D H Clayton ceased to be a director on 29 February 2012 and his contract of employment ended on 30 June 2012.
- A J Hobson ceased to be a director on 1 September 2012 and his contract for services ended on 30 September 2012.
- There are no other benefits in the contracts relevant to termination payments.

Single figure of total remuneration for 2012

The table below provides a single figure of total remuneration for 2012 for executive directors.

Element of remuneration	G S Berruyer £'000	P S Harrison £'000
Base salary[1]	708	435
Benefits[2]	125	20
Pension[3]	177	109
Bonus[4]	186	114
Long-term incentives[5]	–	–
Total	1,196	678

1 Salary and fees: cash paid in respect of the year.
2 Benefits: taxable value of all benefits in respect of the year.
3 Pensions: cash value of defined contributions.
4 Bonus: bonus payable in respect of the financial year including any deferred element at face value at date of award.
5 Long-term incentives: estimated value of PSP vesting for the cycle ending 30 September 2012 which will vest in March 2013.

Executive changes

A J Hobson and D H Clayton

Mr A J Hobson stepped down as Chairman on 1 September 2012 and, to ensure a smooth handover, was paid until 30 September 2012. He received no further compensation.

As announced on 15 December 2011, Mr D H Clayton stepped down from the Board as Director of Strategy and Corporate Development at the AGM in February 2012, although he continued to work in an executive capacity for the Group until his employment with the Group ceased on 30 June 2012. Mr D H Clayton'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 D H Clayton ceased with effect from 30 June 2012 when his employment ended.

Mr D H Clayton received a bonus in respect of 2012 as set out in the table of emoluments. The payment was based on performance measures established at the start of the year and was pro-rata to his last date of employment. The PSP awards made in March 2010 and March 2011 will lapse entirely. The performance targets for PSP awards made in March 2009 were partially met and Mr D H Clayton received vested awards in March 2012 as shown on page 73.

External appointments

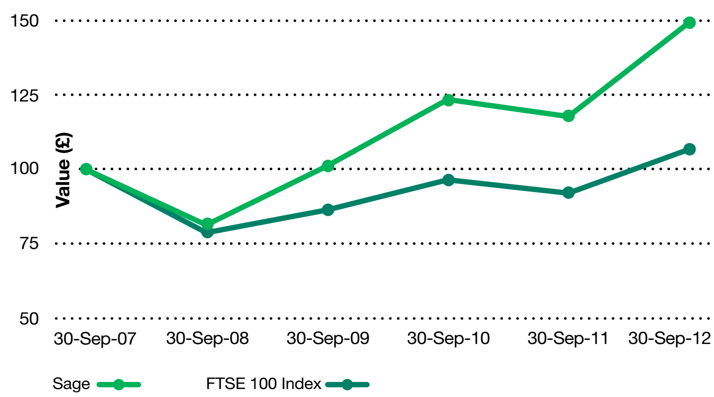
Executive directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Mr P S Harrison is a non-executive and the Senior Independent Director of Hays plc. Fees received by the directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. In the year under review, these fees were £66,480 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.



Source: Kepler Associates

This graph shows the value, by 30 September 2012, of £100 invested in The Sage Group plc on 30 September 2007 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

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 65.

Director	Salary and fees £'000	Bonus £'000	Bonus deferred into shares[1] £'000	Benefits in kind £'000	2012 Total £'000	2011 Total £'000	2012 Pension contributions[2] £'000	2011 Pension contributions £'000
Executive directors								
G S Berruyer	**708**	**186**	**–**	**125**	**1,019**	1,395	**177**	175
D H Clayton	**268**	**81**	**–**	**13**	**362**	668	**67**	89
P S Harrison	**435**	**114**	**–**	**20**	**569**	791	**109**	106
Non-executive directors								
A J Hobson	**270**	**–**	**–**	**–**	**270**	270	**–**	–
D H Brydon	**38**	**–**	**–**	**–**	**38**	–	**–**	–
T Ingram	**55**	**–**	**–**	**–**	**55**	55	**–**	–
R Markland	**78**	**–**	**–**	**–**	**78**	74	**–**	–
I Mason	**55**	**–**	**–**	**–**	**55**	55	**–**	–
M E Rolfe	**72**	**–**	**–**	**–**	**72**	72	**–**	–

Notes:

1 No part of bonus was deferred into shares in respect of 2012.

2 Pension contributions were accruing to three directors (2011: 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 £2,518,000 (2011: £4,245,000).
- 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 £1,019,000 (2011: £1,395,000).

Directors' share awards (audited information)

There are limits on the number of newly issued and treasury 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 29 November 2012 (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	4.83%
10% of Group's share capital can be used for all share schemes	5.54%

The Company has previously satisfied all awards under the Performance Share Plan through the market purchase of shares or transfer of treasury shares and will continue to consider which is the most appropriate approach, based on the relevant factors at the time.

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 2011 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2012 number**	Date exercisable
G S Berruyer	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
		549,158	**–**	**–**	**–**	**549,158**	
P S Harrison	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
		408,593	**–**	**–**	**–**	**408,593**	
Total		**957,751**	**–**	**–**	**–**	**957,751**	

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 28 September 2012 was 313.40p and the lowest and highest market price during the year was 247.70p and 324.80p respectively.

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 2011 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2012 number**	Date exercisable
P S Harrison	149.00p	6,140	–	(6,140)	–	**–**	1 August 2012 – 31 January 2013
	201.00p	–	4,477	–	–	**4,477**	1 August 2015 – 31 January 2016
Total		6,140	**4,477**	**(6,140)**	**–**	**4,477**	

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 referred to in the paragraph headed "All-employee share schemes" above, Mr Berruyer held units in a French mutual fund which holds, inter-alia shares in the Company. The units must be held for no less than 5 years (except in limited circumstances). Having ceased to be employed in France 10,234 units and 4,755 units in the fund were realised on Mr Berruyer's behalf on 20 February 2012 and 6 March 2012 at values of 4.39 and 4.37 Euros per unit respectively.

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 2011 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Awarded 30 September 2012 number**	Vesting date
G S Berruyer	745,649	–	(457,037)	(288,612)	**–**	8 March 2012
	507,280	–	–	–	**507,280**	4 March 2013
	737,795	–	–	–	**737,795**	10 March 2014
	–	476,062	–	–	**476,062**	12 March 2015
	1,990,724	**476,062**	**(457,037)**	**(288,612)**	**1,721,137**	
D H Clayton	438,282	–	(268,637)	(169,645)	**–**	8 March 2012
	303,593	–	–	(303,593)	**–**	4 March 2013
	264,053	–	–	(264,053)	**–**	10 March 2014
	1,005,928	**–**	**(268,637)**	**(737,291)**	**–**	
P S Harrison	438,282	–	(268,637)	(169,645)	**–**	8 March 2012
	325,278	–	–	–	**325,278**	4 March 2013
	314,349	–	–	–	**314,349**	10 March 2014
	–	293,103	–	–	**293,103**	12 March 2015
	1,077,909	**293,103**	**(268,637)**	**(169,645)**	**932,730**	
Total	**4,074,561**	**769,165**	**(994,311)**	**(1,195,548)**	**2,653,867**	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 12 March 2012, the date of the awards made in the year ended 30 September 2012 was 297.90p.
- The market price of a share on 8 March 2012, the date the above awards vested in the year ended 30 September 2012 was 298.60p. The market price of a share on 3 March 2009, the date on which these awards were granted was 162.10p.
- The vesting of awards granted 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 on page 67.
- Mr D H Clayton ceased to be a director of the company on 29 February 2012.
- For awards made in 2009, TSR performance was such that 56% 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	Shares at 1 October 2011 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	**Shares at 30 September 2012 number**	Vesting date
G S Berruyer	12,716	–	(12,716)	–	**–**	10 December 2011
	12,404	–	–	–	**12,404**	10 January 2014
	25,120	**–**	**(12,716)**	**–**	**12,404**	
D H Clayton	9,062	–	–	(9,062)	**–**	10 January 2014
	–	2,186	–	(2,186)	**–**	12 December 2014
	9,062	**2,186**	**–**	**(11,248)**	**–**	
P S Harrison	9,709	–	–	–	**9,709**	10 January 2014
	–	2,602	–	–	**2,602**	12 December 2014
	9,709	**2,602**	**–**	**–**	**12,311**	
Total	**43,891**	**4,788**	**(12,716)**	**(11,248)**	**24,715**	

Notes:

- Awards of shares will vest on the third anniversary of the date of grant. In the event that a director ceases to be an employee of the Group for reasons other than death, retirement, redundancy, injury, ill-health or disability before the third anniversary of the date of grant then the rights to the award will lapse, unless the Remuneration Committee recommend otherwise.
- Awards are not subject to further performance conditions once granted.
- No variations were made in the terms of the awards in the year.
- Mr D H Clayton ceased to be a director of the company on 29 February 2012.
- The market price of a share on 9 December 2011, the date before awards above vested in the year ended 30 September 2012 was 286.60p. The market price of a share on 10 December 2008, the date on which these awards were granted was 178.70p.

Interests in shares

The interests of each person who was a director of the Company as at 30 September 2012 (together with interests held by his or her connected persons) were:

Director	**Ordinary shares at 30 September 2012 number**	Ordinary shares at 30 September 2011 number
G S Berruyer	**663,360**	411,289
P S Harrison	**278,277**	143,145
D Brydon	**40,000**	–
T Ingram	**3,600**	3,600
R Markland	**5,000**	5,000
I Mason	**10,000**	10,000
M E Rolfe	**10,000**	10,000
Total	**1,010,237**	583,034

Notes:

- There have been no changes in the directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2012 and the date of this report.

Significant awards to past directors

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

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

R Markland
Chairman of the Remuneration Committee
5 December 2012

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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 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors’ responsibilities set out on page 62 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 & Accounts 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 2012 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 matters 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 49 to 59 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 60 in relation to going concern;
- 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; and
- certain elements of the report to shareholders by the Board on directors’ remuneration.

Other matters

We have reported separately on the parent Company financial statements of The Sage Group plc for the year ended 30 September 2012 and on the information in the Remuneration report that is described as having been audited.

The maintenance and integrity of The Sage Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Charles Bowman

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

5 December 2012

Consolidated income statement

For the year ended 30 September 2012

	Note	2012 £m	2011 £m
Revenue	1.1	**1,340.2**	1,334.1
Cost of sales		**(84.3)**	(85.6)
Gross profit		**1,255.9**	1,248.5
Selling and administrative expenses		**(911.0)**	(905.2)
Operating profit	1.2, 2.1	**344.9**	343.3
Finance income	2.3	**2.6**	1.9
Finance costs	2.3	**(13.2)**	(14.4)
Finance costs – net	2.3	**(10.6)**	(12.5)
Profit before income tax		**334.3**	330.8
Income tax expense	3	**(95.4)**	(74.8)
Profit for the year from continuing operations		**238.9**	256.0
Profit/(loss) for the year from discontinued operations	15.2	**57.8**	(67.0)
Profit for the year		**296.7**	189.0
Profit attributable to:			
– Owners of the parent	14.5	**296.6**	189.0
– Non-controlling interest	14.6	**0.1**	–
		296.7	189.0
EBITA†	1.2	**366.4**	365.5
Earnings per share attributable to the owners of the parent (pence)			
From continuing operations			
– Basic	4.1	**18.63p**	19.44p
– Diluted	4.1	**18.60p**	19.29p
From continuing and discontinued operations			
– Basic	4.1	**23.14p**	14.35p
– Diluted	4.1	**23.10p**	14.24p

† EBITA measure (Earnings before interest, tax and adjustments) excludes the effects of:

- amortisation of acquired intangible assets;
- amortisation of software development expenditure; and
- acquisition-related items.

Consolidated statement of comprehensive income

For the year ended 30 September 2012

	Note	2012 £m	2011 £m
Profit for the year		**296.7**	189.0
Other comprehensive (expense)/income:			
Exchange differences on translating foreign operations	14.4	**(66.6)**	6.5
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	14.4	**(55.7)**	–
Actuarial (loss)/gain on post-employment benefit obligations	14.5	**(2.6)**	1.0
Deferred tax credit on actuarial loss on post-employment benefit obligations	3	**1.0**	–
Cash flow hedges	14.4	**–**	1.0
Other comprehensive (expense)/income for the year, net of tax		**(123.9)**	8.5
Total comprehensive income for the year		**172.8**	197.5
Total comprehensive income for the year attributable to:			
– Owners of the parent		**172.7**	197.5
– Non-controlling interest	14.6	**0.1**	–
		172.8	197.5
Total comprehensive income/(expense) attributable to owners of the parent arising from:			
– Continuing operations		**170.6**	264.5
– Discontinued operations		**2.1**	(67.0)
		172.7	197.5

Consolidated balance sheet

As at 30 September 2012

	Note	2012 £m	2011 £m
Non-current assets			
Goodwill	5.1	**1,814.4**	1,736.3
Other intangible assets	5.2	**139.8**	118.1
Property, plant and equipment	6	**142.2**	146.4
Deferred income tax assets	9	**10.0**	20.7
		2,106.4	2,021.5
Current assets			
Inventories	7.1	**2.5**	2.5
Trade and other receivables	7.2	**302.8**	285.4
Cash and cash equivalents (excluding bank overdrafts)	12.3	**61.6**	182.8
		366.9	470.7
Non-current assets classified as held for sale	15.4	**–**	251.1
Total assets		**2,473.3**	2,743.3
Current liabilities			
Trade and other payables	7.3	**(259.0)**	(261.2)
Current income tax liabilities		**(29.7)**	(47.4)
Borrowings	12.4	**(8.4)**	(1.7)
Other financial liabilities	13.5	**(60.0)**	(50.0)
Deferred consideration		**(10.0)**	(2.0)
Deferred income	7.4	**(420.3)**	(404.7)
		(787.4)	(767.0)
Liabilities directly associated with non-current assets classified as held for sale	15.4	**–**	(49.7)
Non-current liabilities			
Borrowings	12.4	**(200.8)**	(192.4)
Other financial liabilities	13.5	**(68.3)**	–
Post-employment benefits	8	**(14.3)**	(11.7)
Deferred income tax liabilities	9	**(29.5)**	(14.7)
		(312.9)	(218.8)
Total liabilities		**(1,100.3)**	(1,035.5)
Net assets		**1,373.0**	1,707.8
Equity attributable to owners of the parent			
Ordinary shares	14.1	**13.3**	13.2
Share premium	14.3	**524.5**	513.2
Other reserves	14.4	**76.5**	266.8
Retained earnings	14.5	**760.8**	914.6
		1,375.1	1,707.8
Non-controlling interest	14.6	**(2.1)**	–
Total equity		**1,373.0**	1,707.8

The consolidated financial statements on pages 76 to 123 were approved by the Board of directors on 5 December 2012 and are signed on their behalf by:

G S Berruyer
Director

P S Harrison
Director

Consolidated statement of changes in equity

For the year ended 30 September 2012

	Attributable to owners of the parent						
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 October 2011	**13.2**	**513.2**	**266.8**	**914.6**	**1,707.8**	**–**	**1,707.8**
Profit for the year	**–**	**–**	**–**	**296.6**	**296.6**	**0.1**	**296.7**
Other comprehensive (expense)/income:							
Exchange differences on translating foreign operations	**–**	**–**	**(66.6)**	**–**	**(66.6)**	**–**	**(66.6)**
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	**–**	**–**	**(55.7)**	**–**	**(55.7)**	**–**	**(55.7)**
Actuarial loss on post-employment benefit obligations	**–**	**–**	**–**	**(2.6)**	**(2.6)**	**–**	**(2.6)**
Deferred tax credit on actuarial loss on post-employment benefit obligations	**–**	**–**	**–**	**1.0**	**1.0**	**–**	**1.0**
Total comprehensive (expense)/income for the year ended 30 September 2012	**–**	**–**	**(122.3)**	**295.0**	**172.7**	**0.1**	**172.8**
Transactions with owners:							
Employee share option scheme:							
– Proceeds from shares issued	**0.1**	**11.3**	**–**	**–**	**11.4**	**–**	**11.4**
– Value of employee services	**–**	**–**	**–**	**1.2**	**1.2**	**–**	**1.2**
– Equity movement of deferred income tax	**–**	**–**	**–**	**(1.7)**	**(1.7)**	**–**	**(1.7)**
Purchase of treasury shares	**–**	**–**	**–**	**(299.8)**	**(299.8)**	**–**	**(299.8)**
Expenses related to purchase of treasury shares	**–**	**–**	**–**	**(2.0)**	**(2.0)**	**–**	**(2.0)**
Close period share buyback programme	**–**	**–**	**–**	**(10.0)**	**(10.0)**	**–**	**(10.0)**
Put and call arrangement	**–**	**–**	**(68.0)**	**–**	**(68.0)**	**–**	**(68.0)**
Non-controlling interest arising on business combination	**–**	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(136.5)**	**(136.5)**	**–**	**(136.5)**
Total transactions with owners for the year ended 30 September 2012	**0.1**	**11.3**	**(68.0)**	**(448.8)**	**(505.4)**	**(2.2)**	**(507.6)**
At 30 September 2012	**13.3**	**524.5**	**76.5**	**760.8**	**1,375.1**	**(2.1)**	**1,373.0**

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

Consolidated statement of cash flows

For the year ended 30 September 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	**383.8**	405.1
Interest paid		**(11.5)**	(13.0)
Income tax paid		**(95.2)**	(92.5)
Operating cash flows (used in)/generated from discontinued operations	15.3	**(2.3)**	15.4
Net cash generated from operating activities		**274.8**	315.0
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.1	**(162.8)**	(1.4)
Disposal of subsidiaries, net of cash disposed	16.6	**0.1**	2.0
Purchases of intangible assets	5.2	**(10.8)**	(9.3)
Purchases of property, plant and equipment	6	**(19.3)**	(23.0)
Proceeds from sale of property, plant and equipment		**0.6**	2.4
Interest received	2.3	**2.6**	1.9
Investing cash flows generated from discontinued operations, net of cash disposed	16.5	**198.9**	–
Net cash generated from/(used in) investing activities		**9.3**	(27.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**11.4**	13.4
Purchase of treasury shares and related expenses		**(297.5)**	–
Finance lease principal payments		**(0.7)**	(0.6)
Proceeds from borrowings		**15.3**	0.6
Repayments of borrowings		**(0.7)**	(83.4)
Dividends paid to owners of the parent	4.2	**(136.5)**	(104.0)
Net cash used in financing activities		**(408.7)**	(174.0)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)	12.2	**(124.6)**	113.6
Effects of exchange rate movement	12.2	**(3.0)**	(2.2)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(127.6)**	111.4
Cash, cash equivalents and bank overdrafts at 1 October	12.2	**182.0**	70.6
Cash, cash equivalents and bank overdrafts at 30 September	12.2	**54.4**	182.0

Notes to the Group financial statements

Group accounting policies

General information

The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is a leading global provider of business management software to small and medium sized companies. The Group has over six million customers and more than 13,500 employees in 24 countries covering Europe, Americas, Africa, Australia, Middle East 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 5 December 2012.

a Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and International Financial Reporting Standards Interpretations Committee ("IFRIC") interpretations as adopted by the EU. The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note B.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the consolidated financial statements have been prepared on a going concern basis and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Standards, amendments and interpretations effective in 2012

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

IFRIC interpretations

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

Amendments to existing standards

- Annual Improvements to IFRSs 2010
- amendment to IFRS 1, "First-time Adoption of IFRS"
- amendment to IFRS 7, "Financial Instruments: Disclosures"
- amendment to IAS 24 (revised 2011), "Related Party Disclosures"

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Where the Group enters into put and call arrangements over shares held by a non-controlling interest, the Group continues to recognise the non-controlling interest until the ownership risks and rewards of those shares transfer to the Group.

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.

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. 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.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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 Consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the Consolidated 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 items are expensed as incurred.

d 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,

d Segment reporting continued

post-employment 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 adjustments ("EBITA") which excludes the effects of amortisation of acquired intangible assets, the amortisation of software development expenditure and acquisition-related items on a constant currency basis. The operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting. At 30 September 2012 the Group was organised into geographical segments based on the location of assets.

e 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.

Subscription – 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;
- 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 to the Group; 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.

f 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 Consolidated 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).

g Impairment of assets

Goodwill is allocated to CGUs for the purposes of impairment testing. The recoverable amount of the CGU 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 CGU 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 CGUs 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 CGU or asset that have not already been included in the estimate of future cash flows.

h 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.

i 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.

j 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.

k 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.

l 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.

m Cash and cash equivalents

For the purpose of preparation of the Consolidated statement of cash flows and the Consolidated 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.

n Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and 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.

o 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 p) and cash and cash equivalents in the balance sheet (note m).

p 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.

q Income tax

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 Consolidated 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

q Income tax continued

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.

r Financial liabilities

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 manage exposures where appropriate. 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 the underlying 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 underlying exposures. 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 closed out, 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.

Put and call arrangement granted to non-controlling interest

Where put and call agreements are in place in respect of shares held by a non-controlling interest, the put element of the liability is measured in accordance with the requirements of IAS 32, "Financial Instruments: Presentation". At the end of each period, the valuation of the liability is reassessed with any changes recognised in the income statement.

s 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 settlements 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 other comprehensive income are recycled 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".

t 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 Consolidated income statement over the period of borrowing on an effective interest basis.

u 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.

v Post-employment benefits

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 post-employment 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 post-employment 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.

w 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.

x Dividends

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

y 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.

z Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

A 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"

Amendments to existing standards

- amendment to IFRS 1, "First-time Adoption of IFRS"
- amendment to IFRS 7, "Financial Instruments: Disclosures"
- amendments to IFRS 10, 11 and 12 on transition guidance
- amendment to IAS 1, "Presentation of Financial Statements"
- amendment to IAS 12, "Income Taxes"
- amendment to IAS 19, "Employee Benefits"
- amendment to IAS 32, "Financial Instruments: Presentation"
- Annual improvements to IFRSs 2011

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 amendments to IAS 19 and IAS 1 are the only amendments endorsed by the EU at the date of approval of these consolidated financial statements. The other new and amended standards are not yet endorsed.

B 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.

Results for the year

1 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker as the Committee is responsible for the allocation of resources to operating segments and assessing their performance. The profit measure used by the Executive Committee is Earnings before interest, tax and adjustments ("EBITA") which excludes the effects of amortisation of acquired intangible assets, the amortisation of software development expenditure and acquisition-related items on a constant currency basis. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The North America operating segment has been renamed to Americas. For the year ended 30 September 2012 this includes operations in Brazil which have arisen from acquisitions made during the year (note 16).

The Group is organised into three operating segments. The UK is the home country of the parent. The main operations in the principal territories are as follows:

- Europe (France, UK & Ireland, Spain, Germany, Switzerland, Poland and Portugal)
- Americas (US, Brazil and Canada)
- AAMEA (Africa, Australia, Middle East and Asia)

The Africa operations are principally based in South Africa, the Middle East and Asia operations are principally based in Singapore, Malaysia, UAE and India. The revenue analysis in the table below is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

The tables below show a segmental analysis of the results for continuing operations. For information relating to discontinued operations refer to note 15.

1.1 Revenue by segment

	Year ended 30 September 2012			Year ended 30 September 2011					Change		
	IFRS statutory £m	**Organic revenue adjustment[1] £m**	**Non-GAAP organic £m**	IFRS statutory £m	Currency impact[2] £m	Underlying at constant currency £m	Organic revenue adjustment[1] £m	Non-GAAP organic constant currency £m	IFRS statutory %	Underlying at constant currency %	Non-GAAP organic constant currency %
Subscription revenue by segment											
Europe	**516.1**	**(5.1)**	**511.0**	500.9	(16.0)	484.9	–	484.9	3%	6%	5%
Americas	**324.2**	**(23.0)**	**301.2**	299.7	3.8	303.5	(14.7)	288.8	8%	7%	4%
AAMEA	**82.4**	**(0.1)**	**82.3**	75.9	(4.3)	71.6	(0.3)	71.3	9%	15%	15%
Subscription revenue	**922.7**	**(28.2)**	**894.5**	876.5	(16.5)	860.0	(15.0)	845.0	5%	7%	6%
Software and software-related services ("SSRS") revenue by segment											
Europe	**259.7**	**–**	**259.7**	294.8	(14.6)	280.2	–	280.2	-12%	-7%	-7%
Americas	**87.5**	**(9.3)**	**78.2**	91.2	1.1	92.3	(9.1)	83.2	-4%	-5%	-6%
AAMEA	**70.3**	**(0.5)**	**69.8**	71.6	(5.0)	66.6	(1.8)	64.8	-2%	6%	8%
SSRS revenue	**417.5**	**(9.8)**	**407.7**	457.6	(18.5)	439.1	(10.9)	428.2	-9%	-5%	-5%
Total revenue by segment											
Europe	**775.8**	**(5.1)**	**770.7**	795.7	(30.6)	765.1	–	765.1	-3%	1%	1%
Americas	**411.7**	**(32.3)**	**379.4**	390.9	4.9	395.8	(23.8)	372.0	5%	4%	2%
AAMEA	**152.7**	**(0.6)**	**152.1**	147.5	(9.3)	138.2	(2.1)	136.1	4%	10%	12%
Total revenue	**1,340.2**	**(38.0)**	**1,302.2**	1,334.1	(35.0)	1,299.1	(25.9)	1,273.2	0%	3%	2%

1 Organic revenue adjustment includes the contributions of current and prior year acquisitions, disposals and non-core products.

2 Foreign currency results for the prior year ended 30 September 2011 have been retranslated based on the average exchange rates for the year ended 30 September 2012 of $1.58/£1 and €1.22/£1 to facilitate the comparison of results.

1 Segment information continued

1.2 Profit by segment

	Year ended 30 September 2012			Year ended 30 September 2011					Change		
	IFRS statutory operating profit £m	**Adjustment[1] £m**	**Non-GAAP EBITA £m**	IFRS statutory operating profit £m	Adjustment[1] £m	Non-GAAP EBITA reported £m	Currency impact[2] £m	Underlying Non-GAAP EBITA constant currency £m	IFRS statutory operating profit %	Non-GAAP EBITA reported %	Underlying Non-GAAP EBITA constant currency %
Profit by segment											
Europe	**207.8**	**11.3**	**219.1**	213.7	15.6	229.3	(8.4)	220.9	-3%	-4%	-1%
Americas	**96.8**	**9.3**	**106.1**	94.2	5.5	99.7	1.2	100.9	3%	6%	5%
AAMEA	**40.3**	**0.9**	**41.2**	35.4	1.1	36.5	(2.3)	34.2	14%	13%	20%
Total profit	**344.9**	**21.5**	**366.4**	343.3	22.2	365.5	(9.5)	356.0	0%	0%	3%

1 Adjustment includes the effects of amortisation of acquired intangible assets, amortisation of software development expenditure and acquisition-related items.

2 Foreign currency results for the prior year ended 30 September 2011 have been retranslated based on the average exchange rates for the year ended 30 September 2012 of $1.58/£1 and €1.22/£1 to facilitate the comparison of results.

Year ended 30 September 2012	Note	**Europe £m**	**Americas £m**	**AAMEA £m**	**Group £m**
The results by segment from continuing operations were as follows:					
Revenue		**775.8**	**411.7**	**152.7**	**1,340.2**
Segment operating profit		**207.8**	**96.8**	**40.3**	**344.9**
Finance income	2.3				**2.6**
Finance costs	2.3				**(13.2)**
Profit before income tax					**334.3**
Income tax expense	3				**(95.4)**
Profit for the year					**238.9**

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

Reconciliation of Non-GAAP EBITA† to IFRS statutory operating profit				
Non-GAAP EBITA†	**219.1**	**106.1**	**41.2**	**366.4**
Amortisation of acquired intangible assets	**(10.8)**	**(5.4)**	**(0.9)**	**(17.1)**
Acquisition-related items	**(0.5)**	**(3.9)**	**–**	**(4.4)**
Operating profit	**207.8**	**96.8**	**40.3**	**344.9**

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

Year ended 30 September 2011	Note	Europe £m	Americas £m	AAMEA £m	Group £m
The results by segment from continuing operations were as follows:					
Revenue		795.7	390.9	147.5	1,334.1
Segment operating profit		213.7	94.2	35.4	343.3
Finance income	2.3				1.9
Finance costs	2.3				(14.4)
Profit before income tax					330.8
Income tax expense	3				(74.8)
Profit for the year					256.0

Year ended 30 September 2011 Reconciliation of Non-GAAP EBITA† to IFRS statutory operating profit	Europe £m	Americas £m	AAMEA £m	Group £m
Non-GAAP EBITA†	229.3	99.7	36.5	365.5
Amortisation of acquired intangible assets	(15.3)	(5.5)	(0.9)	(21.7)
Amortisation of software development expenditure	(0.1)	–	–	(0.1)
Acquisition-related items	(0.2)	–	(0.2)	(0.4)
Operating profit	213.7	94.2	35.4	343.3

1.3 Assets and liabilities by segment

Year ended 30 September 2012	Note	**Europe £m**	**Americas £m**	**AAMEA £m**	**Group £m**
The assets and liabilities by segment were as follows:					
Segment assets		**1,109.8**	**1,248.8**	**114.7**	**2,473.3**
Segment liabilities		**(502.7)**	**(315.0)**	**(83.4)**	**(901.1)**
Segment net assets		**607.1**	**933.8**	**31.3**	**1,572.2**
Unallocated liabilities					
– Corporate borrowings					**(199.2)**
Total net assets					**1,373.0**
Other segment information by segment was as follows:					
Capital expenditure – property, plant and equipment	6	**11.1**	**5.1**	**3.1**	**19.3**
Capital expenditure – intangible assets	5.2	**5.3**	**5.5**	**–**	**10.8**
Depreciation	6	**13.8**	**5.7**	**2.2**	**21.7**
Amortisation of intangible assets	5.2	**13.1**	**11.6**	**0.9**	**25.6**
Other non-cash expenses – share-based payments	14.2	**1.2**	**(0.2)**	**0.3**	**1.3**

Segment assets include all intangible assets, property, plant and equipment, inventories, trade and other receivables, cash and cash equivalents and tax assets. Segment liabilities comprise mainly trade and other payables, deferred income, post-employment benefit obligations, tax liabilities, financial instruments and certain borrowings that can be attributed to the segment but exclude borrowings that are for general corporate purposes. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Year ended 30 September 2011	Note	Europe £m	Americas £m	AAMEA £m	Group £m
The assets and liabilities by segment were as follows:					
Segment assets		1,261.4	1,111.7	119.1	2,492.2
Segment liabilities		(518.1)	(204.4)	(73.4)	(795.9)
Segment net assets		743.3	907.3	45.7	1,696.3
Unallocated liabilities					
– Non-current assets classified as held for sale	15.4				251.1
– Non-current liabilities classified as held for sale	15.4				(49.7)
– Corporate borrowings					(189.9)
Total net assets					1,707.8
Other segment information by segment was as follows:					
Capital expenditure – property, plant and equipment	6	14.9	8.2	2.4	25.5
Capital expenditure – intangible assets	5.2	2.5	6.8	–	9.3
Depreciation	6	14.0	5.6	2.2	21.8
Amortisation of intangible assets	5.2	17.2	10.0	0.9	28.1
Other non-cash expenses – share-based payments	14.2	2.0	0.8	0.4	3.2

2 Profit before income tax

2.1 Operating profit

The following items have been included in arriving at operating profit	Note	**Continuing operations 2012 £m**	**Discontinued operations 2012 £m**	Continuing operations 2011 £m	Discontinued operations 2011 £m
Staff costs	2.2	**610.0**	**7.2**	611.6	66.7
Cost of inventories recognised as an expense (included in cost of sales)	7.1	**12.0**	**1.5**	12.7	9.0
Depreciation of property, plant and equipment	6	**21.7**	**–**	21.8	0.7
Amortisation of intangible assets (excluding amortisation of development expenditure)	5.2	**25.6**	**–**	28.0	8.7
Amortisation of development expenditure	5.2	**–**	**–**	0.1	–
Loss/(profit) on disposal of property, plant and equipment	12.1	**0.2**	**(0.2)**	2.5	–
Profit on disposal of intangible assets	12.1	**(1.4)**	**–**	(1.3)	–
Other operating lease rentals payable	6	**30.9**	**–**	30.0	1.9
Repairs and maintenance expenditure on property, plant and equipment		**2.1**	**–**	2.3	0.1
Net foreign exchange losses		**0.2**	**–**	0.4	–
Acquisition-related items		**4.4**	**–**	0.4	–
Research and development expenditure		**159.4**	**1.6**	151.9	14.0

Services provided by the Group's auditor and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2012 £m	2011 £m
Fees payable to the Group's auditor for the audit of parent Company and consolidated accounts	**1.9**	2.0
Fees payable to the Group's auditor for audit-related assurance services	**0.1**	0.2
Total audit fees	**2.0**	2.2
Tax compliance services	**0.6**	1.4
Tax advisory services	**0.1**	–
Other non-audit services	**0.1**	–
Total fees	**2.8**	3.6

The total audit fee for the Group, including the audit of overseas subsidiaries, was £2.0m (2011: £2.2m).

The Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 56.

2.2 Employees and directors

Average monthly number of people employed (including directors)	**Continuing operations 2012 number**	**Discontinued operations 2012 number**	Continuing operations 2011 number	Discontinued operations 2011 number
By geographical location:				
Europe	**7,992**	**–**	7,806	–
Americas	**3,066**	**98**	2,754	1,180
AAMEA	**2,037**	**–**	1,825	–
	13,095	**98**	12,385	1,180

Staff costs (including directors on service contracts)	Note	Continuing operations 2012 number	Discontinued operations 2012 number	Continuing operations 2011 number	Discontinued operations 2011 number
Wages and salaries		**499.9**	**6.3**	502.7	55.1
Social security costs		**96.9**	**0.9**	93.9	10.3
Post-employment benefits	8	**11.9**	**0.1**	11.8	1.2
Share-based payments	14.2	**1.3**	**(0.1)**	3.2	0.1
		610.0	**7.2**	611.6	66.7

Key management compensation	2012 £m	2011 £m
Salaries and short-term employee benefits	**5.0**	7.3
Post-employment benefits	**0.5**	1.0
Share-based payments	**0.7**	1.7
	6.2	10.0

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee as shown on page 19.

2.3 Finance income and costs

	2012 £m	2011 £m
Finance income: interest income on short-term deposits	**2.6**	1.9
Finance costs:		
Finance costs on bank borrowings	**(3.0)**	(4.3)
Finance costs on US senior loan notes	**(8.6)**	(8.7)
Amortisation of issue costs	**(1.1)**	(1.4)
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	**(0.5)**	–
Finance costs	**(13.2)**	(14.4)
Finance costs – net	**(10.6)**	(12.5)

3 Income tax expense

Analysis of charge in the year	Note	2012 £m	2011 £m
Current tax			
– Current tax on profit for the year		**115.4**	110.5
– Adjustment in respect of prior years		**(15.0)**	(37.5)
Current tax		**100.4**	73.0
Deferred tax			
– Origination and reversal of temporary differences		**–**	(2.0)
– Adjustment in respect of prior years		**(5.0)**	3.8
Deferred tax	9	**(5.0)**	1.8
Income tax expense		**95.4**	74.8

The majority of the current tax adjustment in respect of prior years of £15.0m (2011: £37.5m) reflects the resolution of a number of historical tax matters with the tax authorities.

3 Income tax expense continued

	Note	2012 £m	2011 £m
Tax on items credited to other comprehensive income			
Deferred tax credit on actuarial loss on post-employment benefit obligations		**(1.0)**	–
Tax on items charged to equity			
Deferred tax charge on share options		**1.7**	1.7
Total tax on items charged to other comprehensive income/equity	14.5	**0.7**	1.7

The tax for the year is higher (2011: lower) than the standard rate of corporation tax in the UK of 25% (2011: 27%) The differences are explained below:	**2012 £m**	2011 £m
Profit on ordinary activities before income tax	**334.3**	330.8
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2011: 27%)	**83.6**	89.3
Tax effects of:		
Adjustment in respect of prior years	**(20.0)**	(33.7)
Adjustment in respect of foreign tax rates	**21.0**	17.4
Non-deductible expenses and permanent items net of non-taxable income and other credits	**10.8**	1.8
Total income tax	**95.4**	74.8

4 Earnings per share and dividends

4.1 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares (note 14.5), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the contingently issuable shares under the Group's long-term incentive plan. For performance-related share plans, a calculation is performed to determine the satisfaction, or otherwise, of the forecast performance conditions at the end of the reporting period, and the number of shares which would be issued based on the forecast status at the end of the reporting period.

Reconciliations of the earnings and weighted average number of shares	**Underlying 2012**	Underlying 2011	**Statutory 2012**	Statutory 2011
Earnings (£m)				
Profit for the year from continuing operations	**254.6**	267.0	**238.9**	256.0
Profit/(loss) for the year from discontinued operations	**1.2**	11.3	**57.8**	(67.0)
	255.8	278.3	**296.7**	189.0
Number of shares (millions)				
Weighted average number of shares	**1,282.2**	1,316.7	**1,282.2**	1,316.7
Dilutive effects of shares	**1.9**	10.4	**1.9**	10.4
	1,284.1	1,327.1	**1,284.1**	1,327.1
Earnings per share				
Basic earnings per share (pence)				
Continuing operations	**19.86**	20.28	**18.63**	19.44
Discontinued operations	**0.09**	0.86	**4.51**	(5.09)
	19.95	21.14	**23.14**	14.35
Diluted earnings per share (pence)				
Continuing operations	**19.83**	20.12	**18.60**	19.29
Discontinued operations	**0.09**	0.85	**4.50**	(5.05)
	19.92	20.97	**23.10**	14.24

Reconciliation between statutory and underlying earnings per share	2012 £m	2011 £m
IFRS statutory profit for the year from continuing operations	**238.9**	256.0
Adjustments:		
Earnings – trading from discontinued operations	**1.9**	18.9
Intangible amortisation excluding amortisation of computer software	**17.1**	21.8
Acquisition-related items	**4.4**	0.4
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	**0.5**	–
Taxation on adjustments	**(7.0)**	(11.3)
Net adjustments	**16.9**	29.8
Earnings – underlying (before exchange movement)	**255.8**	285.8
Exchange movement	**–**	(9.8)
Taxation on exchange movement	**–**	2.3
Net exchange movement	**–**	(7.5)
Earnings – underlying (after exchange movement)	**255.8**	278.3

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 28 within the financial review.

4.2 Dividends

	2012 £m	2011 £m
Final dividend paid for the year ended 30 September 2011 of 7.07p per share	**92.1**	–
(2011: final dividend paid for the year ended 30 September 2010 of 5.22p per share)	**–**	68.7
Interim dividend paid for the year ended 30 September 2012 of 3.48p per share	**44.4**	–
(2011: interim dividend paid for the year ended 30 September 2011 of 2.68p per share)	**–**	35.3
	136.5	104.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2012 of 6.67p per share which will absorb an estimated £78.2m of shareholders' funds. It will be paid on 8 March 2013 to shareholders who are on the register of members on 15 February 2013. These financial statements do not reflect this dividend payable.

5 Intangible assets

5.1 Goodwill

	Note	2012 £m	2011 £m
Cost at 1 October		**1,736.3**	2,031.1
– Additions	16.9	**150.0**	0.7
– Disposals	16.9	**–**	(1.3)
– Reclassification to assets held for sale	15.4	**–**	(304.6)
– Exchange movement		**(71.9)**	10.4
At 30 September		**1,814.4**	1,736.3
Impairment at 1 October		**–**	–
– Impairment in the year	15.2	**–**	(121.5)
– Reclassification to assets held for sale	15.4	**–**	121.5
At 30 September		**–**	–
Net book amount at 30 September		**1,814.4**	1,736.3

Details of acquisitions and disposals in the year are shown in note 16. During the year, goodwill was reviewed for impairment in accordance with IAS 36. For the purposes of this impairment review, goodwill for continuing operations has been valued on the basis of discounted future cash flows arising in each relevant cash-generating unit.

In the prior year an agreement to sell Sage Software Healthcare, LLC was reached, resulting in an impairment loss on goodwill of £121.5m.

Goodwill impairment tests

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

During the year new CGUs were created for Brazil, Sage Pay Europe (previously reported in UK & Ireland) and Portugal (previously reported in France). The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU:

	2012 £m	2011 £m
France	**253.7**	272.6
UK & Ireland	**195.4**	195.3
Spain	**124.2**	134.2
Sage Pay Europe	**27.4**	17.0
Germany	**25.2**	27.2
Switzerland	**33.6**	35.9
Poland	**6.4**	6.5
Portugal	**4.7**	5.1
North America		
– Sage Business Solutions Division	**765.2**	793.7
– Sage Payment Solutions Division	**156.6**	160.6
Brazil	**133.5**	–
South Africa	**44.0**	42.4
Australia	**24.2**	25.7
Asia	**20.3**	20.1
	1,814.4	1,736.3

The main movement in goodwill by CGU was the acquisition of Folhamatic Tecnologia em Sistemas S.A. ("Folhamatic") in Brazil; the majority of all other movements compared to prior year were due to the impact of foreign currency exchange movements.

The Group conducts annual impairment tests on the carrying value of goodwill, based on the recoverable amount of CGUs to which goodwill has been allocated. The recoverable amounts of CGUs are determined from value-in-use calculations. The key assumptions in the value-in-use calculations are the discount rate applied, the long-term operating margin (EBITA) and the long-term growth rate of net operating cash flows. In all cases, the approved budget for the following financial year formed the basis for the cash flow projections for a CGU. The approved cash flow projections in the four financial years following the budget year reflected management's expectations of the medium-term operating performance of the CGU and growth prospects in the CGU's market.

- The discount rate applied to a CGU represents a pre-tax rate that reflects the market assessment of the time value of money at the end of the reporting period and the risks specific to the CGU. The discount rates applied to CGUs were in the range of 7.3% (2011: 6.8%) to 22.7% (2011: 19.9%).
- The long-term operating margin assumed for a CGU's operations is primarily based on past performance. For some CGUs, those for which management has strong reason to believe that past operating margins are not indicative of future operating margins, expected future improvements are also included in management's assessment of the long-term operating margin. The long-term operating margin applied to CGUs was in the range of 21% (2011: 21%) to 62% (2011: 50%).
- Long-term growth rates of net operating cash flows are assumed equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken and were in the range of 1.8% (2011: 1.6%) to 5.5% (2011: 5.5%).

Goodwill impairment tests were conducted separately for each CGU.

Sensitivity to changes in assumptions

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

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

The largest CGU is Sage Business Solutions Division, which constitutes approximately 42% of the carrying value of goodwill at the end of the reporting period. The discount rates applied to this CGU would have to increase by 54% to result in a value-in-use equal to the carrying value of the goodwill. This assumes all other key assumptions applied within the value-in-use calculations remain constant.

5.2 Other intangible assets

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2011	35.9	81.9	0.4	5.6	52.5	108.2	284.5
Continuing operations							
– Additions	–	–	–	–	6.9	3.9	10.8
– Acquisition of subsidiaries	6.8	20.5	–	–	0.6	14.3	42.2
– Disposals	–	–	–	–	(5.2)	–	(5.2)
– Exchange movement	(2.2)	(4.5)	–	–	(1.9)	(5.2)	(13.8)
At 30 September 2012	40.5	97.9	0.4	5.6	52.9	121.2	318.5
Accumulated amortisation at 1 October 2011	16.3	61.2	0.4	5.6	10.8	72.1	166.4
Continuing operations							
– Charge for the year	3.1	6.6	–	–	8.5	7.4	25.6
– Disposals	–	–	–	–	(5.1)	–	(5.1)
– Exchange movement	(1.0)	(3.5)	–	–	(0.3)	(3.4)	(8.2)
At 30 September 2012	18.4	64.3	0.4	5.6	13.9	76.1	178.7
Net book amount at 30 September 2012	22.1	33.6	–	–	39.0	45.1	139.8

5 Intangible assets continued

5.2 Other intangible assets continued

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2010	43.9	96.5	0.4	5.6	66.2	152.7	365.3
Continuing operations							
– Additions	–	–	–	–	4.0	5.3	9.3
– Acquisition of subsidiaries	–	–	–	–	0.3	–	0.3
– Disposals	–	–	–	–	(6.9)	–	(6.9)
– Exchange movement	–	(0.3)	–	–	0.7	0.7	1.1
Discontinued operations							
– Additions	–	1.9	–	–	0.8	–	2.7
– Disposals	–	–	–	–	(0.1)	–	(0.1)
– Reclassification to non-current assets classified as held for sale	(8.0)	(16.2)	–	–	(12.5)	(50.5)	(87.2)
At 30 September 2011	35.9	81.9	0.4	5.6	52.5	108.2	284.5
Accumulated amortisation at 1 October 2010	16.4	60.1	0.3	5.5	20.3	83.6	186.2
Continuing operations							
– Charge for the year	2.2	9.6	0.1	0.1	6.3	9.8	28.1
– Disposals	–	–	–	–	(6.6)	–	(6.6)
– Exchange movement	0.2	(0.2)	–	–	0.3	0.8	1.1
Discontinued operations							
– Charge for the year	0.6	2.0	–	–	1.2	4.9	8.7
– Disposals	–	–	–	–	(0.1)	–	(0.1)
– Reclassification to non-current assets classified as held for sale	(3.1)	(10.3)	–	–	(10.6)	(27.0)	(51.0)
At 30 September 2011	16.3	61.2	0.4	5.6	10.8	72.1	166.4
Net book amount at 30 September 2011	19.6	20.7	–	–	41.7	36.1	118.1

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

6 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2011	**98.2**	**141.4**	**56.4**	**296.0**
Continuing operations				
– Additions	**2.4**	**11.3**	**5.6**	**19.3**
– Disposals	**(0.4)**	**(8.2)**	**(4.5)**	**(13.1)**
– Acquisition of subsidiaries	**0.1**	**1.0**	**0.4**	**1.5**
– Exchange movement	**(0.8)**	**(3.6)**	**(2.6)**	**(7.0)**
At 30 September 2012	**99.5**	**141.9**	**55.3**	**296.7**
Accumulated depreciation at 1 October 2011	**10.4**	**101.2**	**38.0**	**149.6**
Continuing operations				
– Charge for the year	**3.8**	**11.9**	**6.0**	**21.7**
– Disposals	**(0.2)**	**(8.0)**	**(4.1)**	**(12.3)**
– Exchange movement	**(0.2)**	**(2.6)**	**(1.7)**	**(4.5)**
At 30 September 2012	**13.8**	**102.5**	**38.2**	**154.5**
Net book amount at 30 September 2012	**85.7**	**39.4**	**17.1**	**142.2**

6 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2010	100.3	151.4	61.6	313.3
Continuing operations				
– Additions	–	18.6	6.9	25.5
– Disposals	(0.7)	(23.4)	(10.1)	(34.2)
– Acquisition/disposal of subsidiaries	–	(0.1)	–	(0.1)
– Exchange movement	0.4	(0.7)	(0.4)	(0.7)
Discontinued operations				
– Additions	–	0.6	–	0.6
– Disposals	–	(0.2)	–	(0.2)
– Reclassification to non-current assets classified as held for sale	(1.8)	(4.7)	(1.5)	(8.0)
At 30 September 2011	98.2	141.5	56.5	296.2
Accumulated depreciation at 1 October 2010	10.0	109.5	44.2	163.7
Continuing operations				
– Charge for the year	1.9	14.5	5.4	21.8
– Disposals	(0.7)	(18.4)	(10.2)	(29.3)
– Exchange movement	0.1	(0.6)	(0.3)	(0.8)
Discontinued operations				
– Charge for the year	0.1	0.4	0.2	0.7
– Disposals	–	(0.2)	–	(0.2)
– Reclassification to non-current assets classified as held for sale	(1.0)	(3.9)	(1.2)	(6.1)
At 30 September 2011	10.4	101.3	38.1	149.8
Net book amount at 30 September 2011	87.8	40.2	18.4	146.4

Depreciation expenses from continuing operations of £21.7m (2011: £21.8m) have been charged through selling and administrative expenses (note 2.1).

Lease rentals amounting to £30.9m (2011: £30.0m) relating to the lease of plant and machinery and property have also been charged through selling and administrative expenses (note 2.1).

Assets held under finance leases have the following net book amount:	**2012 £m**	2011 £m
Cost	**3.9**	3.6
Accumulated depreciation	**(1.7)**	(1.1)
Net book amount	**2.2**	2.5

Included in assets held under finance leases are plant and equipment with a net book amount of £2.1m (2011: £2.4m) and vehicles £0.1m (2011: £0.1m).

7 Working capital

7.1 Inventories

	2012 £m	2011 £m
Materials	**0.6**	0.7
Finished goods	**1.9**	1.8
	2.5	2.5

The Group consumed £12.0m (2011: £12.7m) of inventories, included in cost of sales, during the year. There was no material write down of inventories during the current or prior year.

7.2 Trade and other receivables

Amounts falling due within one year:	2012 £m	2011 £m
Trade receivables	**300.5**	279.6
Less: provision for impairment of receivables	**(30.3)**	(29.2)
Trade receivables – net	**270.2**	250.4
Other receivables	**14.9**	14.7
Prepayments and accrued income	**17.7**	20.3
	302.8	285.4

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

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

Trade and other receivables by geographical location:	2012 £m	2011 £m
Europe	**203.2**	199.8
Americas	**62.4**	49.7
AAMEA	**19.5**	15.6
	285.1	265.1

Movements on the Group provision for impairment of trade receivables were as follows:	2012 £m	2011 £m
At 1 October	**29.2**	27.4
Acquisition of subsidiaries	**0.5**	–
Disposal of subsidiaries	**–**	(0.5)
Increase in provision for receivables impairment	**9.9**	9.3
Receivables written-off during the year as uncollectible	**(3.3)**	(4.5)
Unused amounts reversed	**(4.1)**	(2.2)
Exchange movement	**(1.9)**	(0.2)
Reclassification to non-current assets classified as held for sale	**–**	(0.1)
At 30 September	**30.3**	29.2

7 Working capital continued

7.2 Trade and other receivables continued

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

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

At 30 September 2012, trade receivables of £36.4m (2011: £33.0m) were either partially or fully impaired.

The ageing of these receivables was as follows:	**2012 £m**	2011 £m
Not due	**3.7**	3.5
Less than six months past due	**7.7**	7.7
More than six months past due	**25.0**	21.8
	36.4	33.0

Trade receivables which were past their due date but not impaired at 30 September 2012 were £44.8m (2011: £54.9m).

The ageing of these receivables was as follows:	**2012 £m**	2011 £m
Less than six months past due	**41.0**	49.5
More than six months past due	**3.8**	5.4
	44.8	54.9

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

7.3 Trade and other payables

	2012 £m	2011 £m
Trade payables	**40.2**	47.5
Other tax and social security payable	**64.3**	65.0
Other payables	**31.3**	24.2
Accruals	**123.2**	124.5
	259.0	261.2

7.4 Deferred income

	2012 £m	2011 £m
Deferred income	**420.3**	404.7

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

8 Post-employment benefits

The Group has established a number of pension schemes around the world covering many of its employees. All of these schemes are defined contribution schemes with the exception of a small defined benefit pension scheme in Switzerland and another post-employment defined benefit scheme in France. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment.

Pension costs	Note	**2012 £m**	2011 £m
Defined contribution schemes		**10.0**	9.8
Defined benefit plans		**1.9**	2.0
	2.2	**11.9**	11.8

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by Ernst & Young in October 2012.

Weighted average principal assumptions made by the actuaries	**2012 %**	2011 %
Rate of increase in pensionable salaries	**2.90**	2.80
Rate of increase in pensions in payment and deferred pensions	**0.00**	0.00
Discount rate	**2.80**	2.80
Inflation assumption	**1.50**	1.60
Expected return on plan assets	**2.10**	2.50

Mortality rate assumptions made by the actuaries	**2012 years**	2011 years
Average life expectancy for 65-year-old male	**20.0**	19.9
Average life expectancy for 65-year-old female	**24.7**	24.4
Average life expectancy for 45-year-old male	**32.5**	32.9
Average life expectancy for 45-year-old female	**39.0**	39.0

Amounts recognised in the balance sheet	**2012 £m**	2011 £m
Present value of funded obligations	**(30.8)**	(29.5)
Fair value of plan assets	**16.5**	17.8
Net liability recognised in the balance sheet	**(14.3)**	(11.7)

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

Major categories of plan assets as a percentage of total plan assets	**£m**	**2012 %**	£m	2011 %
Bonds	**9.3**	**56.4**	11.4	64.1
Equities	**2.3**	**13.9**	2.9	16.3
Property	**1.1**	**6.7**	1.5	8.4
Other	**3.8**	**23.0**	2.0	11.2
	16.5	**100.0**	17.8	100.0

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

Expected contributions to post-employment benefit plans for the year ending 30 September 2013 are £0.6m (2011: expected contributions year ending 30 September 2012 £0.8m).

Amounts recognised in the income statement	**2012 £m**	2011 £m
Interest cost	**(0.9)**	(0.9)
Expected return on plan assets	**0.4**	0.4
Current service cost	**(1.4)**	(1.5)
Total included within staff costs	**(1.9)**	(2.0)

The entire cost is included within selling and administrative expenses.

8 Post-employment benefits continued

Changes in the present value of the defined benefit obligation	**2012 £m**	2011 £m
At 1 October	**(29.5)**	(26.2)
Exchange movement	**2.2**	(1.4)
Service cost	**(1.4)**	(1.5)
Plan participant contributions	**(0.7)**	(0.7)
Interest cost	**(0.9)**	(0.9)
Reclassification	**–**	(0.3)
Actuarial (loss)/gain on benefit obligation	**(0.5)**	1.5
At 30 September	**(30.8)**	(29.5)

Changes in the fair value of plan assets	**2012 £m**	2011 £m
At 1 October	**17.8**	14.9
Exchange movement	**(1.2)**	1.4
Expected return on plan assets	**0.4**	0.4
Employer's contributions	**0.9**	0.9
Employee's contributions	**0.7**	0.7
Actuarial loss on plan assets	**(2.1)**	(0.5)
At 30 September	**16.5**	17.8

Analysis of the movement in the balance sheet liability	**2012 £m**	2011 £m
At 1 October	**(11.7)**	(11.3)
Exchange movement	**1.0**	–
Total expense as recognised in the income statement	**(1.9)**	(2.0)
Contributions paid	**0.9**	0.9
Reclassification	**–**	(0.3)
Actuarial (loss)/gain	**(2.6)**	1.0
At 30 September	**(14.3)**	(11.7)

The reduction on plan assets was £1.7m (2011: £0.1m reduction).

History of experience gains and losses	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	**(30.8)**	(29.5)	(26.2)	(31.7)	(20.0)
Fair value of plan assets	**16.5**	17.8	14.9	19.9	16.1
Deficit	**(14.3)**	(11.7)	(11.3)	(11.8)	(3.9)
Experience adjustments on plan liabilities	**0.5**	(1.5)	0.1	(0.2)	(3.5)
Experience adjustments on plan assets	**2.1**	0.5	0.2	0.5	0.7

Cumulative actuarial gains and losses recognised outside profit or loss	**2012 £m**	2011 £m
At 1 October	**1.3**	0.3
Actuarial (losses)/gains recognised in the year (before tax)	**(2.6)**	1.0
At 30 September	**(1.3)**	1.3

9 Deferred income tax

Deferred income tax has been calculated at 23% (2011: 25%) in respect of UK companies (being the corporation tax rate at which timing differences are expected to reverse) and at the prevailing rates for the overseas subsidiaries.

The Finance Act 2012, which was substantively enacted on 3 July 2012, includes legislation reducing the main rate of UK corporation tax to 23% from 1 April 2013. As such deferred tax balances at 30 September 2012 have been calculated using a rate of 23%.

The movement on the deferred tax account is as shown below:	2012 £m	2011 £m
At 1 October	6.0	(29.2)
Income statement credit/(charge)	5.0	(1.8)
Acquisition of subsidiaries	(10.7)	0.6
Income tax on discontinued operations	(16.2)	38.6
Exchange movement	(0.1)	(0.1)
Other comprehensive income/equity movement in deferred tax	(0.7)	(1.7)
Transfer from current income tax liabilities	(2.8)	(0.4)
At 30 September	(19.5)	6.0

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These have been included within the 'Other' category.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Assets	Intangible assets £m	Other £m	Total £m
At 1 October 2011	(21.6)	42.3	20.7
Income statement credit	0.1	0.7	0.8
Acquisition of subsidiaries	(0.2)	0.1	(0.1)
Reclassification to deferred tax liability	(10.9)	15.8	4.9
Reclassification to other deferred tax	(0.5)	0.5	–
Income tax on discontinued operations	31.9	(48.1)	(16.2)
Exchange movement	–	(0.1)	(0.1)
At 30 September 2012	(1.2)	11.2	10.0
Liabilities			
At 1 October 2011	(21.6)	6.9	(14.7)
Income statement credit/(charge)	6.0	(1.8)	4.2
Acquisition of subsidiaries	(16.6)	6.0	(10.6)
Reclassification from deferred tax asset	10.9	(15.8)	(4.9)
Reclassification to other deferred tax	(0.5)	0.5	–
Exchange movement	1.9	(1.9)	–
Other comprehensive income/equity movement in deferred tax	–	(0.7)	(0.7)
Transfer from current income tax liabilities	–	(2.8)	(2.8)
At 30 September 2012	(19.9)	(9.6)	(29.5)
Net deferred tax (liability)/asset at 30 September 2012	(21.1)	1.6	(19.5)

9 Deferred income tax continued

Assets	Intangible assets £m	Other £m	Total £m
At 1 October 2010	(1.2)	11.6	10.4
Income statement charge	(0.2)	(3.7)	(3.9)
Reclassification from deferred tax liability	(17.2)	(7.0)	(24.2)
Reclassification to other deferred tax	3.8	(3.8)	–
Income tax on discontinued operations	(6.4)	45.0	38.6
Exchange movement	(0.4)	0.2	(0.2)
At 30 September 2011	(21.6)	42.3	20.7
Liabilities			
At 1 October 2010	(42.5)	2.9	(39.6)
Income statement credit/(charge)	3.2	(1.1)	2.1
Acquisition of subsidiaries	–	0.6	0.6
Reclassification to deferred tax asset	17.2	7.0	24.2
Reclassification to other deferred tax	0.4	(0.4)	–
Exchange movement	0.1	–	0.1
Equity movement of deferred income tax	–	(1.7)	(1.7)
Transfer from current income tax liabilities	–	(0.4)	(0.4)
At 30 September 2011	(21.6)	6.9	(14.7)
Net deferred tax (liability)/asset at 30 September 2011	(43.2)	49.2	6.0

The deferred tax liability due after more than one year is £19.9m (2011: £21.6m).

10 Operating lease commitments

	2012	2011
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**Property, vehicles, plant and equipment £m**	Property, vehicles, plant and equipment £m
Within one year	**36.9**	35.6
Later than one year and less than five years	**110.3**	108.6
After five years	**61.0**	69.5
	208.2	213.7

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

11 Contingent liabilities

The Group had no contingent liabilities at 30 September 2012 (2011: none).

Net debt and capital structure

12 Cash flow and net debt

12.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2012 £m	2011 £m
Profit for the year	**238.9**	256.0
Adjustments for:		
Income tax	**95.4**	74.8
Finance income	**(2.6)**	(1.9)
Finance expenses	**13.2**	14.4
Amortisation of intangible assets	**25.6**	28.1
Depreciation of property, plant and equipment	**21.7**	21.8
Loss on disposal of property, plant and equipment	**0.2**	2.5
Profit on disposal of intangible assets	**(1.4)**	(1.3)
Equity-settled share-based transactions	**1.3**	3.2
Exchange movement	**(4.4)**	(2.7)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
– Decrease in inventories	**0.3**	0.3
– Increase in trade and other receivables	**(16.0)**	(34.0)
– (Decrease)/increase in trade and other payables	**(1.0)**	14.0
– Increase in deferred income	**12.6**	29.9
Cash generated from continuing operations	**383.8**	405.1

12.2 Net debt

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)	2012 £m	2011 £m
(Decrease)/increase in cash in the year (pre-exchange movements)	**(124.6)**	113.6
Cash outflow from decrease in loans, finance leases and cash collected from customers	**(13.9)**	83.4
Change in net debt resulting from cash flows	**(138.5)**	197.0
Acquisitions	**(0.3)**	1.0
Non-cash movements	**(1.1)**	(1.2)
Exchange movement	**3.3**	(1.9)
Movement in net debt in the year	**(136.6)**	194.9
Net debt at 1 October	**(24.9)**	(219.8)
Net debt at 30 September	**(161.5)**	(24.9)

Numerical financial instruments disclosures are set out below and also in note 13.

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2011 £m	Cash flow £m	Acquisitions £m	Non-cash movements £m	Exchange movement £m	At 30 September 2012 £m
Cash and cash equivalents	182.8	**(118.2)**	**–**	**–**	**(3.0)**	**61.6**
Bank overdrafts	(0.8)	**(6.4)**	**–**	**–**	**–**	**(7.2)**
Cash, cash equivalents and bank overdrafts	182.0	**(124.6)**	**–**	**–**	**(3.0)**	**54.4**
Finance leases due within one year	(0.9)	**0.7**	**(0.2)**	**(0.8)**	**–**	**(1.2)**
Loans due after more than one year	(190.0)	**(14.8)**	**(0.1)**	**(1.1)**	**6.8**	**(199.2)**
Finance leases due after more than one year	(2.4)	**–**	**–**	**0.8**	**–**	**(1.6)**
Cash collected from customers	(13.6)	**0.2**	**–**	**–**	**(0.5)**	**(13.9)**
Total	(24.9)	**(138.5)**	**(0.3)**	**(1.1)**	**3.3**	**(161.5)**

Included in cash above is £13.9m (2011: £13.6m) relating to cash collected from customers, which the Group is contracted to pay on to another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

12 Cash flow and net debt continued

12.3 Cash and cash equivalents (excluding bank overdrafts)

	2012 £m	2011 £m
Cash at bank and in hand	**61.3**	64.3
Short-term bank deposits	**0.3**	118.5
	61.6	182.8

The effective interest rate on short-term deposits was 7.0% (2011: 0.7%) and these deposits have an average maturity of 90 days (2011: 29 days). The Group's credit risk on cash and cash equivalents is limited because the counterparties are well established banks with high credit ratings.

12.4 Borrowings

Current	**2012 £m**	2011 £m
Bank overdrafts	**7.2**	0.8
Finance lease obligations	**1.2**	0.9
	8.4	1.7

Non-current	**2012 £m**	2011 £m
US senior loan notes – unsecured	**185.3**	189.9
Bank loans – unsecured	**13.9**	0.1
Finance lease obligations	**1.6**	2.4
	200.8	192.4

Included in loans above is £199.2m (2011: £190.0m) of unsecured loans (after unamortised issue costs). These borrowings were taken out in connection with acquisitions.

The Group has US$300.0m (£185.8m, 2011: £192.6m) of US senior loan notes, which were issued into the US private placement market. These notes mature US$200.0m (£123.8m, 2011: £128.4m) in 2015, US$50.0m (£31.0m, 2011: £32.1m) in 2016 and US$50.0m (£31.0m, 2011: £32.1m) in 2017 and carry interest coupons of 4.39%, 4.78% and 5.15% respectively.

There were £15.0m drawings (2011: £nil) under the multi-currency revolving credit facility of £338.3m (2011: £358.3m) expiring on 31 August 2015, which consists both of US$271.0m (£167.8m, 2011: £174.0m) and of €214.0m (£170.5m, 2011: £184.3m) tranches.

Unsecured bank loans were drawn in the following currencies: Sterling £15.0m (2011: £nil), US Dollar £nil (2011: £nil), Euro £nil (2011: £0.1m), which bear an average fixed interest rate of 1.73% (2011: 4.2%).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £1.6m (2011: £2.7m). The Group has incurred total issue costs amounting to £4.4m (2011: £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.

13 Financial instruments

Numerical financial instruments disclosures are set out below and also in note 12.

13.1 Fair values of financial instruments

For the following financial assets and liabilities: long-term borrowings, short-term borrowings, trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits, cash at bank and in hand and other financial liabilities, the carrying amount approximates the fair value of the instrument with the exception of long-term borrowings due to these bearing interest at fixed rates which are currently higher than floating rates.

	Note	**2012** Book value £m	**2012** Fair value £m	2011 Book value £m	2011 Fair value £m
Long-term borrowings	12.4	**(200.8)**	**(218.1)**	(192.4)	(207.6)
Fair value of other financial assets and financial liabilities					
Financial instruments held or issued to finance the Group's operations:					
Short-term borrowings	12.4	**(8.4)**	**(8.4)**	(1.7)	(1.7)
Trade and other payables excluding other tax and social security	7.3	**(194.7)**	**(194.7)**	(196.2)	(196.2)
Trade and other receivables excluding prepayments and accrued income	7.2	**285.1**	**285.1**	265.1	265.1
Short-term bank deposits	12.3	**0.3**	**0.3**	118.5	118.5
Cash at bank and in hand	12.3	**61.3**	**61.3**	64.3	64.3
Other financial liabilities	13.5	**(128.3)**	**(128.3)**	(50.0)	(50.0)

13.2 Risk management

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

Capital risk

The Group's objectives when managing capital (defined as net debt (note 12.2) 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 has net debt of £161.5m (2011: £24.9m) and access to undrawn credit facilities of £323.3m (2011: £358.3m). The Group regularly reviews net debt and its ratio to earnings before interest, tax, depreciation and amortisation (EBITDA) to ensure that it does not exceed the covenant contained within the Group's banking facilities and senior loan notes, being 3.0 times. At 30 September 2012 this ratio was 0.4 times (2011: 0.1 times). The Group manages its capital structure and makes adjustments to it, with respect to changes in economic conditions and the strategic objectives of the Group. The Group have set a minimum leverage target of 1 times net debt to EBITDA and are working towards achieving this.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital.

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

Credit risk

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

The Group's credit risk primarily arises from trade and other receivables. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Group has a very low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational 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 2012 the Group did not see 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.

13 Financial instruments continued

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The US private placement loan notes, which comprises 93% of borrowings, are at fixed interest rates and bank debt, which comprises 7% of borrowings, are at floating interest rates. At 30 September 2012, the Group had £61.6m (2011: £182.8m) of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate. At 30 September 2012, the Group's principal borrowings comprised US private placement loan notes of £185.8m (2011: £192.6m), which have an average fixed interest rate of 4.58% and bank debt of £15.0m (2011: £nil), which has an average floating interest rate of 1.73%.

Foreign currency risk

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

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, which would be hedged where appropriate.

The Group's US Dollar denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US. The foreign exchange movements on translation of the borrowings into Sterling have been recognised in the translation reserve.

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 2012, these exposures were immaterial to the Group.

13.3 Maturity of financial liabilities

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

				2012
	Borrowings £m	**Trade and other payables £m**	**Other financial liabilities £m**	**Total £m**
In less than one year	**9.2**	**259.0**	**60.0**	**328.2**
In more than one year but not more than two years	**2.4**	**–**	**–**	**2.4**
In more than two years but not more than five years	**228.2**	**–**	**68.3**	**296.5**
In more than five years	**–**	**–**	**–**	**–**
	239.8	**259.0**	**128.3**	**627.1**

				2011
	Borrowings £m	Trade and other payables £m	Other financial liabilities £m	Total £m
In less than one year	2.6	261.2	50.0	313.8
In more than one year but not more than two years	3.4	–	–	3.4
In more than two years but not more than five years	155.6	–	–	155.6
In more than five years	83.5	–	–	83.5
	245.1	261.2	50.0	556.3

13.4 Borrowing facilities

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

	2012 £m	2011 £m
Expiring in more than two years but not more than five years	**323.3**	358.3

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

13.5 Other financial liabilities

	2012		2011	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current: Close period share buyback programme	**–**	**(60.0)**	–	(50.0)
Non-current: Put and call arrangement to acquire non-controlling interest	**–**	**(68.3)**	–	–
Total other financial liabilities	**–**	**(128.3)**	–	(50.0)

Current other financial liabilities relate to outstanding liabilities of £60.0m (2011: £50.0m) arising under an irrevocable close period buyback agreement for the purchase of the Company's own shares which was outstanding at 30 September. The fair value has been calculated based on the value of the contractual legal agreement with Deutsche Bank AG, which is also equal to the book value. Refer to note 18.1 for further details of the buyback.

Non-current other financial liabilities relate to a put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic in Brazil during 2015. The liability is estimated at £71.0m (2011: £nil), which is £68.3m (2011: £nil) after discounting to present value of the estimated redemption amount. The redemption amount is calculated based on a multiple of expected EBITDA for the year ending 31 December 2014.

The present value of the estimated redemption amount was initially recognised at £68.0m (2011: £nil), movements on charging the discount of £0.3m (2011: £nil) have been recognised within finance costs.

13.6 Sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

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

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

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

	2012		2011	
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(1.9)**	**(1.9)**	(2.0)	(2.0)
1% decrease in market interest rates	**1.9**	**1.9**	2.0	2.0
10% strengthening of Sterling versus the US Dollar	**(5.4)**	**(41.6)**	(5.1)	(62.4)
10% strengthening of Sterling versus the Euro	**(6.0)**	**(26.1)**	(7.4)	(31.6)
10% weakening of Sterling versus the US Dollar	**5.9**	**45.8**	5.6	68.7
10% weakening of Sterling versus the Euro	**6.6**	**28.7**	8.1	34.8

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

	2012 £m	2011 £m
In less than one year	**1.3**	1.0
In more than one year but not more than five years	**1.7**	2.6
	3.0	3.6
Future finance charges on finance leases	**(0.2)**	(0.3)
Present value of finance lease liabilities	**2.8**	3.3

14 Equity

14.1 Ordinary shares

Authorised	2012 £m	2011 £m
1,860,000,000 (2011: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2012 shares	2012 £m	2011 shares	2011 £m
At 1 October	**1,323,837,836**	**13.2**	1,317,360,582	13.2
Proceeds from shares issued	**5,679,734**	**0.1**	6,477,254	–
At 30 September	**1,329,517,570**	**13.3**	1,323,837,836	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	2012 number	2011 number
2 January 2002	228.50	2 January 2005 – 2 January 2012	**–**	1,187,105
31 December 2002	134.00	31 December 2005 – 31 December 2012	**100,980**	452,468
12 May 2003	147.00	12 May 2006 – 12 May 2013	**108,033**	262,634
24 December 2003	171.00	24 December 2006 – 24 December 2013	**1,517,245**	2,438,714
24 May 2004	172.00	24 May 2007 – 24 May 2014	**37,791**	90,117
6 January 2005	198.00	6 January 2008 – 6 January 2015	**863,216**	1,373,034
12 May 2005	206.00	12 May 2008 – 12 May 2015	**901,595**	1,101,446
10 January 2006	258.50	10 January 2009 – 10 January 2016	**1,823,515**	2,654,089
10 January 2007	270.00	10 January 2010 – 10 January 2017	**1,268,375**	1,933,437
20 June 2007	248.00	20 June 2010 – 20 June 2017	**22,604**	30,014
10 January 2008	214.00	10 January 2011 – 10 January 2018	**174,496**	430,532
			6,817,850	11,953,590

Under the above scheme, 4,618,463 1p ordinary shares were issued during the year for aggregate proceeds of £9.8m.

Performance Share Plan

Under the Group’s Performance Share 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	2012 number	2011 number
3 March 2009	3 March 2012	**–**	11,379,360
4 March 2010	4 March 2013	**7,333,241**	7,842,033
10 March 2011	10 March 2014	**7,547,001**	7,998,296
8 September 2011	8 September 2014	**84,413**	84,413
12 March 2012	12 March 2015	**4,151,025**	–
26 June 2012	26 June 2015	**12,538**	–
		19,128,218	27,304,102

Restricted Share Plan

The Group’s Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis. During the year the following awards have been made:

Date of award	Vesting date	2012 number	2011 number
5 December 2011	5 December 2013	**369,818**	–
26 June 2012	26 June 2015	**350,018**	–
		719,836	–

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	**2012 number**	2011 number
1 March 2005	157.00	1 March 2012 – 31 August 2012	**–**	10,701
1 August 2006	184.00	1 August 2011 – 31 January 2012	**–**	15,446
1 August 2006	184.00	1 August 2013 – 31 January 2014	**18,397**	20,999
1 August 2007	203.00	1 August 2012 – 31 January 2013	**2,945**	62,747
1 August 2007	203.00	1 August 2014 – 31 January 2015	**10,734**	18,525
1 August 2008	177.00	1 August 2011 – 31 January 2012	**–**	67,812
1 August 2008	177.00	1 August 2013 – 31 January 2014	**125,850**	132,836
1 August 2008	177.00	1 August 2015 – 31 January 2016	**9,068**	9,462
1 August 2009	149.00	1 August 2012 – 31 January 2013	**98,858**	1,077,740
1 August 2009	149.00	1 August 2014 – 31 January 2015	**276,508**	292,261
1 August 2009	149.00	1 August 2016 – 31 January 2017	**27,072**	28,392
1 August 2010	190.00	1 August 2013 – 31 January 2014	**406,990**	463,975
1 August 2010	190.00	1 August 2015 – 31 January 2016	**128,473**	142,620
1 August 2010	190.00	1 August 2017 – 31 January 2018	**14,684**	18,099
1 August 2011	234.00	1 August 2014 – 31 January 2015	**458,349**	621,743
1 August 2011	234.00	1 August 2016 – 31 January 2017	**77,087**	95,540
1 August 2011	234.00	1 August 2018 – 31 January 2019	**14,534**	20,348
1 August 2012	201.00	1 August 2015 – 31 January 2016	**1,212,554**	–
1 August 2012	201.00	1 August 2017 – 31 January 2018	**177,486**	–
1 August 2012	201.00	1 August 2019 – 31 January 2020	**21,908**	–
			3,081,497	3,099,246

Under the above scheme, 1,061,271 1p ordinary shares were issued during the year for aggregate proceeds of £1.6m.

The market price of the shares of the Company at 30 September 2012 was 313.40p and the highest and lowest prices during the year were 324.80p and 247.70p respectively.

14.2 Share-based payments

The total charge for the year relating to employee share-based payment plans was £1.3m (2011: £3.2m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £3.0m (2011: £4.9m). 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.

Executive Share Option Scheme

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 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. 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.

14 Equity continued

14.2 Share-based payments continued

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

	2012 Number '000s	2012 Weighted average exercise price £	2011 Number '000s	2011 Weighted average exercise price £
Outstanding at 1 October	**10,766**	**2.17**	22,888	2.13
Forfeited	**(380)**	**2.36**	(8,348)	2.18
Exercised	**(3,568)**	**2.07**	(3,774)	1.90
Outstanding at 30 September	**6,818**	**2.21**	10,766	2.17
Exercisable at 30 September	**6,818**	**2.21**	10,486	2.17

	2012				2011			
			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	**2.21**	**6,818**	**–**	**2.8**	2.17	10,766	–	3.7

The weighted average share price during the period for options exercised over the year was 294.05p (2011: 282.20p).

The Sage Group Performance Share Plan

The Performance Share Plan (the "Plan") was approved by shareholders at the Annual General Meeting in 2005 and amended at the Annual General Meeting in 2009. Annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results.

Following the amendments to the scheme, annual awards under the Plan are limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors are limited to shares with a maximum value on award of 210% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance shares are subject to performance conditions on a sliding scale based on EPS. 25% of the award will vest at the end of the period if the increase in EPS exceeds RPI by 9% (an average of 3% per year); 100% of the award will vest at that time only if RPI is exceeded in that period by 27% (an average of 9% per year). Between those targets, awards will vest on a straight-line basis, and if those targets are not met there is no opportunity for re-testing. Awards are then subject to a TSR "multiplier" whereby the level of vesting based on EPS achievement will be adjusted according to TSR performance over the same three-year period compared with a group of international software and computer services companies.

The comparator group for awards made in 2012 comprised the following companies:

– Adobe Systems	– Cegid	– Logica	– Salesforce.com
– ARM Holdings	– Dassault Systèmes	– Micro Focus International	– SAP
– Blackbaud	– Exact	– Microsoft	– Software AG
– Cap Gemini	– Intuit	– 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 2011	September 2011	**March 2012**	**March 2012**	**June 2012**
Share price at grant date	£2.70	£2.57	**£2.98**	**£2.98**	**£2.60**
Exercise price	£0.00	£0.00	**£0.00**	**£0.00**	**£0.00**
Number of employees	207	1	**8**	**154**	**1**
Shares under award	7,547,001	84,413	**2,083,735**	**2,067,290**	**12,538**
Vesting period (years)	3	3	**3**	**3**	**3**
Expected volatility	31%	29%	**24%**	**24%**	**24%**
Award life (years)	3	3	**3**	**3**	**3**
Expected life (years)	3	3	**3**	**3**	**3**
Risk free rate	1.6%	0.6%	**0.5%**	**0.5%**	**0.5%**
Expected dividends expressed as a dividend yield	0.0%	0.0%	**0.0%**	**0.0%**	**0.0%**
Fair value per award	£2.121	£1.993	**£2.415**	**£2.979**	**£2.979**

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:

	2012		2011	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**27,304**	**–**	24,810	–
Awarded	**4,363**	**–**	8,586	–
Forfeited	**(6,694)**	**–**	(4,925)	–
Exercised	**(5,845)**	**–**	(1,167)	–
Outstanding at 30 September	**19,128**	**–**	27,304	–
Exercisable at 30 September	**–**	**–**	–	–

	2012				2011			
			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	**–**	**19,128**	**1.3**	**1.3**	–	27,304	1.3	1.3

14 Equity continued

14.2 Share-based payments continued

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards are made, usually with specific performance conditions. Executive Directors are not permitted to participate in the plan and shares are purchased in the market to satisfy vesting awards.

Grant date	December 2011	June 2012
Share price at grant date	£2.87	£2.66
Exercise price	£0.00	£0.00
Number of employees	1	1
Shares under award	369,818	350,018
Vesting period (years)	2	3
Expected volatility	23%	23%
Award life (years)	2	3
Expected life (years)	2	3
Risk free rate	0.4%	0.4%
Expected dividends expressed as a dividend yield	0.0%	0.0%
Fair value per award	£2.874	£2.655

Options were valued using the Black-Scholes option-pricing model. The expected volatility is based on historical volatility over the last two or three years, consistent with the award 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 award life.

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

		2012		2011
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	–	–	–	–
Awarded	720	–	–	–
Outstanding at 30 September	720	–	–	–
Exercisable at 30 September	–	–	–	–

			2012					2011
			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	–	720	1.9	1.9	–	–	–	–

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

In February 1996, the Company introduced a HM Revenue & Customs ("HMRC") 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 10 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 for 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 seven 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 1.6x the monthly contribution) will be paid on completion of 84 monthly savings contributions; no bonus is payable on the 36 or 60 monthly savings.

Exercise price

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

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

Grant of options

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

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

Exercise of options

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

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

Grant date	August 2011	August 2011	August 2011	**August 2012**	**August 2012**	**August 2012**
Share price at grant date	£2.70	£2.70	£2.70	**£2.91**	**£2.91**	**£2.91**
Exercise price	£2.34	£2.34	£2.34	**£2.01**	**£2.01**	**£2.01**
Number of employees	413	39	8	**716**	**65**	**10**
Shares under option	458,349	77,087	14,534	**1,212,554**	**177,486**	**21,908**
Vesting period (years)	3	5	7	**3**	**5**	**7**
Expected volatility	29%	29%	27%	**24%**	**30%**	**28%**
Option life (years)	3	5	7	**3**	**5**	**7**
Expected life (years)	3	5	7	**3**	**5**	**7**
Risk free rate	1.0%	1.7%	2.4%	**0.2%**	**0.6%**	**1.0%**
Expected dividends expressed as a dividend yield	4.0%	4.0%	4.0%	**4.0%**	**4.0%**	**4.0%**
Fair value per option	£0.448	£0.497	£0.507	**£0.622**	**£0.687**	**£0.656**

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 20% of options will lapse over the service period as employees leave the Group.

14 Equity continued

14.2 Share-based payments continued

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

	2012 Number '000s	2012 Weighted average price £	2011 Number '000s	2011 Weighted average price £
Outstanding at 1 October	**3,099**	**1.81**	3,147	1.68
Awarded	**1,438**	**2.01**	757	2.34
Forfeited	**(394)**	**2.08**	(328)	1.76
Exercised	**(1,062)**	**1.54**	(477)	1.78
Outstanding at 30 September	**3,081**	**1.96**	3,099	1.81
Exercisable at 30 September	**102**	**1.51**	83	1.78

Range of exercise prices £	2012 Weighted average exercise price £	2012 Number of shares '000s	2012 Weighted average remaining life years Expected	2012 Weighted average remaining life years Contractual	2011 Weighted average exercise price £	2011 Number of shares '000s	2011 Weighted average remaining life years Expected	2011 Weighted average remaining life years Contractual
1.49 – 2.34	**1.96**	**3,081**	**2.3**	**2.8**	1.81	3,099	2.0	2.5

14.3 Share premium

	£m
At 1 October 2010	499.8
Premium on shares issued during the year under share option schemes	13.4
At 1 October 2011	513.2
Premium on shares issued during the year under share option schemes	11.3
At 30 September 2012	**524.5**

14.4 Other reserves

	Translation reserve £m	Hedge reserve £m	Merger reserve £m	Other reserve £m	Total other reserves £m
At 1 October 2010	199.2	(1.0)	61.1	–	259.3
Exchange differences on translating foreign operations	6.5	–	–	–	6.5
Cash flow hedges: Fair value losses in the year	–	1.0	–	–	1.0
At 30 September 2011	205.7	–	61.1	–	266.8
Exchange differences on translating foreign operations	**(66.6)**	**–**	**–**	**–**	**(66.6)**
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	**(55.7)**	**–**	**–**	**–**	**(55.7)**
Put and call arrangement	**–**	**–**	**–**	**(68.0)**	**(68.0)**
At 30 September 2012	**83.4**	**–**	**61.1**	**(68.0)**	**76.5**

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.

Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

Other reserve

Other reserve relates to the recognition of a put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic.

14.5 Retained earnings

	2012 £m	2011 £m
At 1 October	**914.6**	877.1
Profit for the year	**296.6**	189.0
Value of employee services	**1.2**	3.2
Purchase of treasury shares	**(299.8)**	–
Expenses related to purchase of treasury shares	**(2.0)**	–
Close period share buyback programme	**(10.0)**	(50.0)
Actuarial (loss)/gain on post-employment benefit obligations	**(2.6)**	1.0
Other comprehensive income/equity movement of deferred income tax	**(0.7)**	(1.7)
Dividends paid to owners of the parent	**(136.5)**	(104.0)
At 30 September	**760.8**	914.6

The actuarial loss of £2.6m (2011: gain of £1.0m) is made up of a gain of £0.4m (2011: gain of £0.2m) on post-employment benefits (note 8) and a loss of £3.0m (2011: gain of £0.8m) on other long-term employee benefits (note 8).

Treasury shares

Purchase of treasury share

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased 104,628,376 shares (2011: nil) at a cost of £299.8m (2011: £nil) representing 7.9% of issued share capital. Shares were repurchased at a weighted average price of 273.60p per share, the highest and lowest prices paid for these shares were 325.00p per share and 245.40p per share respectively.

Close period share buyback programme

The close period buyback programme for £60.0m (2011: £50.0m) relates to the purchase of the Company's own shares. Deutsche Bank AG has been appointed to manage the irrevocable buyback programme during the close period which commenced on 1 October 2012 and will run up until 5 December 2012.

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 or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 710,403 ordinary shares in the Company (2011: 3,689,182) at a cost of £0.9m (2011: £9.5m) and a nominal value of £7,104 (2011: £36,891).

The Trust originally purchased the shares in 2006, and further shares were acquired by the Trust in 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. In February 2012 the Company gifted 3,500,000 shares from purchased treasury shares to the Trust. During the year, 6,478,779 shares were utilised to meet obligations under the Performance Share Plan.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2012 was £2.2m (2011: £9.5m).

14.6 Non-controlling interest

Non-controlling interests in equity in the Group balance sheet represent the share of net assets of subsidiary undertakings held outside the Group. The movement in the year comprises the profit attributable to such interests together with movements in respect of corporate transactions and related exchange differences.

	Note	2012 £m
At 1 October		**–**
Non-controlling interest arising on business combination	16.1	**(2.2)**
Non-controlling interest's share of profit of the year		**0.1**
At 30 September		**(2.1)**

15 Discontinued operations and non-current assets held for sale

15.1 Discontinued operations – Sage Software Healthcare, LLC

The control of Sage Software Healthcare, LLC ("Sage Healthcare") was passed to Vista Equity Partners on 10 November 2011 for cash proceeds of £204.0m. The proceeds have been returned to shareholders through a share buyback programme. Further disposal information can be found in note 16.5.

15.2 Discontinued operations – financial performance

Sage Healthcare is reported in the financial statements as discontinued operations. The financial performance for the period is below:

	2012 £m	2011 £m
Revenue	**16.5**	149.7
Selling and administrative expenses	**(14.4)**	(138.2)
Operating profit	**2.1**	11.5
Finance costs	**(0.2)**	–
Profit on disposal of Sage Healthcare	**0.9**	–
Cumulative exchange gain in respect of the net assets of the subsidiary, reclassified from equity on disposal	**55.7**	–
Impairment of disposal group to fair value less costs to sell	**–**	(121.5)
Profit/(loss) before income tax	**58.5**	(110.0)
Income tax (expense)/credit	**(0.7)**	43.0
Profit/(loss) for the year from discontinued operations	**57.8**	(67.0)

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

There are no disposal groups classified as held for sale in the current year. At 30 September 2011 the assets and liabilities relating to Sage Healthcare were presented as held for sale following the announcement on 22 September 2011 that a definitive agreement to sell Sage Healthcare had been reached.

	2012 £m	2011 £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 during the year

Folhamatic Tecnologia em Sistemas S.A.

On 25 June 2012 the Group completed the acquisition of 75% share of the share capital of Folhamatic Tecnologia em Sistemas S.A. ("Folhamatic") based in Brazil for cash consideration of £122.6m.

The provisional fair value of the liabilities acquired was £9.2m, resulting in provisional goodwill of £129.6m. In the purchase 75% of the voting rights were acquired. The non-controlling interest has been measured at the non-controlling interest's proportionate share of the net liabilities of £2.2m.

The Group has entered into a put and call arrangement to acquire the remaining 25% share in Folhamatic. Under the terms of the agreement the price to be payable is based on a multiple of expected EBITDA for the year ending 31 December 2014 and is estimated at £71.0m, which is £68.3m after discounting to present value of the estimated redemption amount. This has been included as a non-current financial liability (note 13.5).

The acquisition of Folhamatic represents an important step in building the Group's presence in key emerging markets. This acquisition is consistent with the Group's strategy and was approved following the Board's evaluation of the potential return on capital. Folhamatic has a leading market position in a large and growing economy.

Alchemex (Pty) Ltd

The entire share capital of Alchemex (Pty) Ltd ("Alchemex") was acquired on 1 October 2011 for cash consideration of £2.8m and deferred consideration of £2.8m. The fair value of the assets acquired was £1.1m, resulting in goodwill of £4.5m.

Integral Computers Limited

The entire share capital of Integral Computers Limited ("Integral") was acquired on 6 February 2012 for cash consideration of £11.9m and contingent consideration of £4.0m. The fair value of the assets acquired was £5.6m, resulting in goodwill of £10.3m.

Other

The entire share capital of TML BVBA Ltd ("TML") was acquired on 1 March 2012 for cash consideration of £2.6m. The fair value of the assets acquired was £0.9m, resulting in goodwill of £1.7m.

Cenize Informática Ltda. ("Cenize") was acquired on 24 August 2012 for cash consideration of £1.0m and contingent consideration of £2.9m. The fair value of the assets acquired was £nil, resulting in goodwill of £3.9m.

There were no other acquisitions made in the year.

The net identifiable assets (including intangible assets) were recognised at their provisional 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:

Summary of acquisitions	**£m**
Purchase consideration	
Cash	**140.9**
Deferred/contingent consideration	**9.7**
Total purchase consideration	**150.6**
Fair value of net identifiable liabilities	**1.6**
Fair value of net identified liabilities attributable to non-controlling interest	**(2.2)**
Goodwill	**150.0**

Goodwill represents the fair value of the assembled workforce at the time of acquisition along with potential synergies with the existing Sage business.

16 Acquisitions and disposals continued

16.1 Acquisitions made during the year continued

Provisional fair value of acquisitions	Folhamatic £m	Alchemex £m	Integral £m	Other £m	Total £m
Intangible assets – brands, technology and customer relationships	36.4	1.0	4.2	–	41.6
Intangible assets – computer software	0.6	–	–	–	0.6
Property, plant and equipment	1.2	–	0.3	–	1.5
Inventories	0.1	–	0.3	–	0.4
Trade and other receivables	10.0	0.3	1.0	1.3	12.6
Cash and cash equivalents	0.8	0.1	1.9	–	2.8
Trade and other payables	(8.1)	(0.1)	(0.6)	(0.3)	(9.1)
Current borrowings	(0.2)	–	–	–	(0.2)
Non-current borrowings	–	–	–	(0.1)	(0.1)
Deferred consideration	(21.8)	–	–	–	(21.8)
Income tax – current	(0.3)	–	–	–	(0.3)
Income tax – deferred	(10.1)	(0.1)	(0.5)	–	(10.7)
Deferred income	(17.8)	(0.1)	(1.0)	–	(18.9)
Total net identifiable (liabilities)/assets acquired	(9.2)	1.1	5.6	0.9	(1.6)
Non-controlling interest	2.2	–	–	–	2.2
Goodwill	129.6	4.5	10.3	5.6	150.0
Consideration satisfied by:					
Cash	122.6	2.8	11.9	3.6	140.9
Deferred/contingent consideration	–	2.8	4.0	2.9	9.7
Total purchase consideration	122.6	5.6	15.9	6.5	150.6

The outflow of cash and cash equivalents on the acquisitions is calculated as follows:					
Cash consideration	(122.6)	(2.8)	(11.9)	(3.6)	(140.9)
Cash and cash equivalents acquired	0.8	0.1	1.9	–	2.8
Borrowings acquired	(0.2)	–	–	(0.1)	(0.3)
Deferred consideration acquired, paid post acquisition	(21.8)	–	–	–	(21.8)
Acquisition costs acquired, paid post acquisition	(2.6)	–	–	–	(2.6)
Net cash outflow in respect of acquisitions	(146.4)	(2.7)	(10.0)	(3.7)	(162.8)

The intangible assets acquired as part of these acquisitions can be analysed as follows:					
Brands	6.8	–	–	–	6.8
Technology	18.0	0.8	1.7	–	20.5
Customer relationships	11.6	0.2	2.5	–	14.3
	36.4	1.0	4.2	–	41.6

Further details of these are given in note 5.2.

16.2 Deferred/contingent consideration

Part of the cash paid on the Folhamatic acquisition is being held in an escrow account pending final determination of the results for the year ending 31 December 2012. The funds held in escrow will be paid out to shareholders in FY13 once the final acquisition price is determined, which is based on a multiple of expected EBITDA for the year ending 31 December 2012. The cash paid was based on an estimate of the EBITDA for the year ending 31 December 2012.

During the year previously contingent consideration was fixed under the original terms of the agreement and as such is now deferred consideration. Deferred consideration payable to the former owners of Alchemex of £2.8m has been recognised at fair value; this additional consideration is payable for the years ending 30 September 2012-2014.

Contingent consideration payable to the former owners of Integral of £4.0m has been recognised at fair value; this additional consideration is dependent on revenue achievement for the year ending 31 December 2012.

Contingent consideration payable to the former owners of Cenize of £2.9m has been recognised at fair value; this additional consideration is contingent on the EBITDA results for the year ending 31 December 2014.

16.3 Contribution of acquisitions

From the dates of the acquisitions to 30 September 2012, the acquisitions contributed £17.9m to revenue and £3.5m to profit before income tax. Had these acquisitions occurred at the beginning of the financial year, contribution to Group revenue would have been £55.4m and Group profit before income tax would have increased by £1.1m.

16.4 Acquisition-related items

Acquisition-related items of £4.4m (2011: £0.4m) have been included in selling and administrative expenses in the Consolidated income statement. These acquisition-related items (previously recognised in goodwill prior to IFRS 3 (Revised), "Business Combinations") relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting.

16.5 Disposal of Sage Software Healthcare, LLC

On 10 November 2011 the Group disposed of Sage Healthcare for £204.0m consideration. Details of net assets disposed of and the profit on disposal are as follows:

Sage Healthcare disposal	Carrying value pre-disposal £m
Non-current assets classified as held for sale	**249.3**
Liabilities directly associated with non-current assets classified as held for sale	**(46.4)**
Net assets disposed	**202.9**

The profit on disposal is calculated as follows:	£m
Disposal proceeds	**204.0**
Costs to sell recognised in year	**(0.2)**
Disposal proceeds, less costs to sell recognised in year	**203.8**
Net assets disposed	**(202.9)**
Profit on disposal	**0.9**
Cumulative exchange gain in respect of the net assets of the subsidiary, reclassified from equity on disposal	**55.7**
Profit on disposal	**56.6**

The profit on disposal is reflected in profit for the year from discontinued operations in the Consolidated income statement. In the year ended 30 September 2011 impairment charges and costs to sell totalling £121.5m were recognised in the loss for the year from discontinued operations in the Consolidated income statement in respect of this transaction. All cash flows occurred in the current year.

The inflow of cash and cash equivalents on the disposal of Sage Healthcare is calculated as follows:	£m
Disposal proceeds, less total costs to sell	**199.9**
Cash disposed	**(1.0)**
Investing cash flows generated from discontinued operations, net of cash disposed	**198.9**

16.6 Other disposals

On 26 January 2012 the Group disposed of Edibase, a small product line of Sage SAS, for net cash consideration of £0.1m.

16.7 Contribution of disposals

Had the disposals occurred at the beginning of the financial year, Group revenue from continuing operations would have been £1,340.1m, Group profit before income tax from continuing operations would have been unchanged. Sage Healthcare is reported in the financial statements as discontinued operations, the financial performance for the period is given in note 15.2.

16.8 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
Folhamatic	16.1	**(146.4)**
Alchemex	16.1	**(2.7)**
Integral	16.1	**(10.0)**
Other	16.1	**(3.7)**
Acquisitions of subsidiaries	16.1	**(162.8)**
Other	16.6	**0.1**
Disposal of subsidiaries	16.6	**0.1**
Sage Healthcare	16.5	**198.9**
Disposal of discontinued operations	16.5	**198.9**

16 Acquisitions and disposals continued

16.9 Analysis of goodwill

The total additions and disposals to goodwill are calculated as follows:	Note	£m
Folhamatic	16.1	**129.6**
Alchemex	16.1	**4.5**
Integral	16.1	**10.3**
Other	16.1	**5.6**
Additions	16.1	**150.0**
Disposals		**–**
Net movement in goodwill on acquisitions and disposals		**150.0**

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 (2011: £0.8m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2012 (2011: £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 £0.2m (2011: £0.3m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2012 (2011: £nil).

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

18 Events after the reporting period

18.1 Share buyback

On 30 September 2012 the Group appointed Deutsche Bank AG to manage an irrevocable buyback programme during the close period which commenced on 1 October 2012 and will run up to 5 December 2012. From 1 October 2012 to 29 November 2012, the latest practical date prior to publication of the Annual Report & Accounts, 17,925,641 ordinary shares of 1p each were repurchased through Deutsche Bank AG at a weighted average price of 308.89p per share. The highest and lowest prices paid for these shares were 322.00p per share and 298.70p per share respectively. The purchased shares have not been cancelled and are held as treasury shares. The total number of ordinary shares in issue (excluding shares held as treasury shares) at 29 November 2012 is 1,210,714,269.

18.2 Acquisition of EBS Empresa Brasileira de Sistemas Ltda.

On 11 October 2012 the Group acquired EBS Empresa Brasileira de Sistemas Ltda.; a provider of accounting, business management and tax software in Brazil; for a cash consideration of up to £10.5m, including a payment of £1.8m linked to the future financial performance. The provisional fair value of the assets acquired was £0.1m, resulting in provisional goodwill of £10.4m.

18.3 Executive Committee change

On 9 October 2012 the Group announced the appointment of Amanda Jobbins as Chief Marketing Officer, who will join Sage's Executive Committee.

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% for all of these subsidiaries with the exception of Folhamatic Tecnologia em Sistemas S.A. which is 75% and IOB Informações Objetivas Publicações Jurídicas Ltda. which is 100% owed by Folhamatic Tecnologia em Sistemas S.A.. All of these subsidiaries 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 Pay Europe Limited	UK
Sage Hibernia Limited	Ireland
Sage Pay Ireland Limited	Ireland
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
Sage Software, Inc.	US
Sage Payment Solutions, Inc.	US
IOB Informações Objetivas Publicações Jurídicas Ltda.	Brazil
Folhamatic Tecnologia em Sistemas S.A.	Brazil
Sage Software Canada Ltd	Canada
Softline (Pty) Ltd	South Africa
Micropay Pty Ltd	Australia
Handisoft Software Pty Ltd	Australia
Sage Business Solutions Pty Ltd	Australia
Sage Software Asia Pte Ltd	Singapore
Sage Software Sdn Bhd	Malaysia

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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 2012 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 62, 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 & Accounts 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 2012;
- 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 matters

We have reported separately on the Group financial statements of The Sage Group plc for the year ended 30 September 2012.

The maintenance and integrity of The Sage Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Charles Bowman.

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

5 December 2012

Company balance sheet

At 30 September 2012
Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2012 £m	2011 £m
Fixed assets: investments	2	**1,408.2**	1,449.6
Current assets			
Cash at bank and in hand	3	**0.5**	121.8
Debtors	4	**438.5**	227.8
		439.0	349.6
Creditors: amounts falling due within one year	5	**(703.3)**	(802.9)
Net current liabilities		**(264.3)**	(453.3)
Total assets less current liabilities		**1,143.9**	996.3
Creditors: amounts falling due after more than one year	8	**(199.2)**	(189.9)
Net assets		**944.7**	806.4
Capital and reserves			
Called up share capital	9.1	**13.3**	13.2
Share premium account	9.2	**524.5**	513.2
Other reserves	9.2	**(239.6)**	51.6
Profit and loss account	9.2	**646.5**	228.4
Total shareholders' funds		**944.7**	806.4

The financial statements on pages 126 to 132 were approved by the Board of directors on 5 December 2012 and are signed on their behalf by:

G S Berruyer
Director

P S Harrison
Director

Notes to the Company 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 £574.0m (2011: £92.6m). 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 Auditors' remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £25,000 (2011: £24,000).

f Share-based payments

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

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

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

At 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.

g 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 r). This policy is in accordance with FRS 26, "Financial Instruments: Recognition and Measurement".

Results for the year

1 Dividends

	2012 £m	2011 £m
Final dividend paid for the year ended 30 September 2011 of 7.07p per share	**92.1**	–
(2011: final dividend paid for the year ended 30 September 2010 of 5.22p per share)	**–**	68.7
Interim dividend paid for the year ended 30 September 2012 of 3.48p per share	**44.4**	–
(2011: interim dividend paid for the year ended 30 September 2011 of 2.68p per share)	**–**	35.3
	136.5	104.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2012 of 6.67p per share which will absorb an estimated £78.2m of shareholders' funds. It will be paid on 8 March 2013 to shareholders who are on the register of members on 15 February 2013. These financial statements do not reflect this dividend payable.

Operating assets and liabilities

2 Fixed asset: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2011	1,449.6
Reduction in year	**(41.4)**
At 30 September 2012	**1,408.2**
Provision for diminution in value at 30 September 2011 and 2012	**–**
Net book value	
At 30 September 2012	**1,408.2**
At 30 September 2011	1,449.6

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 2012, are shown in note 19 of the Group financial statements. All of these subsidiary undertakings are wholly owned with the exception of Folhamatic Tecnologia em Sistemas S.A. ("Folhamatic") which is 75% owned and IOB Informações Objetivas Publicações Jurídicas Ltda. which is 100% owed by Folhamatic Tecnologia em Sistemas S.A.. All subsidiaries 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

	2012 £m	2011 £m
Cash at bank and in hand	**0.5**	3.5
Short-term bank deposits	**–**	118.3
	0.5	121.8

There were no short-term bank deposits at 30 September 2012. In the prior year the effective interest rate on short-term deposits was 0.7% and these deposits had an average maturity of 28 days. 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

	2012 £m	2011 £m
Amounts owed by Group undertakings	**438.3**	227.7
Other debtors	**0.2**	0.1
	438.5	227.8

5 Creditors: amounts falling due within one year

	2012 £m	2011 £m
Bank loans and overdrafts	**2.6**	0.8
Amounts owed to Group undertakings	**635.5**	749.2
Other creditors	**60.0**	50.0
Accruals and deferred income	**5.2**	2.9
	703.3	802.9

Other creditors relate to outstanding liabilities of £60.0m (2011: £50.0m) arising under an irrevocable close period buyback agreement for the purchase of the Company's own shares. Further details are given in note 8.2.

6 Operating lease commitments

The Company had no operating lease commitments during the year (2011: £nil).

7 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 September 2012 (2011: none).

8 Creditors: amounts falling due in more than one year

	2012 £m	2011 £m
In more than two years but not more than five years		
US senior loan notes – unsecured	**185.3**	157.8
Bank loans – unsecured	**13.9**	–
In more than five years		
US senior loan notes – unsecured	**–**	32.1
	199.2	189.9

Included in loans above is £199.2m (2011: £189.9m) of unsecured loans (after unamortised issue costs). These loans were taken out in connection with acquisitions.

The Company has US$300.0m (£185.8m, 2011: £192.6m) of US senior loan notes, which were issued into the US private placement market. These notes mature US$200.0m (£123.8m, 2011: £128.4m) in 2015, US$50.0m (£31.0m, 2011: £32.1m) in 2016 and US$50.0m (£31.0m, 2011: £32.1m) in 2017 and carry interest coupons of 4.39%, 4.78% and 5.15% respectively.

There were £15.0m drawings (2011: £nil) under the multi-currency revolving credit facility of £338.3m (2011: £358.3m) expiring on 31 August 2015, which consists both of US$271.0m (£167.8m, 2011: £174.0m) and of €214.0m (£170.5m, 2011: £184.3m) tranches.

Unsecured bank loans were drawn in Sterling £15.0m (2011: £nil), which bears an average fixed interest rate of 1.7%.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £1.6m (2011: £2.7m). The Company has incurred total issue costs amounting to £4.4m (2011: £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.

9 Equity

9.1 Called up share capital

Authorised	2012 £m	2011 £m
1,860,000,000 (2011: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2012 shares	2012 £m	2011 shares	2011 £m
At 1 October	**1,323,837,836**	**13.2**	1,317,360,582	13.2
Shares issued/proceeds	**5,679,734**	**0.1**	6,477,254	–
At 30 September	**1,329,517,570**	**13.3**	1,323,837,836	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.

9.2 Reserves

	Treasury shares £m	Merger reserve £m	Total other reserves £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 October 2011	(9.5)	61.1	51.6	513.2	228.4	793.2
New shares issued	**–**	**–**	**–**	**11.3**	**–**	**11.3**
Utilisation of treasury shares	**8.6**	**–**	**8.6**	**–**	**(8.6)**	**–**
Purchase of treasury shares	**(299.8)**	**–**	**(299.8)**	**–**	**–**	**(299.8)**
Expenses related to purchase of treasury shares	**–**	**–**	**–**	**–**	**(2.0)**	**(2.0)**
Close period share buyback programme	**–**	**–**	**–**	**–**	**(10.0)**	**(10.0)**
Profit for the financial year	**–**	**–**	**–**	**–**	**574.0**	**574.0**
Dividends paid to owners of the Company	**–**	**–**	**–**	**–**	**(136.5)**	**(136.5)**
Equity-settled transactions	**–**	**–**	**–**	**–**	**1.2**	**1.2**
At 30 September 2012	**(300.7)**	**61.1**	**(239.6)**	**524.5**	**646.5**	**931.4**

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased 104,628,376 shares (2011: nil) at a cost of £299.8m (2011: £nil) representing 7.9% of issued share capital. Shares were repurchased at a weighted average price of 273.60p per share, the highest and lowest prices paid for these shares were 325.00p per share and 245.40p per share respectively.

Close period share buyback programme

The close period buyback programme for £60.0m (2011: £50.0m) relates to the purchase of the Company's own shares. Deutsche Bank AG has been appointed to manage the irrevocable buyback programme during the close period which commenced on 1 October 2012 and will run up until 5 December 2012.

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 or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 710,403 ordinary shares in the Company (2011: 3,689,182) at a cost of £0.9m (2011: £9.5m) and a nominal value of £7,104 (2011: £36,891).

The Trust originally purchased the shares in 2006, and further shares were acquired by the Trust in 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. In February 2012 the Company gifted 3,500,000 shares from purchased treasury shares to the trust. During the year, 6,478,779 shares were utilised to meet obligations under the Performance Share Plan.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2012 was £2.2m (2011: £9.5m).

Other notes

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 wholly owned subsidiary undertakings.

Supplier transactions occurred during the year between Folhamatic and The Sage Group Plc. During the year £0.2m (2011: £nil) was charged through selling and administrative expenses. There were no outstanding amounts payable as at the year ended 2012 (2011: £nil).

11 Post balance sheet events

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

Shareholder information

Financial calendar

Annual General Meeting	1 March 2013
Dividend payments	
Final payable – year ended 30 September 2012	8 March 2013
Interim payable – period ending 31 March 2013	7June 2013
Results announcements	
Interim results – period ending 31 March 2013	8 May 2013
Final results – year ending 30 September 2013	4 December 2013

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.

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

Information for investors

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

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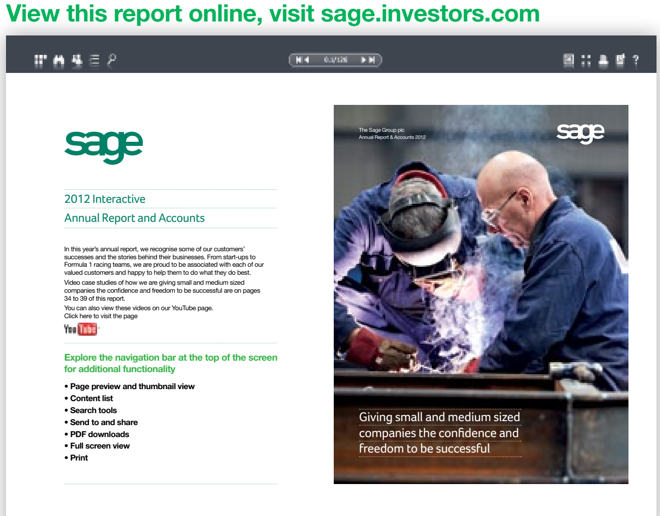

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Designed and produced by Black Sun Plc

Printed by Royle Print

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