

**STRONG FOUNDATIONS FOR FUTURE GROWTH**

Results at a glance	Continuing operations <sup>1</sup>					
	STATUTORY			UNDERLYING <sup>†</sup>		
	2011	2010	Change	2011	2010	Change
Revenue	£1,334.1m	£1,277.7m	+4%	£1,334.1m	£1,277.6m	+4%
EBITA <sup>†</sup>	n/a	n/a	n/a	£365.1m	£336.7m	+8%
Pre-tax profit	£330.8m	£298.9m	+11%	£352.6m	£326.6m	+8%
Earnings per share	19.44p	16.30p	+19%	20.81p	17.88p	+16%
Dividend per share	9.75p	7.80p	+25%	n/a	n/a	n/a

<sup>1</sup> Excluding the results of discontinued operations (Sage Healthcare) in both periods. Including discontinued operations, 2011 revenue, underlying EBITA<sup>†</sup>, and underlying earnings per share were £1,483.8m, £384.0m, and 21.68p respectively.

**Highlights**

- Organic revenue<sup>#</sup> growth of 4%\* in the year (2010: 1%\*), with 3%\* growth in software and software-related service revenues (2010: 3%\* contraction) and 5%\* growth in subscription revenues (2010: 3%\* growth)
- EBITA<sup>†</sup> margin increased to 27.4% (2010: 26.4%\*) at the same time as investing for growth
- Underlying earnings per share increased by 16%\* to 20.81p (2010: 17.88p\*), reflecting 8%\* growth in pre-tax profit, and favourable tax settlements in the year
- Strong operating cash flow of £405.1m (2010: £394.5m), representing 111% of EBITA<sup>†</sup>, with net debt reducing to £24.9m at 30 September 2011 (30 September 2010: £219.8m)
- Rebasing of dividend with 25% increase in total dividend for the year to 9.75p per share (2010: 7.80p per share). This results in a proposed final dividend of 7.07p per share (2010: 5.22p per share)
- Share buyback programme of £200m continues, following the sale of Sage Healthcare
- Innovation driving new product releases, including online business solutions and connected services. Significant launches in the year (e.g. *Sage One*) with strong pipeline of new releases planned for 2012
- 261,000 new paying customers added in the year (2010: 252,000), and our high quality customer service maintained subscription contract renewal rates at 81%

Guy Berruyer, Chief Executive, commented: "These good results reflect the strong fundamentals of Sage's business including our leading market positions, a large and loyal customer base, a culture of innovation and robust financial position. In the past year we have continued to build on these foundations to deliver higher revenue and profit growth in the future. With our strong cash flows, confidence in our business and our focus on shareholder returns, we are evolving our approach to the use of capital, and as part of the process, the Board has rebased the dividend, resulting in a proposed 25% increase for 2011.

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

\* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of \$1.61/£1 and €1.15/£1 to facilitate the comparison of results.

<sup>#</sup> Organic figures exclude the contributions of current and prior year acquisitions, disposals and non-core products.

<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of acquired intangible assets and is after neutralising the impact of foreign exchange movements.

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*An analyst presentation will be held at 8.30am today at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB. A live webcast of the presentation will be hosted on [www.investors.sage.com](http://www.investors.sage.com), dial-in number +44 (0)20 3140 0668, pin code: 821237#. A replay of the call will also be available for two weeks after the event: Tel: +44 (0)20 3140 0698, pin code: 380940#.*

*The Sage Group plc will today publish its Annual Report & Accounts for the year ended 30 September 2011 on the Company's website at [www.sage.investors.com](http://www.sage.investors.com).*

## Chief Executive's Review

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### Overview of the year

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

Whilst there has been a lot of change in the year, we have also remained focused on the needs of our 6 million SME customers. These customers value excellent service, products that meet their business needs and a brand they can trust. We are pleased that our customer satisfaction ratings remained high and our subscription contract renewal rates were stable at 81%; a key measure for Sage. In line with the trend of previous years and with more products and services sold through contracts, subscription revenues grew ahead of software and software-related services, with 5%\* and 3%\* growth respectively (2010: 3%\* growth and 3%\* contraction respectively).

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

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

\* Underlying figures neutralise the impact of foreign exchange movements and exclude amortisation of acquired intangible assets. Foreign currency results for the prior year ended 30 September 2010 have been retranslated based on the average exchange rates for the year ended 30 September 2011 of \$1.61/£1 and €1.15/£1 to facilitate the comparison of results.

<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of acquired intangible assets and is after neutralising the impact of foreign exchange movements.

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

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

## Capital structure and dividends

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

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

## Key developments in the year

### *Leadership*

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

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

### *Innovation and technology*

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

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

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

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

### *Acquisitions*

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

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

### *Brand*

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

### *Sage ERP X3*

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

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## Market environment

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

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

## Summary and outlook

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

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

Guy Berruyer  
Chief Executive Officer

# Chief Financial Officer's Review

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## Revenues

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

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

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

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

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

## Profitability

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

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

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<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of acquired intangible assets and is after neutralising the impact of foreign exchange movements.

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

## Regional review

Throughout the regional review, growth trends are stated on a currency neutral basis with prior year results retranslated at current year exchange rates. This is done to facilitate the comparison of results. A reconciliation of underlying headline revenue to organic revenue is shown in the table in note 1 on page 17.

		Europe	North America	AAMEA	Group underlying*	Foreign exchange	Amortisation of intangible assets	Group statutory
<b>Revenue</b>								
<b>FY11</b>	£m	795.7	390.9	147.5	1,334.1			1,334.1
FY10	£m	763.8	381.2	132.6	1,277.6	0.1		1,277.7
<b>Change</b>	%	+4%	+3%	+11%	+4%			+4%
<b>EBITA<sup>†</sup>/Operating profit</b>								
<b>FY11</b>	£m	229.1	99.7	36.3	365.1		(21.8)	343.3
FY10	£m	214.1	89.8	32.8	336.7	0.5	(28.2)	309.0
<b>Change</b>	%	+7%	+11%	+11%	+8%			+11%

## Europe

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

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

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

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

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<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of acquired intangible assets and is after neutralising the impact of foreign exchange movements.

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

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

The EBITA<sup>†</sup> margin for Europe was 29% (2010: 28%\*).

### *North America*

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

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

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

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

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

### *AAMEA (Africa, Australia, Middle East and Asia)*

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

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

The EBITA<sup>†</sup> margin was 25% (2010: 25%\*).

## Cash flows

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

## Acquisitions and disposals

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

## R&D and capex

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

## 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 stayed constant compared to the prior year at £1 = €1.15, and the average US Dollar exchange rate used moved 3% from £1 = \$1.56 to £1 = \$1.61. 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.

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<sup>†</sup> EBITA is defined as earnings before interest, tax and amortisation of acquired intangible assets and is after neutralising the impact of foreign exchange movements.

## Balance sheet and capital structure

### *Debt and facilities*

The Group has net debt of £24.9m at 30 September 2011 (2010: £219.8m). Over the year, strong cash generation reduced net debt by £197.0m on a constant currency basis. The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group is funded through retained earnings and multi-currency revolving credit facilities totalling £358.3m (2010: £357.4m) (US\$271.0m and €214.0m tranches), which expire in 2015. At 30 September 2011, these facilities were undrawn (2010: £59.6m). In addition, the Group has US private placement loan notes at 30 September 2011 of £192.6m (US\$300.0m) (2010: £190.4m, US\$300.0m). The Group continues to monitor opportunities to enhance and diversify its funding sources in the current capital market conditions.

### *Capital structure and dividend*

We continue to generate a high proportion of revenue through recurring subscription contracts, providing both high quality products and responsive and valuable services to our loyal customer base. We expect our 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 expect this programme to be completed during the first half of 2012. We have a strong balance sheet and, with our high cash generation, our aim is to reach a net debt level of a minimum of 1x EBITDA within 18 months by a combination of further capital returns to shareholders and strategic acquisitions.

Consistent with this objective, and given the very strong cash flow profile of the business, we are also pleased to increase our total dividend for the year by 25% to 9.75p per share (2010: 7.80p per share), giving a proposed final dividend of 7.07p per share (2010: 5.22p per share). This total dividend is covered 2.1x by profits. We intend to pursue a policy of further increasing our dividend broadly in line with underlying EPS growth over time.

### *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.

## Post balance sheet events

On 1 October 2011 the Group agreed to acquire 100% of the share capital of Alchemex (Pty) Limited, a company providing Business Intelligence solutions for SMEs, for a consideration of up to £6.5m. In November 2011, we completed the sale of Sage Healthcare. As previously announced, the funds are being used for the purposes of purchasing our own shares.

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 £80m (A\$130m), and will defend itself vigorously.

## Goodwill

At 30 September 2011, goodwill was £1,736.3m (2010: £2,031.1m). During the year, we signed a definitive agreement to sell Sage Healthcare, which was part of our North American business, to Vista Equity Partners, for cash proceeds of £203.8m (US\$320.0m). As a result, a goodwill impairment loss of £121.5m was recognised to bring the carrying value of the business in line with the proceeds. Under IFRS 5, Sage Healthcare's goodwill and other net assets were reclassified on the Consolidated balance sheet to non-current assets and liabilities classified as held for sale. The sale completed in November 2011. Under relevant accounting rules, a foreign exchange gain on the sale of approximately £60m will be recognised in the financial year ending 30 September 2012.

**Paul Harrison**  
Chief Financial Officer

# Consolidated income statement

For the year ended 30 September 2011

	Note	2011 £m	Restated 2010 £m
<b>Continuing operations</b>			
<b>Revenue</b>	1,2	<b>1,334.1</b>	1,277.7
Cost of sales		<b>(85.6)</b>	(86.3)
<b>Gross profit</b>		<b>1,248.5</b>	1,191.4
Selling and administrative expenses		<b>(905.2)</b>	(882.4)
<b>Operating profit</b>	1	<b>343.3</b>	309.0
Finance income		<b>1.9</b>	3.3
Finance costs		<b>(14.4)</b>	(13.4)
Finance costs - net		<b>(12.5)</b>	(10.1)
<b>Profit before taxation</b>	2	<b>330.8</b>	298.9
Income tax expense	3	<b>(74.8)</b>	(84.4)
<b>Profit for the year from continuing operations</b>		<b>256.0</b>	214.5
(Loss)/profit for the year from discontinued operations	8.2	<b>(67.0)</b>	12.8
<b>Profit for the year – attributable to owners of the parent</b>		<b>189.0</b>	227.3
<b>EBITA<sup>†</sup></b>	1	<b>365.1</b>	337.2
<b>Earnings per share (pence)</b>			
<b>From continuing and discontinued operations</b>			
– Basic	4	<b>14.35p</b>	17.29p
– Diluted	4	<b>14.24p</b>	17.23p
<b>From continuing operations</b>			
– Basic	4	<b>19.44p</b>	16.30p
– Diluted	4	<b>19.29p</b>	16.26p

# Consolidated statement of comprehensive income

For the year ended 30 September 2011

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

<sup>†</sup>EBITA measure (Earnings before interest, tax and amortisation) excludes the effects of:

- Amortisation of acquired intangible assets; and
- Net amortisation of software development expenditure.

# Consolidated balance sheet

As at 30 September 2011

	Note	2011 £m	2010 £m
<b>Non-current assets</b>			
Goodwill		1,736.3	2,031.1
Other intangible assets		118.1	179.1
Property, plant and equipment		146.4	149.6
Deferred income tax assets		20.7	10.4
		<b>2,021.5</b>	2,370.2
<b>Current assets</b>			
Inventories		2.5	4.1
Trade and other receivables		285.4	276.3
Cash and cash equivalents (excluding bank overdrafts)	6	182.8	70.8
		<b>470.7</b>	351.2
<b>Non-current assets classified as held for sale</b>	8.4	<b>251.1</b>	–
<b>Total assets</b>		<b>2,743.3</b>	2,721.4
<b>Current liabilities</b>			
Trade and other payables		(261.2)	(288.9)
Current income tax liabilities		(47.4)	(73.7)
Borrowings		(1.7)	(2.8)
Other financial liabilities		(50.0)	–
Deferred consideration		(2.0)	(2.7)
Deferred income		(404.7)	(402.7)
		<b>(767.0)</b>	(770.8)
<b>Liabilities directly associated with non-current assets classified as held for sale</b>	8.4	<b>(49.7)</b>	–
<b>Non-current liabilities</b>			
Borrowings		(192.4)	(249.3)
Other financial liabilities		–	(1.0)
Retirement benefit obligations		(11.7)	(11.3)
Deferred income tax liabilities		(14.7)	(39.6)
		<b>(218.8)</b>	(301.2)
<b>Total liabilities</b>		<b>(1,035.5)</b>	(1,072.0)
<b>Net assets</b>		<b>1,707.8</b>	1,649.4
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	7	13.2	13.2
Share premium	7	513.2	499.8
Other reserves		266.8	259.3
Retained earnings		914.6	877.1
<b>Total equity</b>		<b>1,707.8</b>	1,649.4

# Consolidated statement of cash flows

For the year ended 30 September 2011

	Note	2011 £m	Restated 2010 £m
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations		405.1	394.5
Interest paid		(13.0)	(11.6)
Income tax paid		(92.5)	(75.7)
<b>Net cash generated from operating activities</b>		<b>299.6</b>	<b>307.2</b>
<b>Cash generated from discontinued operations</b>	8.3	<b>15.4</b>	<b>35.2</b>
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries, net of cash acquired		(1.4)	(7.5)
Disposal of subsidiaries, net of cash disposed		2.0	6.1
Purchases of intangible assets		(9.3)	(6.2)
Purchases of property, plant and equipment		(23.0)	(20.6)
Proceeds from sale of property, plant and equipment		2.4	0.7
Interest received		1.9	3.3
<b>Net cash used in investing activities</b>		<b>(27.4)</b>	<b>(24.2)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares	7	13.4	7.9
Purchase of treasury shares		–	(7.3)
Finance lease principal payments		(0.6)	(0.1)
Issue costs on loans		–	(4.4)
Repayments of borrowings		(83.4)	(324.4)
Proceeds from borrowings		0.6	126.2
Dividends paid to Company's shareholders	5	(104.0)	(98.6)
<b>Net cash used in financing activities</b>		<b>(174.0)</b>	<b>(300.7)</b>
<b>Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)</b>			
	6	<b>113.6</b>	17.5
Effects of exchange rate movement	6	(2.2)	1.8
<b>Net increase in cash, cash equivalents and bank overdrafts</b>		<b>111.4</b>	<b>19.3</b>
Cash, cash equivalents and bank overdrafts at 1 October	6	70.6	51.3
<b>Cash, cash equivalents and bank overdrafts at 30 September</b>	6	<b>182.0</b>	<b>70.6</b>

# Consolidated statement of changes in equity

For the year ended 30 September 2011

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

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

# Notes to financial information

For the year ended 30 September 2011

## Group accounting policies

### a General information

The Sage Group plc (“the Company”) and its subsidiaries (together “the Group”) is one of the leading global suppliers of business management software and services to small and medium-sized enterprises. The Group operates in 23 countries worldwide in Europe, North America, Southern Hemisphere and Asia.

The financial information set out above does not constitute the Company’s Statutory Accounts for the year ended 30 September 2011 or 2010, but is derived from those accounts. Statutory Accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 will be delivered in December 2011. The auditors have reported on both sets of accounts; their reports were unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (“IFRSs”), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies as set out in the Statutory Accounts for 2011 and 2010.

The Sage Group plc has today published its Annual Report & Accounts for the year ended 30 September 2011. The full document can be viewed on the Company’s website at: [www.investors.sage.com/reports\\_presentations](http://www.investors.sage.com/reports_presentations). The document has also been uploaded to the National Storage Mechanism and will shortly be available for inspection at [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do).

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.

### b Basis of preparation

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

### c Accounting policies

#### Going concern

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, they continue to adopt the going concern basis in preparing the consolidated financial statements.

#### Changes in accounting policy

Other than as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2011, as described in those annual financial statements.

#### Adoption of new and revised International Financial Reporting Standards (“IFRS”)

The following standards, interpretations, and amendments to standards were effective during the year ended 30 September 2011 and have been adopted in this financial information.

#### International Financial Reporting Standards Interpretations Committee (“IFRS IC”) interpretations

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

#### Amendments to existing standards

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

#### 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”

#### IFRS IC interpretations

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

#### Amendments to existing standards

- Amendment to IFRS 1, “First-time Adoption of IFRS”
- Amendment to IFRS 7, “Financial Instruments: Disclosures”
- Amendment to IAS 1, “Presentation of Financial Statements”
- Amendment to IAS 12, “Income Taxes”
- Amendment to IAS 19, “Employee Benefits”
- Amendment to IAS 24, “Related Party Disclosures”
- Annual Improvements to IFRSs 2010

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group but will increase the level of disclosure to be made in the financial statements. The amendment to IAS 24, the Annual Improvements to IFRSs 2010 and the amendment to IFRIC 14 are the only amendments endorsed by the EU at the date of approval of this announcement. The other IFRSs, IFRS IC interpretations and amendments to existing standards are not yet endorsed.

# Notes to financial information

For the year ended 30 September 2011

## 1 Segment information

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

The operating segments have been restated for the year ended 30 September 2010 in line with the Executive Committee changes made during the current financial year. The main change is that UK & Ireland is no longer a separately identifiable segment and has been combined with Mainland Europe into a new Europe segment.

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 (UK & Ireland, France, Spain, Germany, Switzerland, Poland and Portugal)
- North America (US 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 8.

### Revenue by segment

	Year ended 30 September 2011			Restated Year ended 30 September 2010							Change	
	IFRS statutory £m	Organic revenue adjustment <sup>1</sup> £m	Non-GAAP organic £m	IFRS statutory £m	Currency impact <sup>2</sup> £m	Underlying at constant currency £m	Organic revenue adjustment <sup>1</sup> £m	Non GAAP organic constant currency £m	IFRS statutory %	Underlying at constant currency %		Non-GAAP organic constant currency %
<b>Subscription revenue by segment</b>												
Europe	500.9	–	500.9	476.0	2.1	478.1	(0.6)	477.5	5%	5%	5%	
North America	299.7	(15.1)	284.6	296.0	(8.1)	287.9	(15.0)	272.9	1%	4%	4%	
AAMEA	75.9	(3.7)	72.2	61.6	3.9	65.5	(1.6)	63.9	23%	16%	13%	
<b>Subscription revenue</b>	<b>876.5</b>	<b>(18.8)</b>	<b>857.7</b>	833.6	(2.1)	831.5	(17.2)	814.3	5%	5%	5%	
<b>Software and software-related services revenue by segment ("SSRS")</b>												
Europe	294.8	–	294.8	283.5	2.2	285.7	(0.7)	285.0	4%	3%	3%	
North America	91.2	(9.0)	82.2	96.6	(3.3)	93.3	(8.4)	84.9	-6%	-2%	-3%	
AAMEA	71.6	(1.7)	69.9	64.0	3.1	67.1	(1.4)	65.7	12%	7%	6%	
<b>SSRS revenue</b>	<b>457.6</b>	<b>(10.7)</b>	<b>446.9</b>	444.1	2.0	446.1	(10.5)	435.6	3%	3%	3%	
<b>Total revenue by segment</b>												
Europe	795.7	–	795.7	759.5	4.3	763.8	(1.3)	762.5	5%	4%	4%	
North America	390.9	(24.1)	366.8	392.6	(11.4)	381.2	(23.4)	357.8	0%	3%	3%	
AAMEA	147.5	(5.4)	142.1	125.6	7.0	132.6	(3.0)	129.6	17%	11%	10%	
<b>Total revenue</b>	<b>1,334.1</b>	<b>(29.5)</b>	<b>1,304.6</b>	1,277.7	(0.1)	1,277.6	(27.7)	1,249.9	4%	4%	4%	

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

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

## 1 Segment information (continued)

### Profit by segment

	Year ended 30 September 2011			Restated Year ended 30 September 2010				Change			
	IFRS statutory operating profit £m	Adj <sup>1</sup> £m	Non-GAAP EBITA £m	IFRS statutory operating profit £m	Adj <sup>1</sup> £m	Non-GAAP EBITA reported £m	Currency impact <sup>2</sup> £m	Underlying Non-GAAP EBITA constant currency £m	IFRS statutory operating profit %	Non-GAAP EBITA reported %	Underlying Non-GAAP EBITA constant currency %
<b>Profit by segment</b>											
Europe	213.7	15.4	229.1	194.8	17.6	212.4	1.7	214.1	10%	8%	7%
North America	94.2	5.5	99.7	83.0	10.0	93.0	(3.2)	89.8	13%	7%	11%
AAMEA	35.4	0.9	36.3	31.2	0.6	31.8	1.0	32.8	13%	14%	11%
<b>Total profit</b>	<b>343.3</b>	<b>21.8</b>	<b>365.1</b>	309.0	28.2	337.2	(0.5)	336.7	11%	8%	8%

1 Adjustment includes the effects of amortisation of acquired intangible assets and the net amortisation of software development expenditure.

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

### Reconciliation of Non-GAAP EBITA to IFRS statutory operating profit

	2011 £m	Restated 2010 £m
<b>Non-GAAP EBITA at constant exchange rates</b>	<b>365.1</b>	336.7
Impact of movements in foreign currency exchange rates	–	0.5
Non-GAAP EBITA reported	<b>365.1</b>	337.2
Net amortisation of software development expenditure	<b>(0.1)</b>	(0.4)
Amortisation of acquired intangible assets	<b>(21.7)</b>	(27.8)
<b>IFRS statutory operating profit</b>	<b>343.3</b>	309.0

## 2 Reconciliation to statutory revenue and profit before taxation

### Reconciliation of revenue

	2011 £m	Restated 2010 £m	Growth %
<b>Revenue on foreign currency exchange rate neutral basis</b>	<b>1,334.1</b>	1,277.6	+4%
Impact of movements in foreign currency exchange rates	–	0.1	
<b>IFRS statutory revenue</b>	<b>1,334.1</b>	1,277.7	+4%

### Reconciliation of profit before taxation

	2011 £m	Restated 2010 £m	Growth %
<b>Underlying pre-tax profit</b>	<b>352.6</b>	326.6	+8%
Impact of movements in foreign currency exchange rates	–	0.5	
	<b>352.6</b>	327.1	+8%
Net amortisation of software development expenditure	<b>(0.1)</b>	(0.4)	
Amortisation of acquired intangible assets	<b>(21.7)</b>	(27.8)	
<b>Statutory profit before taxation from continuing operations</b>	<b>330.8</b>	298.9	+11%

### 3 Income tax expense

Income tax for the year ended 30 September 2011 gives an effective rate of 23% (year ended 30 September 2010 restated: 28%).

### 4 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share trust, 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 2011	Underlying 2010	Statutory 2011	Restated Statutory 2010
<b>Earnings (£m)</b>				
Profit for the year from continuing operations	£274.0m	£235.1m	£256.0m	£214.5m
Profit/(loss) for the year from discontinued operations	£11.5m	£16.9m	(£67.0m)	£12.8m
	£285.5m	£252.0m	£189.0m	£227.3m
<b>Number of shares (millions)</b>				
Weighted average number of shares	1,316.7	1,314.9	1,316.7	1,314.9
Dilutive effects of shares	10.4	4.5	10.4	4.5
	1,327.1	1,319.4	1,327.1	1,319.4
<b>Earnings per share</b>				
<b>Basic earnings per share (pence)</b>				
Continuing operations	20.81p	17.88p	19.44p	16.30p
Discontinued operations	0.87p	1.28p	(5.09p)	0.99p
	21.68p	19.16p	14.35p	17.29p
<b>Diluted earnings per share (pence)</b>				
Continuing operations	20.65p	17.82p	19.29p	16.26p
Discontinued operations	0.86p	1.28p	(5.05p)	0.97p
	21.51p	19.10p	14.24p	17.23p

Reconciliation between statutory and underlying earnings per share	2011 £m	Restated 2010 £m
Profit for the year from continuing operations	256.0	214.5
<b>Adjustments:</b>		
Earnings - trading from discontinued operations	18.9	28.6
Intangible amortisation excluding amortisation of computer software	21.8	28.2
Taxation on adjustments	(11.2)	(18.4)
<b>Net adjustments</b>	29.5	38.4
<b>Earning – underlying (before exchange movement)</b>	285.5	252.9
Exchange movement	–	(1.3)
Taxation on exchange movement	–	0.4
<b>Net exchange movement</b>	–	(0.9)
<b>Earnings – underlying (after exchange movement)</b>	285.5	252.0

## 5 Dividends

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

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

## 6 Net debt

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2010 £m	Cash flow £m	Acquisitions/ disposals £m	Non-cash movements £m	Exchange movement £m	At 30 September 2011 £m
Cash and cash equivalents	70.8	114.2	–	–	(2.2)	182.8
Bank overdrafts	(0.2)	(0.6)	–	–	–	(0.8)
Cash, cash equivalents and bank overdrafts	70.6	113.6	–	–	(2.2)	182.0
Loans due within one year	(2.0)	1.0	1.1	–	(0.1)	–
Finance leases due within one year	(0.6)	0.6	–	(0.9)	–	(0.9)
Loans due after more than one year	(246.0)	58.8	(0.1)	(1.2)	(1.5)	(190.0)
Finance leases due after more than one year	(3.3)	–	–	0.9	–	(2.4)
Cash collected from customers	(38.5)	23.0	–	–	1.9	(13.6)
<b>Total</b>	<b>(219.8)</b>	<b>197.0</b>	<b>1.0</b>	<b>(1.2)</b>	<b>(1.9)</b>	<b>(24.9)</b>

Included in cash above is £13.6m (2010: £38.5m) relating to cash collected from customers, which the Group is contracted to pay onto another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

## 7 Ordinary shares and share premium

	Number of shares	Ordinary shares £m	Share premium £m	Total £m
At 1 October 2010	1,317,360,582	13.2	499.8	513.0
Shares issued/proceeds	6,477,254	–	13.4	13.4
<b>At 30 September 2011</b>	<b>1,323,837,836</b>	<b>13.2</b>	<b>513.2</b>	<b>526.4</b>

	Number of shares	Ordinary shares £m	Share premium £m	Total £m
At 1 October 2009	1,312,966,956	13.1	492.0	505.1
Shares issued/proceeds	4,393,626	0.1	7.8	7.9
<b>At 30 September 2010</b>	<b>1,317,360,582</b>	<b>13.2</b>	<b>499.8</b>	<b>513.0</b>

## 8 Discontinued operations and non-current assets held for sale

### 8.1 Discontinued operations - Sage Software Healthcare, LLC

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

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

### 8.2 Discontinued operations - Financial performance

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

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

Earnings per share information can be found in note 4.

### 8.3 Discontinued operations - Cash flow

The cash flow statement shows amounts related to discontinued operations.

### 8.4 Non-current assets and liabilities classified as held for sale

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

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

## 9 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.

	2011 £m	2010 £m
<b>Key management compensation</b>		
Salaries and short-term employee benefits	7.3	7.9
Post employment benefits	1.0	0.8
Share-based payments	1.7	4.1
	<b>10.0</b>	<b>12.8</b>

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee. The members of the Executive Committee are defined in the Group's Annual Report and Accounts 2011. Álvaro Ramírez and Pascal Houillon joined the Executive Committee on 1 January 2011 and 31 March 2011 respectively. Sue Swenson and Paul Stobart left the Executive Committee on 31 March 2011 and 31 May 2011 respectively.

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

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

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

## 10 Group risk factors

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

### External business factors

#### *Description*

As a technology company, operating in many different countries throughout the world, there is a risk that Sage does not appropriately respond to external business factors, such as changing business needs, changing technologies, competitor activities, compliance and regulatory requirements and the economic environment.

#### *Potential impact*

There is a potential for an adverse impact on business performance if external business factors are not appropriately responded to. Such adverse impacts could affect the competitive position and revenue, make demands on employees and cause financial penalties to be incurred.

#### *Mitigation*

We continue to build strong customer relationships, develop and expand our product and services offering and seek organic and acquisitive growth opportunities. We develop appropriate strategic direction and maintain knowledge of industry developments to ensure a proactive response to changing needs. Our defensive business model and the significant percentage of our revenue which is recurring, give comfort and support against economic exposure. Our Group-wide compliance programme seeks to ensure that local, national and international regulatory requirements are identified and complied with. A detailed quarterly forecasting process helps to ensure robust and realistic challenge to financial performance.

### Products and services

#### *Description*

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

Sage's reputation and competitive advantage could be jeopardised if a poor quality product or service was released to customers. The impact of Sage's products and services on its customers' ability to do business increases the severity of the risk. The change in the product and services landscape in terms of online customer facing products and services and the need to ensure reliability and availability also increases the potential impact of the risk.

### Mitigation

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

## Loss of key management

### Description

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

### Potential impact

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

### Mitigation

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

## Intellectual property

### Description

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

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

### Mitigation

While relying, as other companies do, on the laws and regulations in existence, Sage continually polices the unauthorised use of its products. Sage also ensures the secure storage of source code throughout the Group.

## 11 Post balance sheet events

### 11.1 Disposal of Sage Software Healthcare, LLC

On 10 November 2011 the Group disposed of the entire share capital of Sage Software Healthcare, LLC ("Sage Healthcare") for £203.8m cash.

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

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

Net assets disposed of vary from those disclosed at 30 September 2011 in note 8.4, due to the movement of exchange rates net of trading activity between 1 October 2011 and the date of disposal.

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

	£m
Disposal proceeds, less costs to sell	199.8
Net assets disposed	(200.1)
Cumulative translation differences	60.4
<b>Gain on disposal</b>	<b>60.1</b>

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

### 11.2 Share buyback

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

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

### 11.3 Acquisition of Alchemex (Pty) Ltd

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

### 11.4 Archer Capital lawsuit

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

## 12. Responsibility statement of the directors on the Annual Report

The Group's Annual Report & Accounts for the year ended 30 September 2011 includes the following responsibility statement.

Each of the directors 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.

On behalf of the Board

**G S Berruyer**  
Chief Executive  
30 November 2011

**P S Harrison**  
Chief Financial Officer  
30 November 2011