Annual Report & Accounts

Trusted supporter of SMEs, the heartbeat of successful economies

2014

About Sage

We're helping millions of SME customers to build successful businesses through a deep understanding of their needs and of the markets in which they operate.

Our innovative business software and first-class business support are providing customers with the tools they need to achieve their ambitions and grow.

We're also delivering a new generation of products and services that combine what customers love about Sage with the benefits of technology and more flexible pricing models.

We have a clearly defined strategy to leverage our strengths and take advantage of the changes taking place in our markets to accelerate our growth.

Delivering on our strategy for accelerated growth

– Organic revenue increased by 5% (2013: 4%), driven by an acceleration in recurring revenue growth to 7% (2013: 6%)

– Statutory revenue contracted by 5%, reflecting the disposal of non-core products last year and adverse foreign exchange movements

– The move to higher quality software subscription revenue continues, with a 29% increase in the organic annualised value of the software subscriber base to £220m (2013: £170m)

– Underlying basic earnings per share ("EPS") increased 8% to 22.69p. Statutory basic EPS increased by 330% to 17.07p, reflecting the inclusion of a £186m non-recurring loss on disposals in the prior year

– Strong momentum for Sage One as a small business global cloud solution; it is now present in 10 markets and paying subscriptions increased by almost 150% in the year to 86,000 (2013: 35,000*)

* Following the incorporation of several existing SaaS products into the Sage One portfolio during the year, prior year Sage One paying subscriptions have been restated on a like-for-like basis. Without the restatement, Sage One paying subscriptions at 30 September 2014 were 52,600 (2013: 22,400).

Inside this report

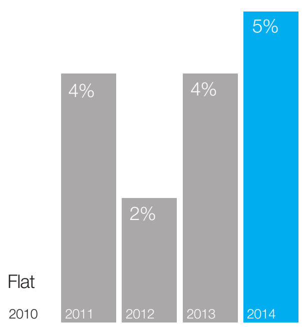
Discover more about Sage online

Visit www.sage.com

Financial highlights

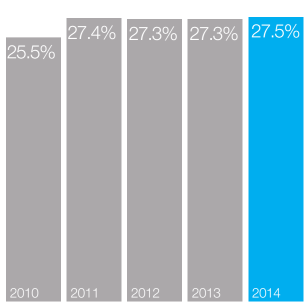
Organic revenue growth

5%



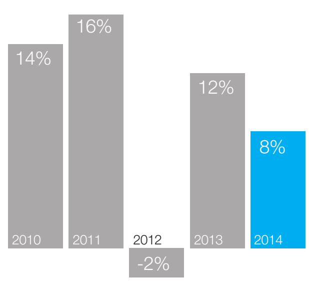
Underlying operating profit margin

27.5%



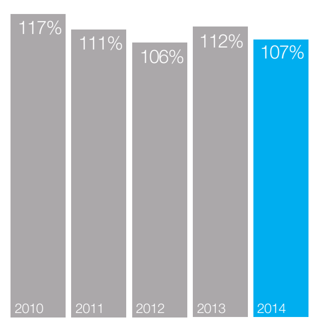
Underlying basic EPS growth

8%



Underlying cash conversion

107%



About our non-GAAP measures and why we use them

Throughout the strategic report we quote two kinds of non-GAAP measure; underlying and organic. We use these measures in monitoring performance and incentivising management.

Underlying – underlying measures exclude certain recurring and non-recurring items, and prior year underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. You can read about what the excluded items are by turning to pages 36 to 39 for our KPI definitions.

Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.

Organic – in addition to the adjustments made to underlying measures, organic measures exclude part-year contributions from acquisitions, disposals and products held for sale in the current and/or prior years. This allows management and investors to understand the like-for-like performance of the business.

Reconciliations

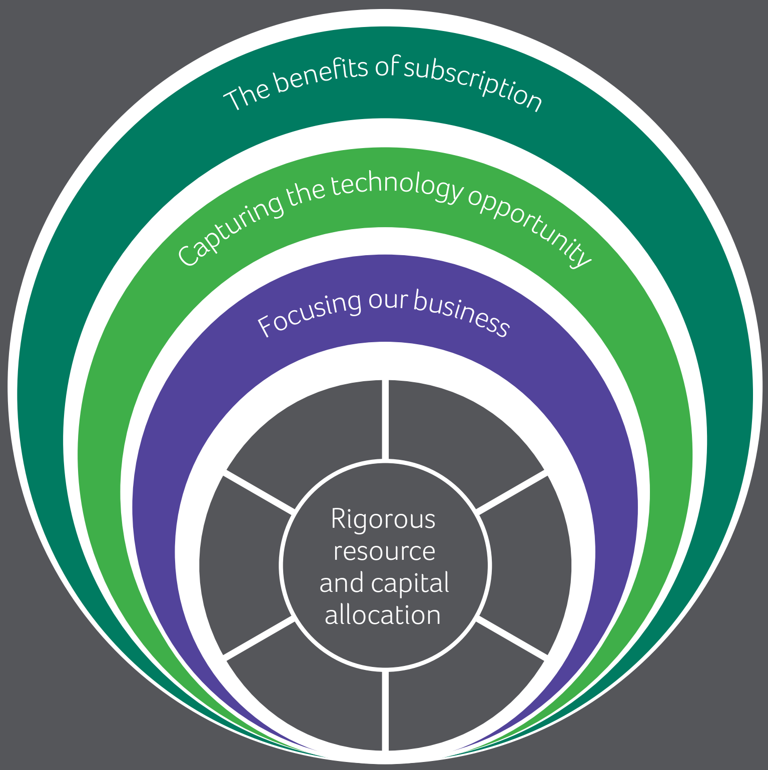
Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial and operating review starting on page 44.

We have a vision...

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.

Discover more about Sage online
Visit www.sage.com

...with a clear strategy



We're on track to meet our financial targets.

We're committed to doubling our long-term historic average organic revenue growth rate from 3% to 6% by the end of our 2015 financial year. We will also deliver a 100bps increase in organic operating profit margin to 28% over the same period.

Turn to page 24 for a deeper look at our strategy.

Turn to pages 36 and 37 to see how we're measuring our strategic progress.

...that delivers solutions

Our solutions are targeted to address customer needs.

We provide small and medium sized businesses ("SMEs") with a range of easy-to-use business management software.

However, software is just the start.

We've been at the forefront of providing SMEs with proactive business support alongside their software product for many years. Our global network of local experts is helping millions of customers to overcome day-to-day business problems, giving them the confidence and freedom to be successful.

Our core products: on-premise and in the cloud

Accounting | HR and payroll | ERP

Our connected services

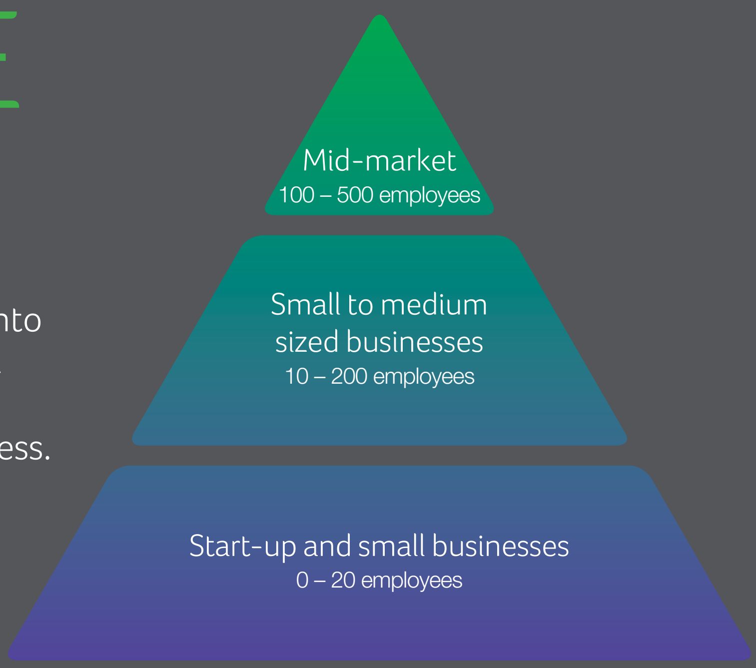
Payments | CRM | Mobility | Business intelligence

Turn to page 6 for more on our products and services.

...to the SME market

We address the SME market by dividing it into three segments because we recognise that the needs and characteristics of a small business differ from those of a larger business.

Turn to page 14 to read about what's important to our SME customers.



2014 highlights

A year of significant progress

Our progress in 2014 demonstrates we've made strategic and financial progress. This momentum underpins our confidence that we will achieve our organic revenue growth and organic operating profit margin targets in 2015.

October 2013

Sage One Accounts Extra launched in the UK, which broadens the appeal of Sage One to a wider range of users with the introduction of multi-currency, multi-user and multi-company capabilities.

Launch of Sage One Accounts in Canada.

Sage One

November

Steve Hare announced as Sage's new Chief Financial Officer, bringing significant financial and operating experience from his time at Apax Partners and Invensys plc.

Steve Hare, Chief Financial Officer

April

Launch of Sage 100 Online in France, our hybrid cloud solution for French SMB businesses.

Launch of Sage One in Switzerland.

May

Sage ERP X3 convention in Lisbon, Portugal, where Sage ERP X3 version 7 is unveiled.

Sage's former Chief Executive Officer Guy Berruyer announces his intention to retire.

Sage reports organic revenue growth for the first half of 2014 of 5%.

5%
Organic revenue growth for the first half of 2014.

June

Launched Sage Murano Online Standard Edition and Sage Murano Payroll Online in Spain.

July

Sage Summit 2014 took place in Las Vegas, where over 5,000 customers and business partners were in attendance.

€16m acquisition of Exact Lohn, a payroll business serving SMBs in Germany, is announced to the market.

August

Announcement of our launch plans for Sage ERP X3 Online, our global cloud solution for mid-market businesses who want to move their infrastructure to the cloud.

Stephen Kelly announced as Sage's new Chief Executive Officer, succeeding Guy Berruyer on 5 November 2014.

Existing start-up and small business SaaS products incorporated into Sage One family in South Africa.

January 2014

Launch of first global brand campaign across Europe, the US, Africa and Australia, demonstrating how Sage helps people around the world to manage their business with confidence.

Drummond Hall joined Sage's Board of Directors as a Non-executive Director. Drummond brings extensive, broad-based marketing and corporate strategy experience from his role as Chief Executive of Dairy Crest and from time spent with Procter and Gamble, Mars and PepsiCo.

February

Commercial launch of a range of connected services in North America, including Sage Mobile Sales, Sage Mobile Service and Sage Billing and Payments. Sage Report and Sage Customer View mobile apps are also launched in France.

Launch of Sage One Accounts in Portugal.

March

Inna Kuznetsova, Non-executive Director

Inna Kuznetsova joined Sage's Board of Directors as a Non-executive Director. Inna brings a wealth of sales, business development and marketing experience to Sage from her time at CEVA Logistics and IBM.

Launch of Sage 300 Online in North America.

Stephen Kelly, Chief Executive Officer

September

$158m acquisition of PayChoice, a provider of payroll and HR services to SMB businesses in the US, is announced to the market.

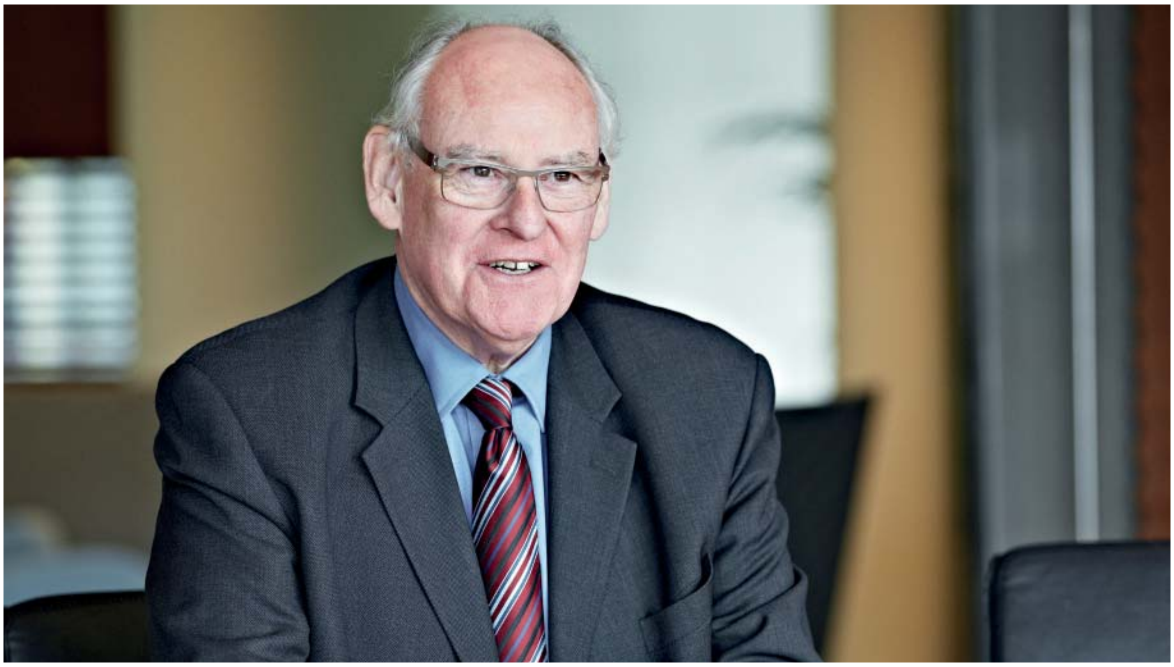
After the year-end

Launch of Sage Contaplus Flex in Spain.

Launch of Sage One in Brazil.

Launch of Sage View for Accountants in North America.

Chairman's statement



We remain on course to deliver the financial targets we have set for 2015, with organic revenue growth of 5% and organic operating profit margin of 27.5% reflecting continued progress towards our goals.

Nothing ever stands still at Sage. We have seen another year of improved revenue growth in 2014 and have made significant progress towards our aim of delivering a step-change in both the level and sustainability of growth. We remain on course to deliver the financial targets we have set for 2015, reporting organic revenue growth of 4.9% and organic operating margin of 27.5% for the year. The acceleration of the move to subscription driving strong recurring revenue growth demonstrates the quality of this revenue growth.

We have appointed Stephen Kelly as Chief Executive Officer. We will now drive the next phase of our strategy. We are building on sound foundations.

Our portfolio – modern, innovative solutions addressing the needs of our customers

The key initiatives underpinning the strategy continue to progress well. We are capturing the benefits of a more global approach: "think globally whilst delivering locally." Sage One and Sage ERP X3, as global products, demonstrate this change. Sage One is well established as our global cloud solution for smaller businesses, differentiated in the market by global breadth, delivery of a truly localised customer experience and 24/7 support. At the other end of our size spectrum, Sage ERP X3 continues to prove its attractiveness as our global solution for mid-market customers.

We continue to transform the value we offer customers by providing the benefits of online, connected and mobile experiences. Importantly, we do this through powerful technology that is non-disruptive for the customer, which supports their progressive move to the cloud. Our disciplined approach to portfolio management has seen investment prioritised to these key initiatives at the expense of legacy products. Effectively, the portfolio is self-funding the investment in growth.

Purposeful innovation is a feature across our portfolio. We have built cloud solutions and brought them to market across our three segments. We are investing in mobility, with a focus on applications that bring value to all our customers across a range of user requirements. For example, for micro businesses, we have launched the Sage One mobile app, whilst with Sage ERP X3 version 7, we have a mid-market solution with mobility at its core.

The Corporate governance report starts on page 66.

Our work on modernising existing products means that on-premise customers can benefit from mobility without compromising their core solution. We are also investing in remote collaboration, ensuring our customers can work efficiently with their accountants and across their businesses.

Business model transition to drive shareholder returns

There are many commentators who wonder how well Sage can transition its business model to cope with the cloud. Quietly, and without fanfare, Sage is doing this. By putting customer needs at the heart of all we do, the Company is showing in its rapid roll-out of cloud services, and related features, its responsiveness to change. The Company also has not forgotten its installed base of customers, not all of whom want to travel on this journey at the same pace. In offering customers choice in how they deploy their software, combined with customer support which is second to none, Sage is differentiated in the market. We consider customer satisfaction is a better measure of progress than simple cloud-based contract numbers.

Sage has built a subscription pricing capability that is making a tangible difference in the business, with more to come. Linking subscription to pricing, product and technology initiatives has proven an effective strategy to drive strong growth of Sage's subscription base. The transition to a subscription-based model creates a more active and more valuable relationship with a customer for life. Subscription is a key driver for Sage, supporting both our customer-centric approach and our strategy for growth.

Read more about the Board on pages 62 and 63.

A focus on shareholder returns is at the heart of the strategy. The Board believes that high-quality and sustainable long-term revenue and earnings growth, combined with a disciplined approach to capital allocation and progressive dividend policy, will drive superior returns for shareholders.

In the past year, we have made new investment in payroll software in the United States with the acquisition of PayChoice. This acquisition strengthens Sage's position in payroll and HR services in the US and accelerates Sage's move to the cloud in this market. The acquisition is wholly consistent with our strategy of putting customers at the heart of what we do and provides greater service to our core customer base. We will continue, in a disciplined way, to seek such opportunities.

The Board

Early in the year, Guy Berruyer indicated his desire to retire from the Company. In the 21st century, natural retirement like this will become increasingly rare, and it is to his credit that Guy has reached the end of his 17-year career with the Company happily in this manner. He has made a major contribution to the Company and has established platforms and structures that will last long after he has retired. We all wish him well in his retirement.

Sage has only had three Chief Executives in its history and I am delighted that Stephen Kelly joins us as the fourth. He has a deep background in software success and in understanding the needs of SMEs. Whilst, of course, he will want to consider for himself Sage's evolution, he has indicated his support for the key pillars of the Company's strategy: increasing revenue growth through focusing our business, capturing the technology opportunity, and gaining the benefits of subscription. We welcome him to Sage.

We were also joined by Inna Kuznetsova, Drummond Hall and Steve Hare on the Board during the past year. They bring valuable and different perspectives to our deliberations. Finally, on Board-related matters, Drummond Hall has succeeded Ruth Markland as Chairman of the Remuneration Committee with effect from 5 December 2014. Ruth remains as Senior Independent Non-executive Director. I am grateful for all her diligence as Chair of the Remuneration Committee.

In summary

It has been a year of further progress – strategically, operationally and financially. There is, however, no complacency, and in such rapidly changing markets we continue to need to focus our energies on shorter decision timelines, rapid deployment and strong customer focus. We can only do this successfully with excellent people and, on behalf of the Board, I would like to thank all our employees and partners for their very considerable efforts in the past year. I look forward with confidence to your Company's response to further changing customer demands in the year ahead.

D H Brydon

Donald Brydon, Chairman

Our products and services

Our software is solving real business problems and harnessing the benefits of new technology, whilst remaining simple, efficient and a pleasure to use.

However, Sage is about much more than just software.

We take the lead in foreseeing the implications of changes that will impact SME businesses, particularly in relation to new legislation, and use this understanding to deliver training and support to our customers that instils them with greater confidence.

Core products

Accounting
Our accounting software gives our customers total control over their finances, invoicing and stock, and provides clear visibility over their profits, cash and financial position.

HR and payroll
Our HR and payroll solutions are simple, secure and efficient, helping our customers to remain compliant and pay their employees accurately and on time.

ERP
Our Enterprise Resource Planning ("ERP") solutions are designed to help customers streamline, consolidate and rationalise their business operations and processes.

Connected services

Payments
Our payments businesses let our customers take payments through their websites, in person using a card reader, or directly from electronic invoices.

Our focus on integrating payments into our core accounting and ERP software means these transactions are recorded automatically into our customers' systems, saving them time and reducing the risk of error.

CRM
Our integrated CRM software helps our customers to maintain more productive relationships with their customers. This helps to drive repeat business and more effective up-selling.

Mobility
Our mobile applications give our customers access to their data anywhere and anytime, helping them to stay in touch with every aspect of their business.

Business intelligence
Our business intelligence solutions are helping customers overcome data complexity and obtain greater insight into their business so that they can make more informed decisions.

Support

We are in regular contact with our customers over the telephone or online.

We have over 30,000 conversations with them each day on topics ranging from accounting queries and advice on new legislation, to technical aspects of our software.

We also expand our support services during periods of peak activity, such as during the tax filing season or when new legislation comes into effect, to help our customers when they need us most.

Turn to page 18 to hear more from the people who help our customers every day.

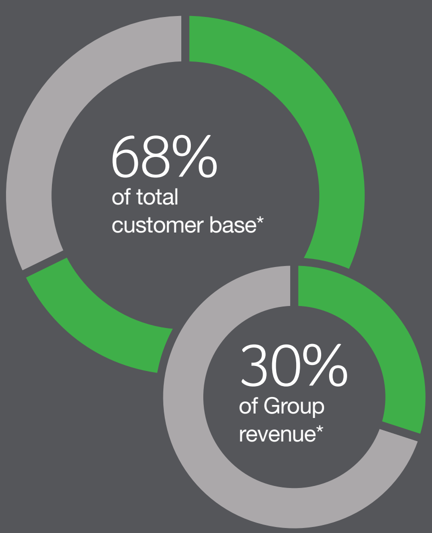
Our markets

Each of our segments has different characteristics and requirements, which provides us with a range of opportunities to bring great products and services to our customers.

Our annual Sage Business Index survey helps us remain close to what matters most to SMEs across the globe by gauging their level of business confidence. Almost 14,000 respondents now take part in the survey, and you can read more about this year's findings at www.sage.com/businessindex.

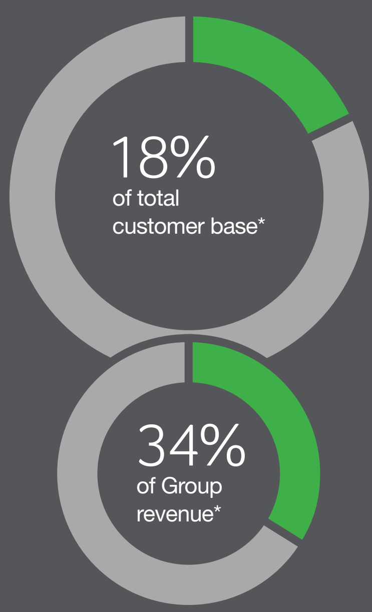
Start-up and small businesses ("SSB")

0-20
employees



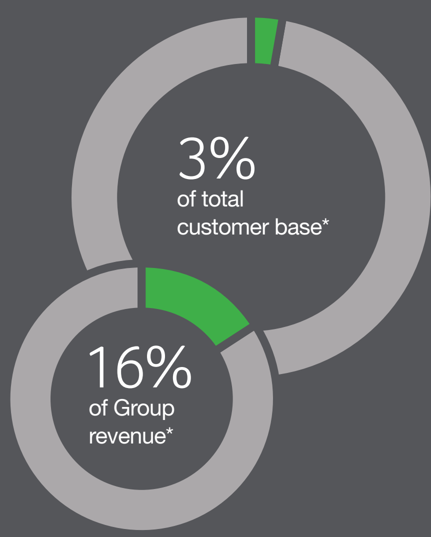
Small to medium sized businesses ("SMB")

10-200
employees



Mid-market businesses

100-500
employees



* Remainder derived from payments and accountants.

Routes to market

Direct
We sell direct to customers in most of our major markets via local websites, over the telephone and through specialist field-sales teams.

Accountant partners
Accountants buy software from us to help them run their practices, and over 48,500 accountant partners also recommend our products and services to their clients.

Business partners and resellers
We benefit from a network of around 20,000 business partners, who act as an important reseller channel and also provide installation, training and support services to businesses with more complex needs.

Where we operate

A global footprint built with local expertise

Sage has a presence in 23 countries and sells software all over the world. Our established market positions provide us with a strong platform to bring products and services to both new and existing customers.

Localised customer experiences

One of Sage's strengths is providing highly-localised software and support to customers. We're able to do this effectively because our teams are based in-country, so they're close to the business and legislative issues that affect SMEs in these locations.

Rather than simply translating software into multiple languages, we build our products so that they fundamentally reflect the interface, functionality and legislative conventions a person would expect to see in their region.

Our ability and commitment to do this sets us apart from many other software vendors.

Our global products

Whilst we're focused on delivering highly-localised products, a key principle of our strategy is to take a more centralised approach to developing global product roadmaps so that we are more efficient, take advantage of our scale, share best practice across our business and utilise our global talent more effectively.

We therefore aim to perform the majority of development work for global products through teams that may be centralised in a particular country or region, and leave the remaining work to in-country teams who tailor the product to meet the needs of the local market.

Two important examples are Sage One and Sage ERP X3.

Sage One

Sage One is our global cloud solution for start-up and small businesses. Following its launch in the UK & Ireland ("UKI") in 2011, Sage One is now commercially available in 10 countries including the US, Canada, Germany, France, Spain, Portugal, Switzerland and South Africa.

The relatively recent launch of Sage One, together with its low monthly subscription, means it is not yet a material contributor to Group revenue. However, Sage One is an important product in helping us to grow market share amongst start-up and small businesses.

The main Sage One development team is based in the UK. The architecture of Sage One is modular so that regional development teams can build functionality addressing local legislation that seamlessly plugs in to the core product. Examples of these modules include quotations in France and debit notes in Spain.

Sage ERP X3

Sage ERP X3 is our global ERP solution for the mid-market. It is sold in over 100 countries, serves 228,000 users across 4,800 customers and is supported by 290 business partners.

Sage ERP X3 is a sophisticated solution offering multi-currency, multi-company, multi-language and multi-legislation support. The latest version commercially available is Sage ERP X3 version 7, which is web-native and incorporates a modern new user interface design. We have also announced the planned release of Sage ERP X3 Online, which offers our customers the benefits of greater customisation and control whilst allowing them to deploy their infrastructure in the cloud.

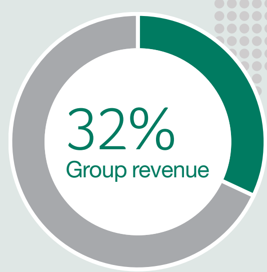
This flexibility means Sage ERP X3 can truly address a global market.

Americas

Revenue £412m

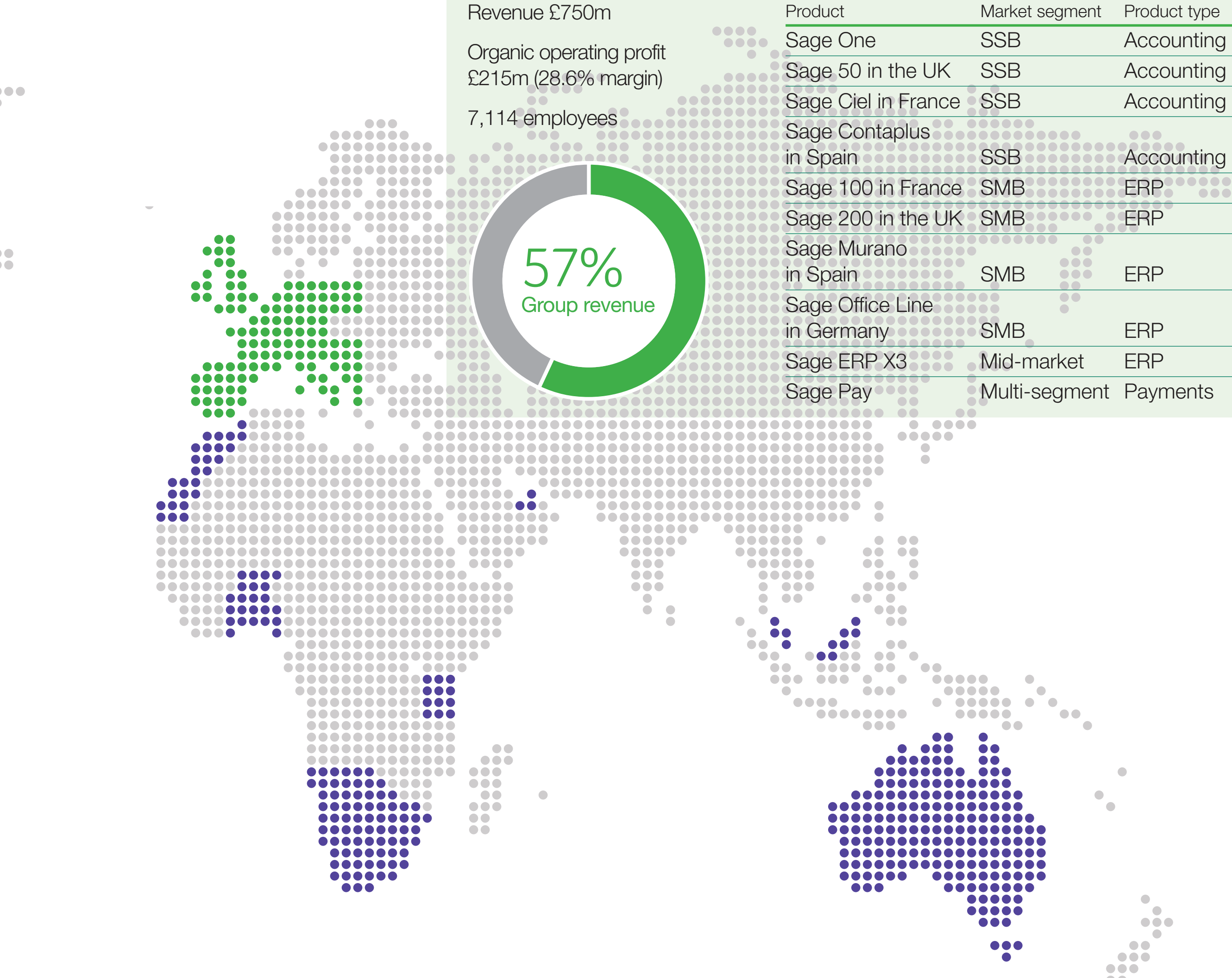
Organic operating profit
£106m (25.7% margin)

3,585 employees



Key products

Product	Market segment	Product type
Sage One	SSB	Accounting
Sage 50 US and Canada	SSB	Accounting
Sage 100	SMB	ERP
Sage 300	SMB	ERP
Sage ERP X3	Mid-market	ERP
Sage Payment Solutions	Multi-segment	Payments



Europe

Revenue £750m

Organic operating profit
£215m (28.6% margin)

7,114 employees

Key products

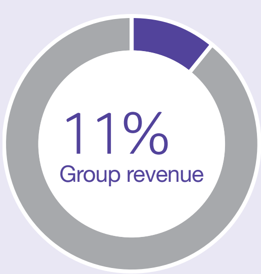
Product	Market segment	Product type
Sage One	SSB	Accounting and payroll
Sage 50 in the UK	SSB	Accounting and payroll
Sage Ciel in France	SSB	Accounting and payroll
Sage Contaplus in Spain	SSB	Accounting
Sage 100 in France	SMB	ERP
Sage 200 in the UK	SMB	ERP
Sage Murano in Spain	SMB	ERP
Sage Office Line in Germany	SMB	ERP
Sage ERP X3	Mid-market	ERP
Sage Pay	Multi-segment	Payments

AAMEA

Revenue £144m

Organic operating profit
£39m (27.2% margin)

2,134 employees



Key products

Product	Market segment	Product type
Sage One	SSB	Accounting and payroll
Sage Pastel	SSB	Accounting and payroll
Sage VIP Payroll	SMB	Payroll
Sage Micropay	SMB	Payroll
Accpac ERP	SMB	ERP
Sage Handisoft	Accountants	Accounting
Sage ERP X3	Mid-market	ERP
Sage Pay	Multi-segment	Payments

Turn to pages 48 and 49 for regional performance commentaries.

There are an additional 142 employees based in centralised or Group functions (2013: 145).

On track to deliver the 2015 financial targets

"I would like to thank Guy Berruyer for leading Sage to deliver an encouraging set of results with a strong finish to the year. I reconfirm the Board's financial targets for 2015 and recognise the 2014 results as an important milestone on the path to meeting them. Our financial performance demonstrates the strength of Sage's global business and the quality of relationships it has with millions of SME customers worldwide."

Stephen Kelly
Chief Executive Officer

These results are important in demonstrating we are on track to achieve our financial targets for 2015. Reporting organic revenue growth of 5% (2013: 4%) and operating profit margin of 27.5% (2013: 27.1%) means the Group remains confident of achieving the targets of 6% organic revenue growth and organic operating profit margin of 28% in 2015.

Recurring revenue grew organically by 7% (2013: 6%), whilst organic SSRS revenue contracted by 1% (2013: flat). The increase in recurring revenue growth is a key feature of these results and reflected a strong software subscription performance. Software subscription revenue grew organically by 28%, reflecting acceleration in the second half on the 23% growth reported in the first half. The recurring revenue growth and strong software subscription performance are important indicators of the underlying strength of the business and underpin confidence in the improved growth trajectory expected for 2015.

Recurring revenue, which includes software subscriptions, payments and support, now represents 73% of Group revenue (2013: 71%). The continuing shift to a higher quality revenue mix reflects the increased contribution from software subscription. The software subscription contract base continues to grow, with over 450,000 contracts across the Group.

The increase in organic revenue growth has been achieved despite a weaker performance in payments, particularly in North America. Improving the performance of payments and driving the number of integrated payments customers remain key priorities, particularly as they have performed below our expectations this year. Likewise, underperformance in the mid-market in France continued as a drag on growth. This was reflected in the lower full-year organic growth rate of 7% (2013: 12%) reported for Sage ERP X3, our global solution for the mid-market. Sage ERP X3 grew well internationally, however, delivering 20% growth outside of France. The ambition for double-digit long-term growth for Sage ERP X3 remains.

Software subscription is growing well, in line with our plans for measured adoption

We are pursuing more active relationships with our customers through subscription. Our progressive approach is based on demonstrating the benefits and flexibility subscription offers them, rather than by mandatorily moving them to subscription pricing. The resulting commitment to offering customers choice around how they can buy a software licence reflects the importance we place on customer satisfaction and retention. The emphasis is therefore on Sage to present customers with differentiated propositions that persuade them to make the transition to subscription.

The growth in the annualised value of the software subscriber base of 29% to £220m, together with subscription contract renewal rates in the region of 90%, is good evidence that our measured approach is effective.

The move to subscription is attractive for Sage and our customers as it builds greater and more predictable revenue streams for the future. By balancing subscription adoption across new and existing customers, we are managing the potential near-term impact on revenue of the transition to subscription. The opportunity we have with existing customers around growing share of wallet, improving retention rates and increasing recurring contract attachment, is helping us to manage the near-term impact of subscription displacing licence revenue.

Our cloud solutions, core product modernisation initiatives and growing portfolio of connected services are providing subscription catalysts for all of our customers, regardless of whether their core system is on-premise or in the cloud. Core product modernisation is a particularly significant opportunity with the Sage installed based. It creates the flexible architecture required to liberate customer data and make it available in the cloud so we can deliver an enriched desktop experience enhanced with connected services. Core product modernisation has been an important catalyst in driving subscription across our portfolio in 2014. Key highlights during the year include Sage 50 Payroll in the UK, Sage Ciel Flex in France and Sage 100 i7 in France.

Sage 50 Payroll auto-enrolment connected service

This connected service, which helps SMEs in the UK comply with new pension legislation, has been a strong driver of growth. It is only available on subscription and is supported on the latest version of Sage 50 Payroll. This revenue is incremental because we typically added new services into customers' existing premium support plan bundles in the past.

At the end of September 2014, the annualised value of our auto-enrolment subscription contract base was approximately £8m. This reflects an attachment rate amongst customers that needed to comply with auto-enrolment in 2014 of over 60%. We are well placed to continue supporting businesses that will need to comply with auto-enrolment legislation going forward.

Sage Ciel Flex

Sage Ciel accounting and payroll products are aimed at start-up and small business ("SSB") customers in France. The success of the tiered subscription offer called Flex shows that SSB customers are willing to move to a recurring subscription relationship if they see a product offers added value. At the end of September 2014, the annualised value of our Sage Ciel Flex subscription contract base was approximately £9m, an increase from £5m in the prior year. Over 60% of customers on subscription have chosen to subscribe to Sage Ciel Ultraflex, which is the highest tier available and includes premium features and cloud capability.

Sage Ciel Flex demonstrates well the reactivation of off-plan customers. Approximately 50% of revenue from new Flex contracts secured in the financial year were with customers who were previously not on a recurring support plan.

Sage 100 i7

Sage 100 i7 is aimed at small to medium sized customers ("SMB") in France. It is a premium subscription product and has now been a driver of upgrade activity in the French installed base for several consecutive reporting periods. It offers a major user interface upgrade, can be accessed through a web browser and incorporates business intelligence and spreadsheet integration capabilities. We also launched Sage 100 i7 Payroll during the year, which has driven upgrade activity in the second half.

At the end of September 2014, the annualised value of our Sage 100 i7 ERP and payroll subscription contract base was over £16m. The vast majority of the subscriber base is made up of migrating existing customers who have a support contract, where the strategy is to drive higher average selling price on subscription. This reflects the premium positioning of the product. Sage 100 i7 is either available on a subscription-only contract or a lower-priced subscription contract together with an up-front fee. These fees are helping us to smooth the impact our subscription transition is having on our SSRS revenue base.

Momentum building in the cloud, with 86,000 Sage One paying subscriptions globally

Sage One is well established in the market as our global software-as-a-service ("SaaS") solution for smaller businesses, with a ca.150% increase in paying subscriptions to 86,000 (2013: 35,000). We continue to push ahead with our global roll-out for Sage One, which is available in 10 countries, so that we are well placed to drive growth in markets as cloud adoption accelerates.

We continue to make good progress with Sage One in the UKI, where the number of paying subscriptions more than doubled to 47,000 from over 21,000 in the last 12 months. This represents a strong increase in average run-rate to over 2,100 per month, up from around 1,300 per month last year, and reflects acceleration to 2,300 per month in the second half of the year.

We also have strong traction with Sage One in South Africa, where the number of paying subscriptions increased from 8,700 to over 21,000 in the last 12 months. Adoption in Continental Europe remains low, reflecting nascent uptake of cloud solutions amongst SSB customers more generally in that market. In North America, the number of paying subscriptions remains behind plan, but we continue to build a product portfolio to provide an attractive cloud platform for small businesses. We see accountants as a key channel for driving Sage One growth, with the introduction of Sage One Accountant Edition in North America an important development in 2014. Driving accountants' engagement and the introduction of Sage One Extra in the US and Canada are key priorities for 2015.

As part of the Group's continued investment in the cloud, our SaaS entry-level products in France, Germany and South Africa were redesigned and incorporated into the Sage One portfolio during the year. This involved rebranding and aligning the user interface and product workflows to create global consistency. Excluding the newly incorporated products, year-end Sage One paying subscriptions were 52,600 (2013: 22,400).

Sage's hybrid cloud solutions for SMB customers are gaining traction, with the number of paying subscriptions doubling during the year to 1,500. The launch of Sage ERP X3 version 7 in the summer means we also offer the mid-market a solution with mobility and web access at its core. We expect to see further good progress in adoption for these solutions in 2015.

Disciplined approach to resource and capital allocation

62% of total research and development ("R&D") expenditure (2013: 52%) and 57% of total sales and marketing ("S&M") expenditure (2013: 52%) is now directed towards the Invest portfolio. This has resulted in an overall increase in absolute spend during the year across Invest products of 17%, alongside an incremental improvement in organic operating profit margin to 27.5%. The disciplined approach to resource allocation supports the 28% organic operating profit margin target in 2015, which we are on track to deliver.

We are also disciplined in our approach to acquisitions, focusing on opportunities that support growth in our core business and meet our returns criteria. During the year we announced two in-fill acquisitions, which strengthen our payroll capability in the US and Germany, and acquired the remaining 25% of Folhamatic in Brazil. We also performed an impairment review and recorded a £44m non-cash charge relating to our Brazilian operations. This reflects the deterioration in the financial and economic environment in Brazil. Notwithstanding this impairment, we remain confident about our growth prospects in Brazil, as reflected in the 9% organic revenue growth reported for 2014.

Consistent with our focus on shareholder returns, the Board is proposing a 7% increase in the total ordinary dividend for the year to 12.12p per share (2013: 11.32p per share). The ordinary dividend for the year is covered 1.9x by underlying earnings per share.

The Board

In August 2014, we announced the appointment of Stephen Kelly to the Board as Chief Executive Officer, effective from 5 November 2014. Earlier this year, Steve Hare joined the Board as Chief Financial Officer, effective from 3 January 2014.

We also announced the appointment of two new non-executive directors to the Board, namely Drummond Hall and Inna Kuznetsova, effective from 1 January 2014 and 6 March 2014 respectively. In November 2013, Mark Rolfe and Ian Mason retired from their roles on the Board as non-executive directors.

Summary and outlook

These results are important in demonstrating we are on track to achieve our financial targets for 2015. Revenue growth is increasing, the subscription base is growing and cloud momentum is building. The Group remains confident of achieving 6% organic revenue growth in 2015, with the anticipated acceleration in growth weighted to the second half of the year, and organic operating profit margin of 28%.

> "Looking ahead, I believe that Sage, as a trusted partner to our customers, can be even more instrumental in supporting the success of SMEs around the world. I look forward to building on Sage's technology leadership, both in the cloud and on-premise, together with our outstanding customer support, to the benefit of our current and future SME customers."

Stephen Kelly
Chief Executive Officer

What we do...

Growing economies rely on successful SME businesses. We're committed to helping them achieve this success by being their most trusted supporter.

We've been dedicated to the success of SME businesses for over 30 years through the provision of localised products and services that help our customers to run their businesses with confidence.

Our support offering is a key strength and is highly valued because it gives our customers somewhere to turn if they have a technical problem, an accounting question or when they're affected by legislative changes.

Our commitment to supporting our customers in this way, where we look to maintain ongoing and active relationships with them, differentiates us from other software vendors.

It also means we've built a strong base of recurring revenue that underpins 73% of our total revenue, which is derived from 1.8 million support, subscription and payments relationships that we have with customers across the world.

Ultimately, we have the resources, vision and resilience to be there for our customers over the long term as their businesses grow.

Key inputs to our business model

Talented people
We rely on the flair, commitment and collaboration of 12,975 employees around the world.

Trusted brand
The Sage brand is synonymous with supporting SMEs. By striving to be our customers' greatest supporter, we remain their trusted partner.

Market insight
Our focus on the SME market means we have developed a deep understanding of what is important to small businesses.

Resource allocation
Our approach to how we deploy our R&D* and S&M** resources is governed by where we see our best opportunities for future growth.

Local knowledge
Our skill at localising our solutions has allowed us to contend with a range of different legislative environments across the world.

Value created

Shareholder returns
Dividends and share repurchases
£217m
Decrease of 62%^

Society
Tax paid in the year
£107m
Decrease of 10%~

Group organic operating profit
Representing a margin of 27.5%
£360m
Increase of 7%

Employees
Wages and salaries
£617m
Decrease of 1%

Resource allocation
Investment in R&D* and S&M**
£417m
Increase in spend of 17% on Invest products

* Research and development.

** Sales and marketing.

^ The decrease is due to the payment of a special dividend of £199m last year alongside an increased rate of share repurchasing as we worked towards meeting our net debt to EBITDA target ratio of 1x, which we met in June 2013. The total ordinary dividend per share has increased by 7% to 12.12p this year.

~ The underlying effective tax rate has fallen this year to 27% as a result of a change in the mix of tax rates that we are exposed to across the globe. For more information on our tax policies, turn to the Financial and operating review starting on page 44.

...how we create value

Key activities
- R&D*
- S&M**
- Support

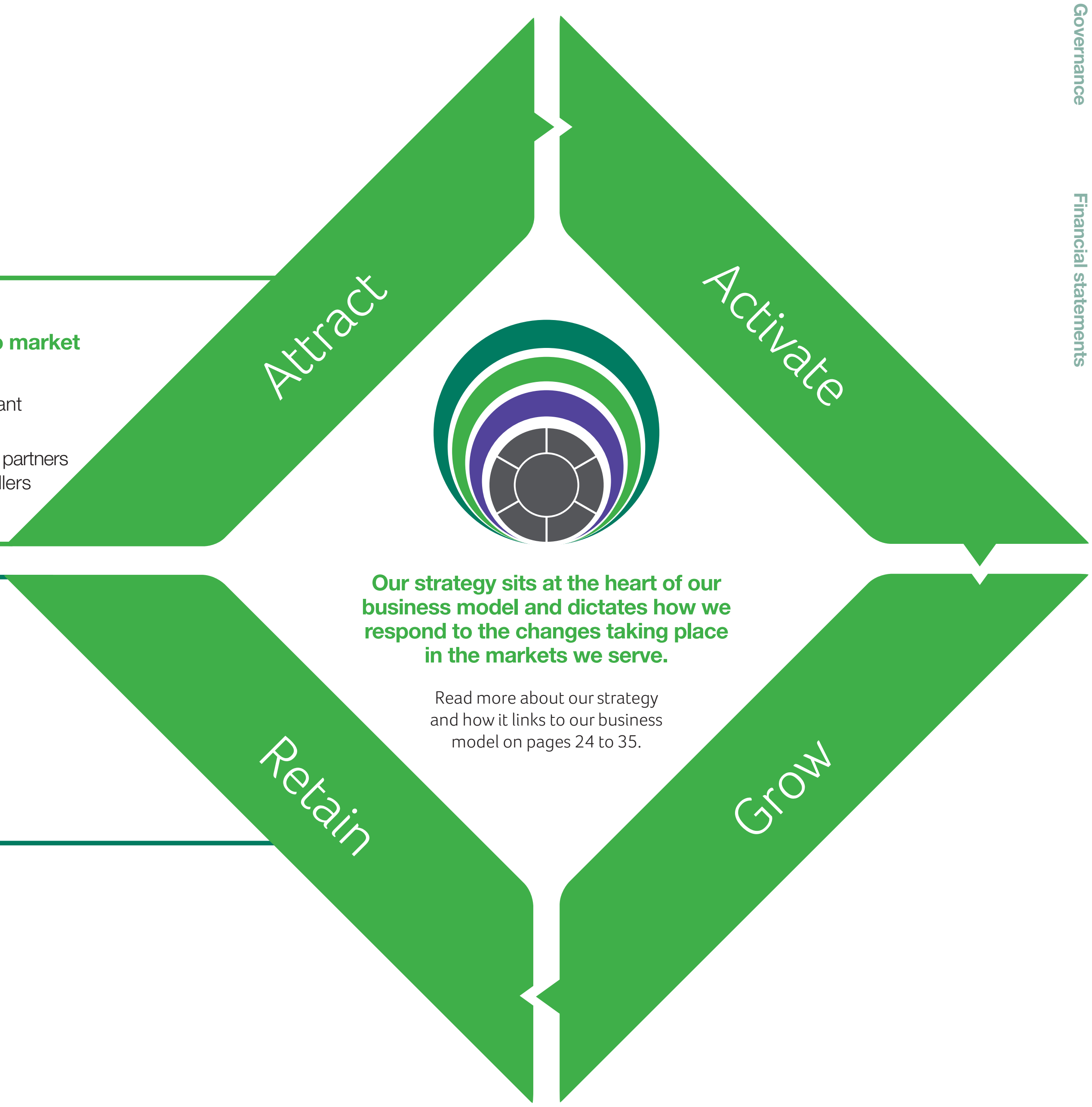
Routes to market
- Direct
- Accountant partners
- Business partners and resellers

Group organic revenue

5% organic growth

£1,306m

73% recurring in nature



Our strategy sits at the heart of our business model and dictates how we respond to the changes taking place in the markets we serve.

Read more about our strategy and how it links to our business model on pages 24 to 35.

Open to read more about the key elements of our business model.

...how we create value

Key elements of our business model

Attract

These are some of our unique selling points and are the reasons why customers are attracted to Sage.

Activate

Over the years, we've built a strong recurring revenue base by providing customers with additional services beyond their core software product, particularly through our support offering.

Software subscription offers us the opportunity to have closer relationships with more of our customers, particularly those who do not maintain a support contract and own their software product via a perpetual licence. This will help us to build on our existing base of over 450,000 software subscription contracts.

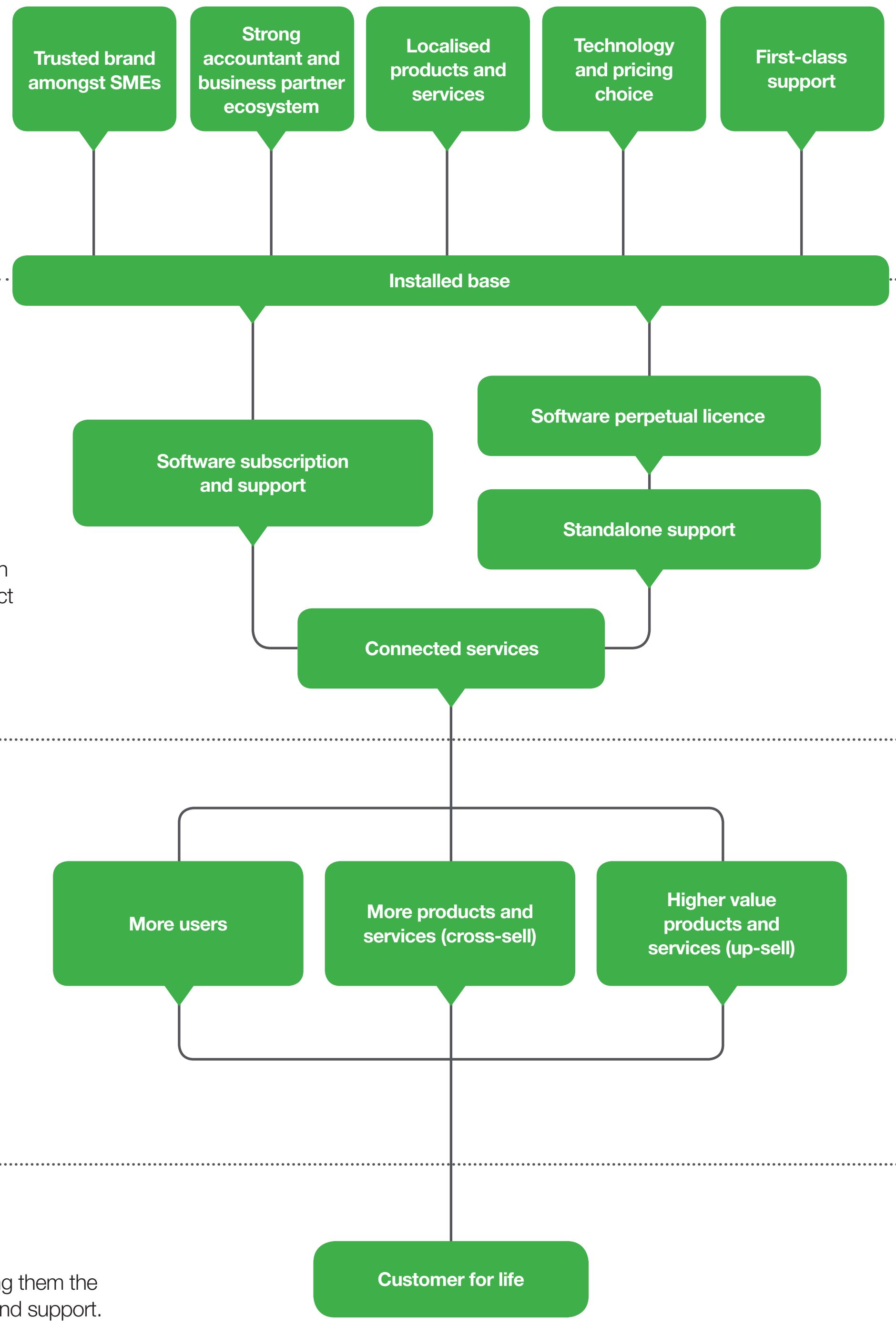
Grow

Technology and the cloud are changing how software is delivered and how businesses use their data. The new wave of value-adding services we are providing will help us to deepen the relationships we have with our customers and drive higher growth.

Retain

We aim to keep our customers for life by delivering them the complete, integrated suite of software, services and support.

This helps us to deliver great experiences that make our customers want to stay with us as their businesses grow.



Growth drivers

KPIs and other metrics

- Attract more new customers through key products such as Sage One, hybrid cloud and Sage ERP X3

Sage One paying subscriptions

86,000

(Up 146%)

Hybrid cloud paying subscriptions

1,500

(Up 100%)

Sage ERP X3 customers

4,800

(Up 14%)

- Activate customers through a support relationship
- Activate customers through a software subscription relationship – particularly where those customers don't have a support contract – either for their core product, a connected service or both.

Number of contracts

1.8m

Down 3%

Organic annualised value of the software subscriber base

£220m

Up 29%

- Grow licence average selling price ("ASP") through software upgrades and migrations
- Grow support ASP through up-selling support customers to premium support
- Grow share of wallet by expanding the number of services taken by each customer
- Grow share of wallet by expanding the number of paying users for each product

Premium support penetration

92%

Rate maintained

Number of payments cross-sell customers

15,800

Up 14%

- Minimise the number of customers who leave us for another provider
- Minimise the number of customers cancelling their support contract
- Drive higher net promotor scores

Recurring contract renewal rate

83%

Up 1%

Our sources of revenue

Recurring revenue

Organic growth: 7% (2013: 6%)

Recurring revenue comprises:

- Maintenance and support ("M&S")
- Software subscription
- Non-software subscription
- Payments

Around 73% of Sage's total revenue is recurring, with customers paying on a monthly, annual or usage basis in return for a range of different services.

Our subscription and payments contracts can be characterised as "pay-to-play", where customers retain the right to use a software application or service for as long as they continue to pay.

Recurring revenue is much less susceptible to economic cycles because many of these services are either critical to a business's ability to continue trading or are seen as indispensable and value-adding.

Our focus on having more active and productive relationships with all of our customers, preferably through subscription but also through support relationships, means recurring revenue growth is a strong indicator of whether we're succeeding in delivering on our strategy.

Software and software-related services ("SSRS")

Organic contraction: 1% (2013: flat)

SSRS revenue comprises:

- New licence sales
- Upgrades and migrations
- Professional services
- Other software-related services

SSRS revenue captures perpetual licence sales, where customers pay an up-front fee for the right to own and use their software forever. This represents the way software has been sold traditionally in the industry for many years.

SSRS revenue is typically more susceptible to economic cycles. When the economy is buoyant, businesses have more confidence and so are more willing to invest in their IT infrastructure.

However, when economic conditions are more challenging, businesses tend to reduce unnecessary expenditure and delay big investment decisions.

Our focus on a measured transition to software subscription will mean that, over time, revenue for our software products will increasingly shift out of SSRS and into recurring revenue.

Customer demand drivers

The world of an SME is an exciting but rapidly changing place, with each day bringing new competitive, economic and regulatory challenges.

Sage has been the advocate of SME businesses for over 30 years and we've developed an intimate understanding of their needs over that time. We continue to play an important role in helping them achieve success through the innovative products and value-adding services that we provide.

Our global presence and considerable resources mean our customers trust us to stay the course with them as they grow and be there for them when they need us most.

Addressing our markets

We address the SME market by dividing it into three segments:

- Start-up and small businesses ("SSB")
- Small to medium sized businesses ("SMB")
- Mid-market businesses

We do this because the characteristics of a small business differ markedly to those of a larger business. Recognising these differences and tailoring our products and services accordingly gives us a competitive advantage in our markets and is one of the reasons why customers choose us.

Customer demand drivers

We regularly speak to our customers to understand what matters most to them. We've found there are some key needs that resonate particularly strongly with SME businesses, which fall into five areas. They want:

- Access to a knowledgeable person for support
- Peace of mind around legislative compliance
- Appealing and intuitive software
- Control to achieve success and grow
- More efficient working

Meeting customer needs

Our product and service offering has evolved in direct response to what our customers have told us is important to them. This has influenced our approach to support in particular, which we manage as a value-adding service in its own right, rather than as basic aftercare.

The demand drivers have also defined our strategy, where we are adapting our product and service offering in response to trends in our markets, particularly in relation to cloud technology and subscription.

This section considers each demand driver and explores how support, technology and subscription are helping us to more effectively meet the challenges posed by each.

Support
See page 18

Technology
See page 20

Subscription
See page 22

Customer demand drivers

Access to a knowledgeable person for support

Most entrepreneurs don't go into business to be a bookkeeper or an accountant, yet maintaining good accounting records is important.

As businesses grow the range and variety of issues they face also grows, with increased operational complexity, international expansion, hiring more employees and a greater reporting burden just some examples of new challenges they might face.

Many small businesses don't have the resources to maintain accounting, payroll and regulatory expertise in-house. This is why millions of our customers value being able to turn to us for help through our support offering.

Our support offering

Over the years, we've been pioneering in delivering proactive business support to SMEs where our support experts provide technical, accounting and regulatory advice to our customers.

We deliver much of this support directly either online or over the telephone, where we receive over 30,000 calls a day, and we even offer on-site support when required.

Our professional services offering that delivers system installation, maintenance and support services to customers with more complex or bespoke ERP requirements is supported by a global network of around 20,000 business partners.

Our support services are delivered locally, which sets us apart from our competitors. Our customers value being able to contact someone who speaks their language, who is familiar with their local reporting conventions and who is available during the working day in their time zone.

The need for support

There is a greater propensity for larger businesses to need support. For example, around a third of start-up and small businesses have support, whereas the rate for SMBs is over 60%, and for mid-market customers it is around 75%.

This is because whilst start-ups are least likely to have any kind of in-house accounting expertise, they also have the simplest needs. Once they become accustomed to their software and the regulations that affect them, they can often grow comfortable being self-sufficient.

However, larger businesses contend with greater complexity and reporting burdens, so a higher proportion of them rely on the support services provided by us and our business partners.

Peace of mind around legislative compliance

Our support offering is an effective way for our customers to remain compliant with new legislation. In recent years we've seen a raft of changes affecting SME businesses, particularly around electronic filing and payroll.

Premium support

Our premium support offering represents the highest tier of support and is where customers gain access to the most value-adding features, including free selected software updates, priority call answering and online training materials.

For many customers these services are highly valuable because they are often the only available resources they have to help them identify, understand and comply with new legislation that affects them.

We are also highly proactive in preparing our customers for new legislation by running awareness campaigns and working with government to not only understand what is changing, but to use our understanding of the SME market to shape those changes.

Always up to date with subscription

Paying for software on a subscription basis is also an effective way to remain compliant. As a subscription customer is essentially purchasing a service from us, they are entitled to all future software upgrades as soon as they become available.

Customers therefore don't need to worry about whether their software has the necessary features to allow them to comply with new standards or conventions, which means they can concentrate on running their businesses.

Appealing and intuitive software

The cloud and technology are redefining the expectations people have of the software they use. Touch-based user interfaces, "big data" analytics, more powerful mobile devices, mobile applications and greater integration between services are just some examples of how technology is helping our industry meet customer needs.

Software-as-a-service ("SaaS")

SaaS is a great example of where the cloud is delivering real change for start-up and small businesses. For example, many entrepreneurs have traditionally used spreadsheet software as their first accounting solution largely because they usually already have access to it.

Accounting software has also tended to address the needs of the bookkeeper rather than the owner-manager in the past, making accounting seem complicated to those who need to maintain business records but aren't financial experts.

SaaS is changing this by providing owner-managers with straightforward, easy-to-access accounting solutions that make bookkeeping much less onerous.

SaaS is delivered through an internet browser and is designed to be much more intuitive, elegant and simple so that non-financial users can pick it up quickly.

The rise of SaaS has created new market opportunities across the world, particularly in our markets in North America and the UK where new technology adoption is most pervasive.

Our SaaS solution for start-up and small businesses is Sage One – to read more about Sage One, turn to page 31.

Engaging user experiences

Advances in software design and the user experience aren't confined to new SaaS solutions. The success of touch-based smartphones and tablets has given rise to a change in how users expect to interact with the software they use.

Customers want software to be modern, engaging and visually appealing, which makes it more intuitive and learnable for the average user.

We're responding by modernising the user interface design of some of our most successful products.

Examples of where customers are already seeing these improvements include the UK version of Sage 50 and Sage ERP X3 version 7, which employs a completely new, web-first user interface.

Tailored mobile applications

Modern user interfaces are also helping to make business software accessible to a greater range of users.

Financial users have been the primary target audience for business software traditionally, but business data has significant utility outside the finance office.

For example, field-based salespeople and engineers can be much more efficient if they're able to access data and manage their work flows in real time.

When this information is presented in a way that is intuitive to them, rather than a financial user, it is easier for them to engage with it to improve their productivity.

We're using the latest cloud technologies to liberate customer data so that it can be accessed by a range of new mobile applications, including mobile billing, sales and payments. This is helping to broaden the appeal and relevance of business information to more users.

Control to achieve success and grow

SaaS and mobility offer businesses an unprecedented level of control because they provide access to data anytime, anywhere.

However, there are a range of use cases for this technology that vary across the segments we serve.

Mobility use cases

In the case of start-ups and small businesses, it is likely the highly-mobile owner-manager is both the bookkeeper and the decision maker, so being able to record new transactions and view key business information whilst travelling is extremely valuable.

In the case of a more established business, decision makers find value in having mobile access to business intelligence, but core accounting and invoice processing will almost certainly be managed by office-based finance teams.

We believe making these distinctions is important so that we are clear on where and how we will add the most value.

Data security, maintenance and customisation

More established businesses need to weigh the benefits of moving data and business infrastructure to the cloud against the operational risks of doing so.

Businesses are often concerned about who owns their data and where it is stored when they move it to the cloud because they need to consider the privacy, business interruption and disaster recovery implications.

They may also have concerns around exercising less control over when software updates and maintenance are carried out, which can be an issue if they occur during critical reporting periods and something goes wrong.

Customisation is important to larger businesses, particularly in the mid-market. However, depending on the technology involved, there may be limits to how much a pure cloud solution can be tailored to the specific needs of a particular business.

On-premise software remains popular because it continues to provide businesses with comfort and flexibility around these issues. However, we don't want these businesses to have to curtail their cloud vision and we've been innovative in addressing this challenge.

Our cloud ERP products offer our SMB and mid-market customers the best of both worlds; they can place their data and business infrastructure in the cloud but continue to have a level of control that is more consistent with an on-premise environment.

Lower-risk investment decisions through subscription

Investing in IT infrastructure is often expensive. High up-front costs make new ventures risky because, if they fail, businesses are left with equipment and software they don't need.

Subscription lets businesses achieve their growth plans in a controlled way without taking on this additional risk. Capital decisions become operating decisions because subscription payments are made on a monthly or annual basis, whereas a perpetual licence purchase requires a higher, up-front fee.

Businesses can therefore put the necessary systems in place quickly, for moderate additional cost and in a way that can be scaled back with limited financial impact if the new venture isn't successful.

More efficient working

Subscription pricing and a change in the way software is being delivered to customers is providing businesses with greater flexibility.

Pay for what you use

The industry is moving away from delivering software as one large application in favour of several smaller applications, with each one offering a discrete piece of functionality.

When coupled with subscription, this lets businesses pay for only the software they need, rather than requiring them to buy everything an application can do even if they don't use all of it.

We're doing this through our connected services offering, which includes integrated payments, CRM, business intelligence and mobility.

We've also developed technology that looks to give all of our customers access to these benefits even if they don't want to move all of their infrastructure to the cloud. Many established businesses have invested heavily in their existing system and would prefer not to start over.

Greater efficiency through collaboration

Technology is helping users to work more collaboratively with each other, their accountants and their business partners.

We've seen some of the strongest evidence of the benefits of collaboration with our accountant partners and their small business clients.

Accountants are looking for ways to reduce their costs and add more value. They want to be able to offer a more rounded and consultative service, as well as saving time and reducing cost by transferring client data and documentation in the cloud.

As more businesses move towards housing some or all of their data online, either because they use a cloud product or because they have a connected on-premise solution, accountants will be able to do much more for their customers in real time, work more efficiently and expand their addressable market beyond their local area.

Providing customers with first-class support

Meeting the people who are incredibly passionate about supporting SME businesses.

Sage customer support, UKI

Jim McGlen, Head of Customer Services for Start-Up and Small Business in the UKI, instils in his team that good customer service is about getting the basics right. "It's being polite. It's listening. It's using your resources and expertise, and being truly passionate about our customers," he explains. "At Sage we are focused on giving our customers a breath-taking experience – one that exceeds all expectations. We strive to deliver the kind of service that people will talk about in the days to come with their friends and colleagues."

Our customer service employees undergo a rigorous training process that equips them with the knowledge they need in order to guide and support businesses in the right way. Lucy Hogg, customer support advisor for Sage One, has first-hand experience of this, "Teams are coached in every aspect of the job. When I joined Sage One I spent an intense five week period learning both the theory and the practice side of the role. A coach would sit with me and listen to my practice calls, reviewing what went well and what needed to be worked on."

Lucy believes this training, combined with our commitment to helping customers run their businesses, sets us apart from other software companies. "When Real-Time Information, which was a new piece of legislation, was brought out there was a big initiative to help educate our customers in the changes that would affect their business. It is refreshing to work for a company that doesn't just sell products but wants to be there for our customers, effectively acting as a helping hand to them."

We are constantly changing and evolving the way that Sage delivers customer service based on what our customers are telling us, and our people are actively engaged in requesting feedback. For example, we introduced a 24/7 Sage One support line after recognising that customers do not always have the opportunity to contact us during normal working hours.

Lucy adds, **"I've worked at some companies that are very inward facing – always focused on what they need to do to hit targets. At Sage the emphasis is definitely on 'what do we need to do to help our customers more'. It is always about the customer and that is something that makes me incredibly proud to work here."**

Linked customer demand drivers:

- Access to a knowledgeable person for support

1.5m
support contracts

3,000+
technical experts globally

30,000+
calls per day

Turn to pages 26 to 28 to read about how we're looking to build active relationships with customers who don't have a support contract.

Purposefully innovating with technology

Small businesses can share, store and collaborate using Sage One and Google Apps for Business.

Jason Savage Photography, USA, using Sage One

As a self-taught photographer, Jason Savage understands the need to travel light. Over the past few years he has turned his hobby into a successful business venture that takes him all over the world, making the ability to work and respond on the move vital.

Based in Montana, USA, Jason became a Sage customer in 2013 after finding other products aimed at businesses of his size too complex and not able to offer the mobility he needed.

"Having round the clock access to my finances whilst I'm out on a shoot is extremely valuable to me", Jason explains. "I travel frequently and am sometimes on the road for long stretches, so being able to keep up with my accounts and my clients at the same time makes my job a lot easier."

Jason uses Sage One in conjunction with Google Apps, which means he can access the documents that are essential to his business quickly and easily whilst collaborating and liaising with clients and suppliers in real time.

"Being mobile is paramount and working in this way gives me the freedom to manage my cash flow and send invoices from wherever I am, whether it's on a laptop or my smartphone."

Jason pays for Sage One on subscription, which is something that suits the requirements of his business well. "Paying in this way is great for me," he says. "It's less worrisome as there is no up-front expense."

As a business owner Jason cites reliability, support and ease of use as the most important factors when choosing business software. "I chose Sage One because of its clean, simplistic layout and usability as well as its mobile features. The fact that my data is also automatically backed up to Google Drive from Sage One gives me extra reassurance and peace of mind.

"We have recently relocated and knowing that I have the support of helpful, informed people at the end of the phone if I ever need them is encouraging to me as a business owner."

Linked customer demand drivers:

- Appealing and intuitive software
- Control to achieve success and grow
- More efficient working

86,000
Sage One paying subscriptions globally at 30 September 2014

Turn to Capturing the technology opportunity on pages 29 to 32 to read more about how we've responded to the varying needs of the customers in our segments.

www.jasonsavagephotography.com

Subscription

Greater flexibility through subscription

Subscription provides our customers with control and visibility over their cash flow.

Locamont 2M, France, using Sage Ciel Ultraflex

As a family run business, it is important to owner Patricia Baldy that she is contactable not only in the office but from home on an evening, during weekends and over holiday periods. She explains, "We run a haulage company so it is not unusual for customers to call very late in the day to book a last minute job. I need to be on hand to speak to them, fill out the required paperwork and pass their details on to the staff that will be on the ground moving them, sometimes the next day."

Locamont 2M currently employs a team of five people based out of their office in Vitrolles, South of France. Patricia has used Ciel products for a number of years after being introduced to using the software as part of her accountancy training. Initially attracted by the product's simplicity and ease of use, she has recently taken the decision to pay by subscription as part of the Ultraflex package, adding, **"I like the fact that I know how much we are spending on our software month-on-month and can budget accordingly."**

When discussing Sage Ciel Flex's cloud features, which are only available on subscription, Patricia is quick to allay any fears around security by saying, "In the past I wasn't that disciplined in backing up my data regularly – I didn't have the time. Since moving some of our software to the cloud I have no concerns about the safety of our documents. I also like the fact I can go to my accountant with just a laptop and make any changes that I need to there and then without having to carry hard copies of everything."

The company is also utilising some of the mobile apps that are offered as part of the subscription. Patricia continues, "I use the apps that help us to plan – being able to forward plan is critical to the future of our business and I find being able to access them through my phone very useful."

Linked customer demand drivers:

- Peace of mind around legislative compliance
- Control to achieve success and grow
- More efficient working

£9m
Annualised value of Sage Ciel Flex subscription contract base at 30 September 2014

60%
Sage Ciel Flex customers have chosen Ultraflex, the highest tier available

Turn to pages 26 to 28 to read about why subscription is such an important part of our strategy.

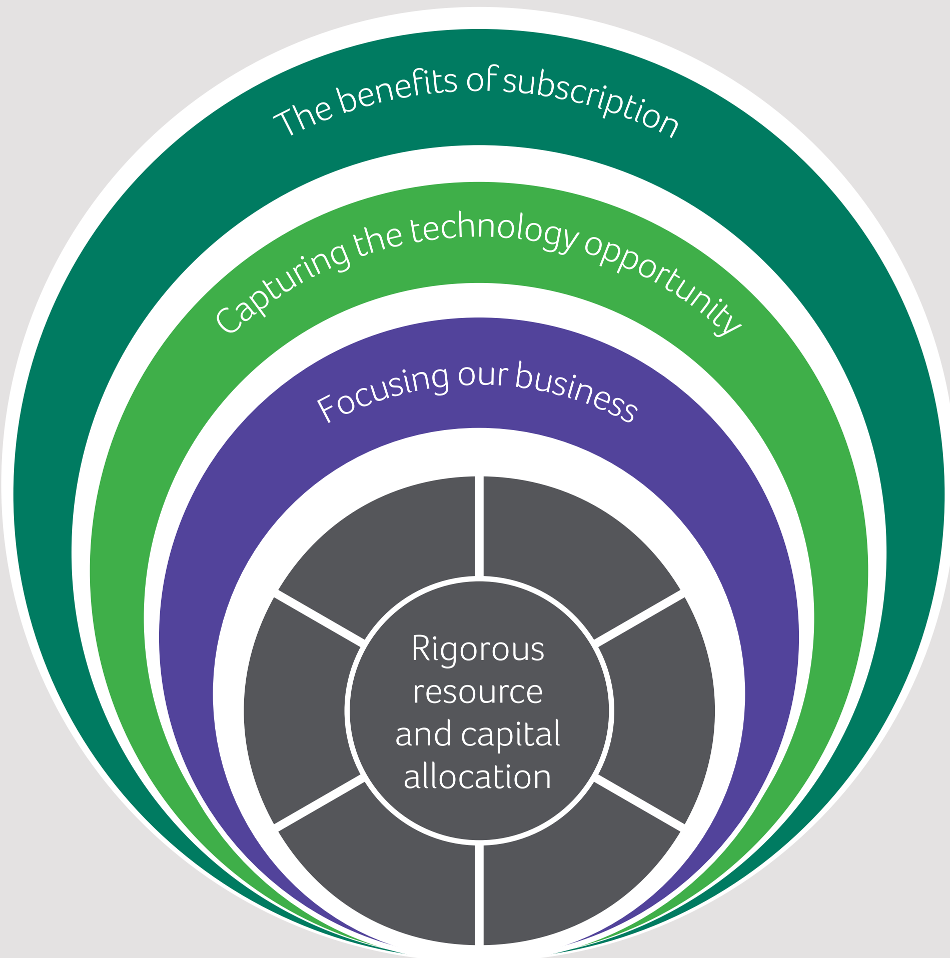
www.locamont2m.com

Our strategy

On track to meet our financial targets

Our strategy is helping us to respond to the changes taking place in the markets we serve in a way that leverages the strengths of our business model.

Our strategy is the driving force behind our commitment to doubling our long-term historic average organic revenue growth rate from 3% to 6% by the end of our 2015 financial year. We are also committed to delivering an increase in organic operating profit margin of 100bps to 28% over the same period.



Description

The benefits of subscription
We're focused on transitioning our business model away from selling software on a perpetual licence and towards providing a holistic range of products and services to our customers on subscription.

Capturing the technology opportunity
Technology and the cloud are offering us the chance to bring a new range of value propositions to our customers, which holds the key to a number of commercial benefits that can help us to drive higher growth.

Focusing our business
Through greater focus on our best opportunities for success, working together across the world in a more collaborative way and by setting priorities globally, we can better exploit our strengths.

Rigorous resource and capital allocation
With our consistent, strong cash flows, we retain considerable financial flexibility. Our main strategic priority remains an acceleration of growth, both organically and through targeted acquisitions, and we are investing in support of that aim.

Performance	Associated KPIs	Associated risks
Software subscription is the primary driver of organic revenue growth this year. We now have over 450,000 software subscription contracts that have an annualised value of £220m. Sage Ciel Flex and Sage 100 i7 in France, and Sage 50 Payroll in the UK, have all delivered good subscription growth this year and are some of the best examples of our subscription drivers in action.	– Organic annualised value of the software subscriber base	– Unsuccessful transformation of business – Risks associated with change management – Inadequate processes and systems
We've continued to deliver on our technology roadmap this year. Sage One is now live in 10 countries, our cloud ERP solutions for SMB business are all commercially available and Sage ERP X3 version 7 is now live with an online offering announced. We've also started to release modernised versions of some of our other leading on-premise products so that we can deliver a cloud-enriched experience to many more of our customers.	– Adoption of Sage One – Adoption of hybrid cloud – Sage ERP X3 organic revenue growth – Integration of payments	– Loss of data – Unavailability of online solutions – Loss of source code and intellectual property – Issues with traditional products
We have continued to reallocate investment towards our best opportunities for future growth and increased profitability, which has driven a 17% increase in R&D and S&M expenditure on products categorised as "Invest".	– Research and development reallocation – Sales and marketing reallocation	– Inability to attract skills and resources – Poor resource allocation – Inadequate processes and systems
This year we have increased the total ordinary dividend by 7% to 12.12p. We have returned £91m to shareholders through share repurchases as part of maintaining our 1x net debt to EBITDA target ratio. We also made two material acquisitions in Germany and the US for a combined consideration of around £110m*.	– Net debt to EBITDA ratio – Interest cover	– Poor resource allocation – Inadequate processes and systems

* Based on prevailing exchange rates at the time of announcement.

Turn to pages 36 and 37 for our strategic KPIs.

Turn to pages 42 and 43 for a list of our principal risks and mitigations.

The benefits of subscription

Subscription is changing the nature of software purchasing, with customers electing to pay an ongoing fee in return for a service, rather than just a product.

A fundamental change for Sage

Software subscription represents a fundamental change for Sage because we've historically sold our products predominantly through perpetual licensing, where customers pay once up-front and own their software forever.

We're currently driving a measured transition to subscription. This builds on our strong existing recurring revenue base, which is underpinned by our maintenance and support offering and represents 73% of total revenue.

Software subscription driving growth

We have over 450,000 software subscription relationships, which means we already have an established subscription base in our business.

However, the emphasis on subscription is increasing as cloud technology and greater customer acceptance are driving acceleration in the rate of adoption. For example, this year we've seen a 29% increase in the organic annualised value of the software subscriber base to £220m.

Subscription and usage-based services such as payments, which we refer to as "pay-to-play", now represent 26% of our total revenue and were the biggest contributor to organic revenue growth this year.

Subscription and our business model

Subscription is an important strategic priority, particularly as it offers us a range of ways to accelerate growth.

More active relationships through subscription

A key principle of our business model is that we want to have active and ongoing relationships with our customers. Active relationships are important because they help us to better support our customers and grow the range of services they take from us because we are better able to anticipate their needs.

Historically, we've focused on doing this through our support and payments offerings, which has helped us to build over one million support-only relationships and over 200,000 payments relationships.

We are focused on both the transition of this existing contract base to software subscription, and also on establishing active relationships with customers who don't have a support or payments contract by encouraging them to move to subscription for their core software product.

Dual model approach

Even though we are focused on transitioning customers to subscription, retaining their business and ensuring they're satisfied is always of paramount importance.

This is why we're driving a measured transition where perpetual licensing remains available alongside subscription, which preserves our customers' ability to choose and gives them the flexibility to move when they're ready.

The financial impact on Sage

There have been a number of market communications in recent years from other software vendors where they expect to suffer a short-term dip in revenue as they transition their business to subscription. This is the result of subscription revenue being recognisable over time, whereas perpetual licence revenue is typically recognised up-front.

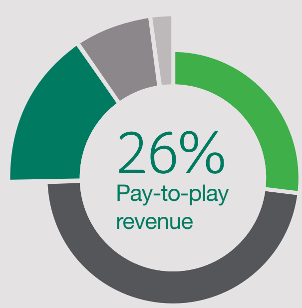
We are well-placed to mitigate the likelihood and extent of such a dip. In particular, we are in a position of strength with 73% of revenue already recurring in nature, the majority of which would not be displaced by subscription. The continuing availability of perpetual licensing also creates a portfolio effect so that the impact of any revenue displacement is gradual.

Subscription growth drivers

There are also a number of other important subscription drivers available to us, several of which help us to generate incrementally new revenue.

These drivers include attracting new types of customer to Sage who are looking to pay on subscription, reactivating existing customers who are not on another type of recurring contract with us, and increasing subscription adoption amongst existing customers more generally through up-selling and cross-selling a broader range of subscription-based products and services.

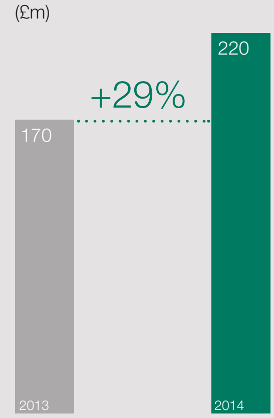
Split of revenue by type



SSRS	27%
Maintenance and support	47%
Software subscription	16%
Payments	8%
Non-software subscription	2%

Organic annualised value of software subscriber base

(£m)



Subscription growth drivers

Building on over 450,000 existing software subscription contracts

Attract	**New types of customer**
Activate	**Reactivation of off-plan customers**
Grow	**Cross-selling and greater lifetime value**
Retain	**Greater customer loyalty**

Attract

New types of customer

Subscription is making it easier for new types of businesses to become Sage customers because the up-front cost barrier to ownership is lowered.

For example, many start-ups have historically run their business on spreadsheets until they grew big enough to justify the cost of a software package. However, SaaS technology and subscription pricing have combined to create a new market for simple and cost-effective accounting software.

We're addressing this important new opportunity with Sage One, our global SaaS solution, which attracted 51,000 new paying subscriptions this year.

Activate

Reactivating off-plan customers

There are millions of businesses who use our software, and many also maintain some form of ongoing contract with us for additional services such as payments or support.

Subscription offers us the chance to engage with customers who don't have one of these contracts, which we refer to as "off-plan" customers.

These customers require a catalyst to move onto a recurring software subscription contract with us, and our cloud technology initiatives are providing compelling reasons to move.

Most importantly, we're able to drive subscription adoption across the majority of our customer base because we're committed to bringing cloud-based connected services to all of our customers, even where they choose to keep their core system on-premise.

Activating off-plan customers through subscription is a significant growth opportunity because it is immediately revenue-enhancing and does not displace any existing revenue streams.

Grow

Cross-selling

We're able to maintain a much more intimate relationship with a subscription customer, which means we can anticipate and be more attentive to their needs.

This can help to increase our effectiveness at cross-selling other relevant products and services because we can be more targeted in our approach.

Our connected services strategy is providing us with the platform to drive this cross-sell and increase our share of wallet.

Greater lifetime value

Subscription customers pay on an ongoing basis for as long as they require the use of their software and are entitled to receive all future upgrades to their product. The value of a subscription relationship is therefore greater than that of a perpetual licence over its lifetime.

This makes subscription a much higher-value revenue stream over the long term that gives us greater visibility and certainty over our future revenue potential.

Lifetime value growth is the primary opportunity we have with our existing on-plan customers, particularly as they are already active and are paying to take additional services from us. Technology-driven added-value features and intelligently priced product and service bundles are providing these customers with reasons to swap their support contract for a software subscription relationship.

Retain

Greater customer loyalty

Perpetual licence customers typically buy software in multi-year cycles. In the intervening years we may not have frequent contact with these customers, unless they also have a support relationship with us, so making them aware of upgrades or other relevant products and services is more difficult.

Subscription changes the dynamics of the relationship because there is no multi-year buying cycle, customers are entitled to all upgrades as soon as they are available, and we're able to work much more closely with them to ensure they're satisfied. This reduces the likelihood a customer might be tempted to switch because their needs are being met.

Software subscription has very high rates of renewal as a result – we see renewal rates of around 90% by volume. This compares to renewal rates on support contracts of around 80%. Retaining our customers is incredibly important because we want them to be satisfied so that we preserve the long-term revenue potential contained within our installed base.

Turn to pages 12 and 13 to read more about our business model.

Progress this year

Whilst subscription is fuelling growth across a range of different products in a number of countries, there are three stand-out performers this year that are good examples of the subscription drivers in action:

– Sage Ciel Flex in France
– Sage 100 i7 in France
– Sage 50 Payroll in the UK

Sage Ciel Flex

Our subscription contract base for Sage Ciel Flex, an accounting and payroll product aimed at SSB businesses in France, was approximately £9m at the end of September 2014. Over 60% of customers have chosen to subscribe to Sage Ciel Ultraflex, which is the highest tier of the Sage Ciel Flex offering and includes premium features, cloud functionality and mobility.

Whilst Sage Ciel Flex has been successful in driving growth in new customer acquisition and existing customer migrations, it is also a great example of off-plan customer reactivation. For example, approximately 50% of revenue from contracts secured this year was derived from customers who were previously not on a recurring support plan.

These customers are typically sensitive to price, so they need compelling reasons to move away from what they already have. However, our focus on providing value-adding features that increase efficiency and ensure customers are legislatively compliant is encouraging many of them to move to subscription.

Sage 100 i7

Sage 100 i7 is aimed at SMB businesses in France, is only available on subscription and has now been a driver of upgrade activity in the French installed base for several consecutive reporting periods. It offers a major user interface upgrade, can be accessed through a web browser and incorporates business intelligence and spreadsheet integration capabilities.

We also launched Sage 100 i7 Payroll during the year, which has helped to sustain upgrade activity into the second half. At the end of September 2014, the annualised value of our Sage 100 i7 ERP and payroll subscription contract base was over £16m. This represents penetration of around 30% of the entire Sage 100 customer base, which is an increase from 14% at the end of last year.

Sage 100 i7 is either available on a subscription-only contract or a lower-priced subscription contract together with an up-front fee, with the majority of customers choosing the latter option. These fees are helping us to smooth the impact our subscription transition is having on our SSRS revenue base.

Sage 50 Payroll

New legislation requiring all employees to be enrolled in a company pension scheme is affecting many SME businesses in the UK. Our new auto-enrolment pension module, a connected service that integrates with Sage 50 Payroll, is helping our customers to comply with the new requirements.

The auto-enrolment module is only available on subscription and is supported on the latest version of Sage 50 Payroll. However, as part of our measured transition, Sage 50 Payroll customers can retain their existing perpetual licence for the core product so they don't have to move to subscription completely if they're not yet ready.

At the end of September 2014, the annualised vaue of our auto-enrolment subscription contract base was approximately £8m. This represents a penetration rate of over 60% amongst customers who were required to comply this year.

Turn to pages 36 and 37 to view our strategic KPI progress.

KPIs used to measure progress in this cornerstone:

– Organic annualised value of the software subscriber base

Turn to page 22 to hear from a Sage Ciel Flex customer.

Turn to the fold-out on page 13 to read about the difference between SSRS and recurring revenue.

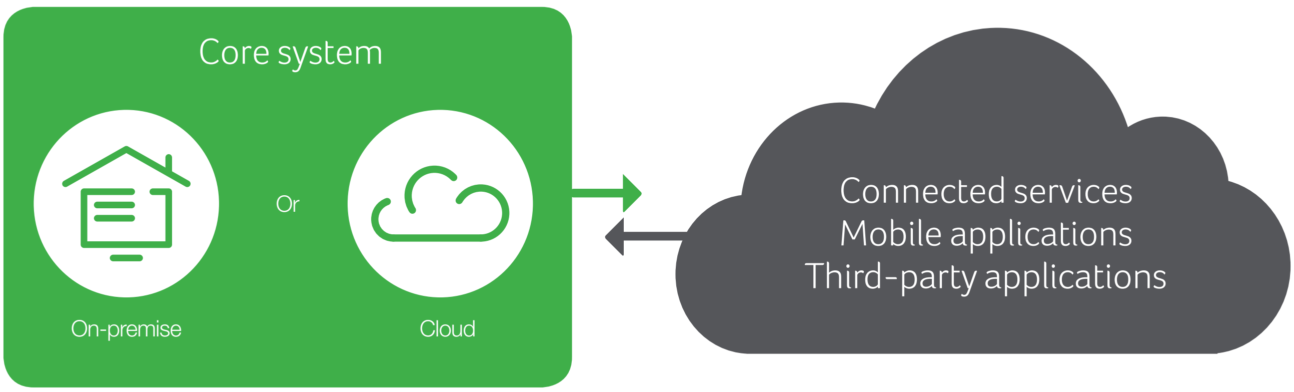
Capturing the technology opportunity

Sage has a passion for technology innovation that is purposefully applied.

The right technology for our customers, powered by the cloud

We're providing relevant cloud solutions to both new and existing customers across our segments.

We know that moving straight to the cloud is a great option for some businesses. For others, they need to weigh moving to the cloud against other things that are important, including preserving existing infrastructure, maintaining control of systems and data, obtaining peace of mind around security and retaining the ability to customise.



We want to deliver the power of the cloud to all our customers, regardless of how they deploy their core system.

Our technology vision

Choice of deployment

We want businesses to be able to choose how they deploy their core system – either in the cloud or on-premise – so that they can make a progressive transition without having to compromise or face significant disruption.

Data liberation

We want businesses to have anytime, anywhere access to their data regardless of their deployment choice, whether that is in the cloud or on-premise.

More users and greater collaboration

Through data liberation we want a broader range of users to be engaged with business information that is available to them in real time, which will empower them to be more effective.

Data and process intelligence

We want to make business data work harder by driving deeper insight, and through intelligent business process automation. We believe customers should spend more time on running their business and less time on data manipulation and processing.

Amazing cross-device experiences

People are no longer confined to a desktop computer when they work. We want them to be able to roam seamlessly between different devices and achieve the same things on a smartphone or tablet as they would on their PC.

Choice of deployment through flexible architecture

We're providing flexibility so that customers can transition to the cloud in a way that is comfortable for them and that recognises their needs will change over time.

Our deployment choices fall into three categories:

- Software-as-a-service ("SaaS") cloud
- Connected on-premise
- Cloud ERP

We've considered the technological merits of these deployment choices in the context of the needs of SME businesses to deliver a range of targeted solutions.

SaaS cloud

SaaS solutions are delivered through an internet browser, are available on subscription and are easy to use and maintain.

Start-ups, in particular, typically want to go straight to a SaaS cloud solution because they have no existing infrastructure, have relatively straightforward needs and want to get started quickly.

Our global SaaS solution designed for start-up and small businesses is Sage One.

Sage One also simplifies bookkeeping, accounting and payroll, which makes it much more accessible to owner-managers who often aren't accountants and don't have financial expertise.

Connected on-premise

Many established businesses have existing on-premise systems that work well and on which their employees are trained. They want to move to the cloud in a way that doesn't require them to dispose of what they already have or that leads to significant disruption.

On-premise software also continues to offer the greatest level of control and functional richness, and customers don't want to give up some of those features so they can benefit from the cloud.

We're delivering the best of both worlds to our customers by modernising our existing on-premise products and liberating the data that is contained within our customers' systems. We're using this data to enrich the desktop experience with connected services, cloud collaboration and mobile applications.

We've already started rolling out some of these capabilities in the UK with Sage 50, in Spain with Sage Contaplus and in North America with the Sage Data Cloud.

Cloud ERP

For our SMB and mid-market customers who are ready to migrate to the cloud, we've developed a range of cloud ERP solutions that allow them to make the transition easily and with the minimum of disruption.

Cloud ERP solutions can offer our customers the option of outsourcing their IT infrastructure, which can save them money and means they no longer have to think about maintaining and replacing their own equipment.

As businesses grow, their system scales easily and they only need to pay for the extra capacity they need.

These solutions also preserve some of the benefits of on-premise software, particularly around control over data, customisation and compatibility with third-party applications.

The power of connected services

Connected services allow us to separate features and functionality from the core system and deliver them as smaller applications. This heralds a move away from annual release cycles and core applications that have perhaps become big and bloated over time as they have evolved.

Customers purchase these services as additional bolt-ons to their core product, which provides them with greater flexibility and is more cost-effective because they don't have to pay for features they don't use. This invariably involves establishing a subscription relationship with us, and you can read more about subscription on pages 26 to 28.

Most importantly, our technology architecture gives all our customers the chance to benefit from connected services, whether they're running their business in the cloud or on-premise.

We're able to add significant value through tight integration of these connected services into the core system because we make the whole suite.

Our key connected services

Mobility

Our mobile applications are bringing tailored user interface experiences to a wider range of users. For example, field-based salespeople and engineers are benefiting from our mobile sales, billing and payments applications because they can be more productive whilst they're on the road.

We've also launched smartphone companion applications for our small business solutions including Sage One, so owner-managers can create and edit business data even whilst they're away from the office.

CRM

Our CRM solutions provide new ways to interact with customers, particularly by taking advantage of social media and the latest mobile solutions. We are focused on providing CRM solutions that are integrated with our ERP products because this helps our customers benefit from increased efficiency and productivity by gaining a single, customer-centric view across their business.

Integrated payments

Our integrated payments solutions seamlessly record receipted payments information into our customers' core system, saving them time and reducing the risk of error. Our Sage Exchange technology in North America also provides customers with a holistic overview of their entire payments ecosystem from all sources, whether they be online or card machine transactions.

Business intelligence

Our business intelligence solutions are improving business decision making. They're helping our customers overcome data complexity so that they have better insight into what is happening in their business.

86,000
Sage One paying subscriptions at 30 September 2014

1,500
Hybrid cloud paying subscriptions at 30 September 2014

7%
Sage ERP X3 organic revenue growth in the year ended 30 September 2014

Turn to pages 12 and 13 to read more about our business model.

Our cloud solutions

Sage One

Sage One currently comes in five versions: Cashbook, Accounts, Payroll, Accountant Edition and Accounts Extra.

Cashbook and Accounts are designed to meet the basic needs of start-ups, where the owner-manager is often also the bookkeeper. Payroll simplifies the management of a payroll of up to 15 employees. Accountant Edition allows accountants to access and edit their clients' data in the cloud.

We launched Accounts Extra in the UK in October 2013. It is suitable for slightly larger businesses with a small finance team because it handles multiple user accounts, and supports international trading and multi-company accounting.

The launch of Extra was an important milestone in broadening the appeal of Sage One to more established businesses, where price points and user numbers are higher.

Hybrid cloud for SMBs

We've completed the launch of cloud versions of our key ERP products across our major markets for SMB customers:

- Sage 200 Online in the UKI
- Sage Murano Online in Spain
- Sage 300 Online in North America
- Sage 100 Online in France
- Sage Office Online in Germany

These products give SMBs a clear migration path to the cloud, whilst retaining a user experience that is familiar and consistent and doesn't require them to compromise significantly on customisation and control.

Sage ERP X3

Sage ERP X3 is our global solution for the mid-market. It is available in over 100 countries, is supported by 290 business partners and serves the needs of 4,800 customers and 228,000 users.

Sage ERP X3 version 7, which we released earlier this year, is a major upgrade and a significant technology evolution. Version 7 is designed with mobility and web native solutions at its core and sets the foundation for the next generation of ERP.

We also announced the planned launch of Sage ERP X3 Online this year, which preserves the customisation benefits that are important to mid-market customers whilst letting them move their core system to the cloud.

Commercial opportunities for Sage

The technology changes we're delivering give us a range of opportunities to drive higher growth across the four key elements of our business model:

Attract

Technology is creating new markets for us to serve, particularly amongst start-ups where SaaS technology is encouraging more of them to move away from spreadsheets and begin using accounting software.

Utilising new technology in our products is incredibly important if we are to attract new customers to Sage and live up to their expectations. This means that constant and purposeful innovation must lie at the heart of what we do.

Activate

When we sell cloud solutions to our customers we're creating a closer and more active relationship with them because these products are always sold on a subscription basis.

Technology therefore represents an important delivery system for subscription.

The cloud and our growing range of connected services are acting as catalysts, where customers are willing to move to a subscription relationship with us because of the real added-value they provide.

You can read more about the benefits of subscription for our customers starting on page 14, and for Sage starting on page 26.

Grow

Connected services are helping us to increase our share of wallet (i.e. the average revenue per customer), because customers are more likely to take several services from us if they can do so in a flexible way by only paying for what they use.

We're also increasing our share of wallet by bringing these services to a broader range of non-financial users by focusing on tailoring the user experience to their specific needs.

Retain

Customers are more likely to stay with us if we're meeting their needs and they are satisfied with what we do for them. Our research tells us that when several services are able to work together seamlessly, customer satisfaction increases. This is why we're focusing on the tight integration of connected services with our core products.

Progress this year

Sage One

Sage One is now commercially available in 10 countries, including recent releases in Canada, Portugal, Switzerland and South Africa. This year we launched the new Sage One Accounts Extra edition in the UK and released Sage One Accountant Edition in the US.

Several existing products have also been brought into the Sage One family, including: PastelMyBusiness Online, PastelMyPayroll Online and VIP Payroll Online in South Africa; E-paie in France; and Einfachlohn in Germany.

The number of paying subscriptions increased almost 150% in 12 months to 86,000, up from 35,000* at the end of September 2013. In the UKI, where Sage One is currently most established, we were adding paying subscriptions at an average rate of 2,300 a month in the second half of the year.

The increase in subscriptions was led by a strong performance in the UKI. The uptake of Sage One in Continental Europe is nascent, which is consistent with the level of adoption of SaaS accounting in the wider market. We are seeing promising early traction with Sage One in Canada following this year's release, but the level of progress in the US is slow and remains below our expectations.

Hybrid cloud for SMBs

The roll-out of our hybrid cloud solutions for SMBs, which are building on our existing flagship SMB products in our major markets, is now complete with the commercial launch of Sage 100 Online in France and Sage 300 Online in the US.

Whilst SME adoption of our hybrid cloud products is emerging, the number of paying subscriptions has doubled in the year to 1,500, with Sage Murano in Spain performing particularly well.

Sage ERP X3

Sage ERP X3 version 7 was launched in May 2014 to positive reviews. We also announced Sage ERP X3 Online, which is a pure cloud solution for our mid-market customers that is due for commercial launch in 2015.

Sage ERP X3 organic revenue grew 7% in the year, which is below our stated ambition to deliver double-digit organic revenue growth. However, Sage ERP X3 continues to perform well outside of France, where it delivered organic revenue growth of 20%.

Connected on-premise

Sage 50 2015 launched in the UK in August 2014 with a completely re-designed user interface. Alongside Sage Contaplus in Spain, it has also been significantly modernised so that we can deliver a cloud-enriched experience to our on-premise customers. Sage Drive, which will let customers share data and collaborate in the cloud, went live in October 2014 in Spain and in December 2014 in the UK.

Connected services

Sage 50 Payroll in the UK saw a 400% increase in subscription revenue following the release of a connected service that helps affected customers deal with new auto-enrolment pension legislation. We have also launched a range of new smartphone apps, including a companion app for Sage One that lets customers raise invoices on their smartphone.

The number of integrated payments customers also increased 14% to 15,800 during the year, although the performance in North America, in particular, was below our expectations.

* Following the incorporation of several existing SaaS products into the Sage One portfolio during the year, prior year Sage One paying subscriptions have been restated on a like-for-like basis. Without the restatement, Sage One paying subscriptions at 30 September 2014 were 52,600 (2013: 22,400).

Turn to pages 36 and 37 to view our strategic KPI progress.

KPIs used to measure progress in this cornerstone:

- Adoption of Sage One
- Adoption of hybrid cloud
- Sage ERP X3 organic revenue growth
- Integration of payments

Focusing our business

Working with greater focus has led to a change in how we allocate resources and in the way we collaborate with each other across the globe.

Focusing our business captures a number of initiatives that we've undertaken:

- Changing the way we work
- Streamlining our product portfolio and reallocating investment to our best growth opportunities
- Transforming our brand

Changing the way we work

Although we're executing on our strategic priorities locally, we have defined them globally. We believe it is the only way to create the right conditions for success:

- It ensures all of our people are pursuing the same goals in a consistent way
- It means we make products that can be deployed globally whilst maintaining our focus on meeting the local needs of our customers
- It encourages closer working practices and knowledge sharing across the organisation

Streamlining our portfolio and reallocating investment

We categorise our core products as Invest, Harvest and Sunset based on their potential to create value, whether that is through higher revenue growth or profitability. We use this categorisation to determine our investment priorities.

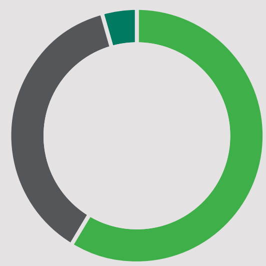
Invest products represent our best current and future growth opportunities and receive more research and development ("R&D") and sales and marketing ("S&M") investment.

Harvest products are mature and deliver higher margins, and we continue to invest in them appropriately to maintain their market positions.

Sunset products have lower growth potential and, in most cases, the needs they serve are better met by another product within our portfolio. These high margin products are undergoing a sunset process where associated investment is being redirected towards our Invest product portfolio.

This rigorous framework for managing the portfolio gives us clearer focus on the strategic drivers that will influence growth in both the near and medium term.

Split of total R&D and S&M spend by I:H:S category



Invest	59%
Harvest	37%
Sunset	4%

Change in % spend on Invest products*

* Graph is on an organic basis, excluding acquisitions, disposals and products held for sale. Reported 2013 Invest percentages were: R&D – 50%; S&M – 49%.

Global Brand Campaign 2014

In January we launched our first global brand campaign across billboards, print, radio and digital media. The campaign focused on how Sage can put customers in control of their business so they can look forward with confidence. The campaign has been a key milestone in delivering our strategy and connecting the market with a single brand. We measured prospective customers' awareness of Sage and have seen an increase in global brand awareness and familiarity with our product offerings.

Progress this year

Investment reallocation

The reallocation of R&D and S&M spend to our best opportunities has continued during the year alongside an overall organic increase in expenditure in these areas of almost 4%.

62% of total R&D spend (2013: 52%) and 57% (2013: 52%) of total S&M spend is now directed towards products categorised as Invest opportunities. This has resulted in an overall increase in absolute R&D and S&M spend on Invest products of 17%.

Spend on the other categories has fallen as a result, with 35% and 3% of R&D spend, and 39% and 4% of S&M spend, being directed to Harvest and Sunset products respectively (2013: R&D – 41% and 7%; S&M – 43% and 5%).

Transforming our brand

Much of Sage's growth over the last 30 years has been through acquisition as our business has expanded and strengthened its presence across a number of global markets.

However, this resulted in a highly-fragmented brand identity, where customers could relate to local product names but sometimes had never heard of Sage.

A single brand

Our brand teams are changing this to strengthen Sage's global presence and to make better use of our differentiated market position as the strongest supporter of SME businesses. One of the biggest initiatives we've undertaken to help us do this was our first global brand campaign that was launched in January 2014.

The campaign incorporated an array of radio, digital, print and billboard advertising across Europe, North America, South Africa and Australia that raised our profile, and there are plans in place to follow up with a second campaign in due course.

Sage Summit 2014

In North America, our annual Sage Summit convention, which was held in Las Vegas this year, was the biggest ever with over 5,000 customers and partners in attendance. The focus of the event was to be the centre of a North America-wide conversation about the success of SMEs, the challenges they face and how Sage can help them to grow and thrive.

Attendees were able to hear from successful business people including: Biz Stone, the co-founder of Twitter; Magic Johnson, the former LA Lakers basketball player and now highly-successful businessman; and Jessica Alba, the famous Hollywood actress who has started her own business.

Turn to pages 36 and 37 to view our strategic KPI progress.

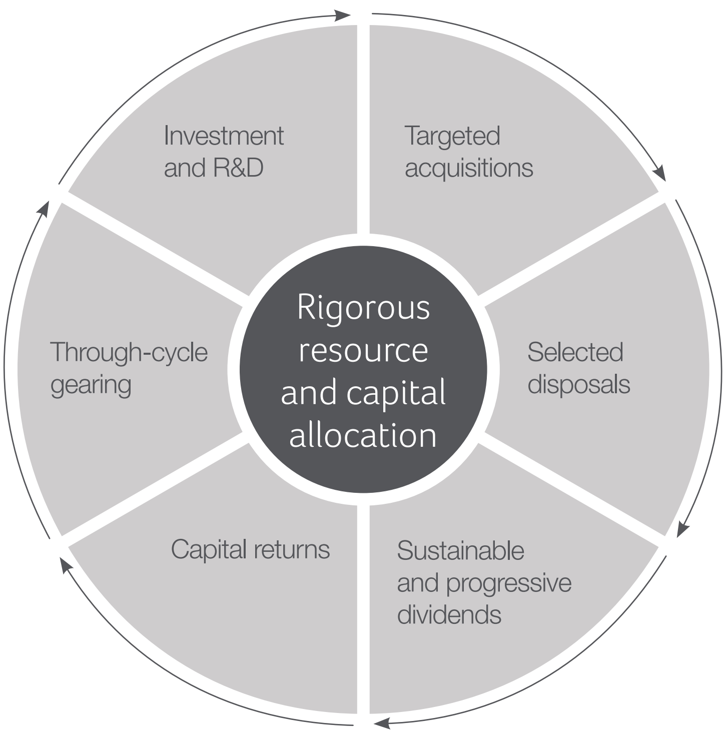
KPIs used to measure progress in this cornerstone:

– R&D reallocation
– S&M reallocation

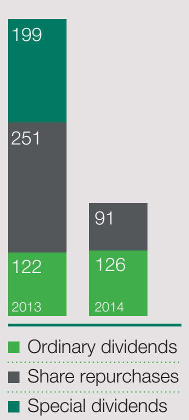
Rigorous resource and capital allocation

With our consistent, strong cash flows we have the financial strength to support growth.

Our main strategic priority remains an acceleration of growth, both organically and through targeted acquisitions, and we will invest in support of that aim. This will enable us to support growth of the ordinary dividend, with any surplus capital being returned to shareholders from time to time.



Returns to shareholders



Investment and R&D

Our approach to investing in our products and services is explained in the Focusing our business section on pages 33 and 34.

Ordinary dividend policy

Our policy is to grow the ordinary dividend progressively, and this year the full year dividend grew 7% to 12.12p per share.

Maintaining the leverage target

We target a net debt leverage level of around 1x our EBITDA, with flexibility to move higher if acquisition opportunities present themselves. In maintaining our core leverage, we adopt a holistic approach to capital management that includes growing the ordinary dividend and, where appropriate, returning surplus capital to shareholders.

Capital returns

Share repurchase decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed. Share repurchasing gives us the flexibility to manage the leverage target when there is an absence of appropriate acquisition opportunities.

Where the absence of such opportunities leads to a significant net debt leverage target shortfall we may also consider larger returns of capital to shareholders as we did in June 2013, where we paid a £199m special dividend.

Our acquisition strategy

Our approach to acquisitions is disciplined and we typically require opportunities to:

- Demonstrate earnings accretion in year one
- Deliver a return in excess of our risk-adjusted cost of capital in the medium term

We are focused on acquisition opportunities that fall into three broad areas:

- Technology bolt-ons that offer us opportunities to cross-sell into our installed base
- Businesses in existing geographies that strengthen the core offering
- Businesses in new geographies where we are prepared to wait longer to achieve target returns in exchange for access to higher-growth markets

Acquisitions this year

This year we announced two material acquisitions:

Exact Software Deutschland GmbH ("Exact Lohn")

Exact Lohn is a German payroll business previously owned by Exact Holding N.V. This acquisition is transformative for Sage's payroll business in Germany.

PAI Group, Inc. ("PayChoice")

PayChoice is a provider of payroll and HR services for SMBs in the US. The acquisition accelerates Sage's move to the cloud in this market by leveraging PayChoice's SaaS platform for self-service and outsourced payroll.

For more information on these and other acquisition-related developments, turn to note 15 in the Financial statements starting on page 150.

Turn to pages 36 and 37 to view our strategic KPI progress.

KPIs used to measure progress in this cornerstone:

– Net debt to EBITDA ratio
– Interest cover

Key performance indicators

Measuring our progress

The measurement of progress in delivering our strategy is important and we track a range of KPIs to measure performance.

Strategic KPIs

The benefits of subscription	Capturing the technology opportunity		
Organic annualised value of the software subscriber base	**Adoption of Sage One**	**Adoption of hybrid cloud**	**Sage ERP X3 organic revenue growth**
£220m 2013: £170m	86,000 2013: 35,000	1,500 2013: 750	7% 2013: 12%
Description			
The amount of organic software subscription revenue recorded in the last month of the year multiplied by 12. Software subscription is defined as any contract where customers may no longer use their software product if they cease to pay. The prior year KPI has been restated to include mandatory maintenance and support arrangements where customers may no longer use their software product if they cease to pay. Payments contracts and non-software subscription contracts are excluded from this measure.	The number of paying subscriptions at the end of the year for our portfolio of Sage One products. Following the incorporation of several existing SaaS products into the Sage One portfolio during the year, prior year Sage One paying subscriptions have been restated on a like-for-like basis. Without the restatement, Sage One paying subscriptions at 30 September 2014 were 52,600 (2013: 22,400).	The number of paying subscriptions at the end of the year for hybrid cloud products.	The percentage increase in organic revenue derived from Sage ERP X3 in the year compared to the prior year.
Performance			
Software subscription was the primary driver of organic revenue growth this year, which is reflected in the 29% increase in this KPI. We saw strong subscription traction in France and the UKI, in particular, where legislative and technology catalysts encouraged customers to move to a subscription relationship.	Sage One paying subscriptions have increased by almost 150% in 12 months. The UKI continues to be the primary driver of this growth. Adoption in Continental Europe is nascent, reflecting the rate of SaaS adoption more widely in that market. Whilst we are seeing promising early adoption in Canada following Sage One's release there this year, our progress in the US remains slow and is below our expectations.	SMB adoption of hybrid cloud is emerging, but we have seen good progress across our major markets this year and have doubled the number of paying subscriptions in 12 months. We saw the greatest traction in Spain, where paying subscriptions increased to almost 450.	Organic growth of 7% is below our stated ambition for Sage ERP X3 of double-digit organic revenue growth. However, Sage ERP X3 continues to perform well outside of France, where revenue has grown by 20%. This year, we launched Sage ERP X3 version 7, and we also announced the planned launch of Sage ERP X3 Online.

Focusing our business

Rigorous resource and capital allocation

Integration of payments

15,800
2013: 13,800

The number of customers at the end of the year who are using a Sage core accounting system, a Sage payments solution, and the integration of the two is provided or owned by Sage.

The number of integrated payments customers increased 14% this year, although our performance in North America, in particular, was below our expectations.

R&D* and S&M** spend by category

R&D reallocation	S&M reallocation
62:35:03	57:39:04
2013: 52:41:07	2013: 52:43:05

Resource optimisation is captured by reporting on the resource allocation in our business.

R&D and S&M spend in the year is divided into three categories of product – Invest:Harvest:Sunset.

Our strategy is to focus our investment towards the Invest products in our portfolio.

This KPI is on an organic basis. Previously reported allocations for 2013 were: R&D – 50:43:07; S&M – 49:46:05.

We continue to focus on reallocation of R&D and S&M investment towards our best opportunities for higher growth and profitability. This year, overall expenditure across these categories has increased by 4% organically, with a 17% increase on products classified as Invest.

Net debt to EBITDA ratio

1.1:1
2013: 1.0:1

The net value of cash less borrowings expressed as a multiple of rolling 12-month EBITDA. EBITDA is defined as earnings before interest, tax, depreciation, amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and non-recurring items that management judge to be one-off or non-operational.

During the year we returned £217m of cash to shareholders through ordinary dividends and share repurchases, and paid out £65m in respect of acquisitions and the purchase of the remaining 25% of Folhamatic in Brazil. Net debt stood at £437m at 30 September 2014.

Interest cover

17x
2013: 24x

Statutory operating profit for the year excluding non-recurring items that management judge to be one-off or non-operational, expressed as a multiple of finance costs excluding imputed interest for the same period.

The fall in interest cover is due to the annualisation of interest relating to the 2013 US private placement, which was only in issue for approximately four months of last year. In addition, we have maintained a higher level of net debt on average throughout this year, which has increased our interest costs.

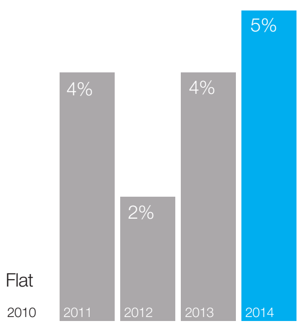
* Research and development
** Sales and marketing

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.

Financial KPIs

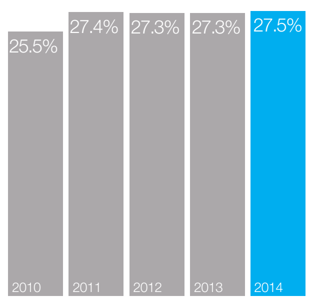
Organic revenue growth

5%



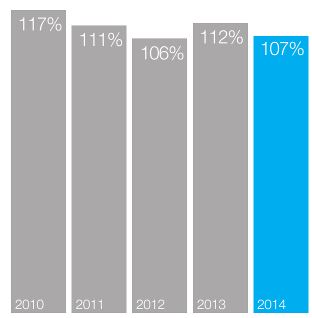
Underlying operating profit margin

27.5%



Underlying cash conversion

107%



Description

Organic revenue growth

Organic revenue neutralises the impact of foreign exchange in prior year figures and excludes the contribution of current and prior year acquisitions, disposals and products held for sale.

For a reconciliation of organic revenue to statutory revenue, turn to page 45.

Underlying operating profit margin

Underlying operating profit excludes:

- Recurring items including amortisation of acquired intangible assets, acquisition-related items, and fair value adjustments
- Non-recurring items that management judge to be one-off or non-operational

The impact of foreign exchange is neutralised in prior year figures.

Elsewhere in the Annual Report & Accounts we refer to organic operating profit and margin, as this measure better reflects like-for-like business performance year-on-year. Underlying margin is included here for consistency with previous reports and to provide a five year comparator.

Organic operating profit is underlying operating profit further adjusted to exclude the contribution of current and prior year acquisitions, disposals and products held for sale.

For a reconciliation of underlying margin to organic margin, turn to page 45.

Underlying cash conversion

Underlying cash conversion is calculated as cash flows from operating activities, adjusted for cash acquisition-related items and non-recurring cash items of £2m (2013: £2m), divided by underlying operating profit.

Going forward, underlying cash conversion will be calculated as above but also after operating capital expenditure. Current year underlying cash conversion is 99% on this basis.

Performance

Organic revenue growth

5% organic revenue growth represents an important milestone in demonstrating that we are on track to achieve our organic revenue growth target in 2015 of 6%. The increase in growth this year was primarily due to an acceleration in the rate of recurring revenue growth to 7%, up from 6% last year. This was driven by good progress with our software subscription initiatives.

Underlying operating profit margin

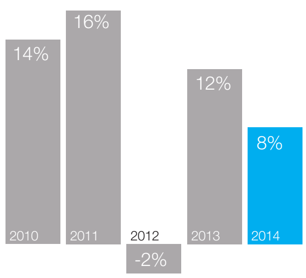
Underlying profit margin of 27.5% reflects a reduction in overheads that previously supported non-core products that we disposed of last year, alongside improved profitability as a result of the increase in organic revenue, and disciplined cost management. We remain committed to delivering a 28% margin in 2015 in line with our stated financial targets.

Underlying cash conversion

Underlying cash conversion has decreased by 5% this year as a result of foreign exchange movements and an increase in working capital.

Underlying EPS growth

8%



Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares.

Underlying profit after tax is defined as profit attributable to owners of the parent excluding:

- Recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and imputed interest
- Non-recurring items that management judge to be one-off or non-operational

All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior year figures.

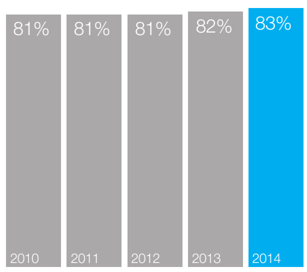
For a reconciliation of underlying basic EPS to statutory basic EPS, turn to page 46.

Underlying EPS growth primarily reflects a decrease in the weighted average share base due to the repurchase of shares during the year, and a reduction in the effective rate of tax. This offsets higher finance costs resulting from our move to a 1x net debt to EBITDA ratio and a decrease in underlying operating profit following the sale of non-core products last year.

Customer KPI

Recurring contract renewal rate

83%



The number of contracts successfully renewed in the year as a percentage of those that were due for renewal.

Our recurring contract renewal rate has been consistently high at over 80% for a number of years, which is testament to the value customers place on support.

Software subscription relationships have higher rates of renewal compared to support of around 90%. Our subscription success this year has driven a shift in the mix towards these higher quality relationships, which has led to an increase in the overall renewal rate of 1%.

Balancing risks and rewards

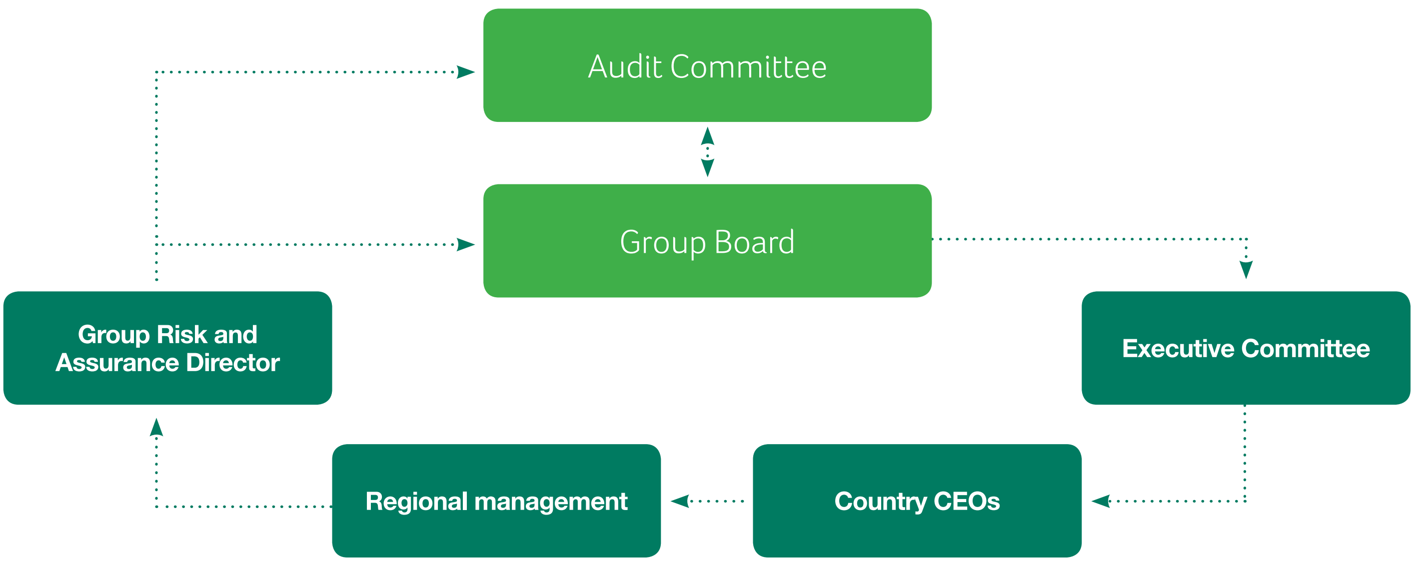
Through our risk management processes, we manage risks as we execute on our strategic and business plans.

Our risks

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 customers is the management of these 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.

How we identify risk

Our risk identification processes seek to identify risks from both a top down strategic perspective and a bottom up local operating company perspective.



The Board

The Board has overall responsibility for risk management, the setting of risk appetite and the implementation of the risk management policy. The Board reviews the output from the Group Risk Report with specific focus on the top three risks.

The Audit Committee

The Audit Committee reviews and challenges the Group Risk Report, which is then submitted to the Board. It reviews all risks at each meeting and ensures adequate assurance is obtained over the risks that are identified. The Audit Committee is also responsible for the independent review and challenge of the adequacy and effectiveness of the risk management approach.

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 an annual basis. The outputs of the assessment are sent to the country CEOs for inclusion in their local risk assessment exercises. In addition, the Group Risk Report is reviewed and agreed by the Executive Committee prior to submission to the Audit Committee and Board.

Country CEOs

Country CEOs are responsible for the identification, reporting and ongoing management of risks in their respective countries. Country CEOs facilitate local risk assessment exercises to review the key strategic risks and to identify top local risks within their country. The outputs of these assessment exercises are sent to regional management and the Group Risk and Assurance Director for review and challenge.

Regional management

Regional management are responsible for the reporting, challenge and ongoing management of risks in their respective regions. Regional management, with support from the Group Risk and Assurance Director, review and challenge the risk information from the countries and agree the regional response to the key strategic risks and the top regional risks.

Group Risk and Assurance Director

The Group Risk and Assurance Director is responsible for the facilitation and implementation of the risk management approach throughout Sage. The Group Risk and Assurance Director consolidates the regional risk reports and creates a Group Risk Report containing the responses to the key strategic risks and the top local risks for Sage as a whole. The Group Risk Report is sent to the Executive Committee for review prior to submission to the Audit Committee and Board.

How we manage risk

Our risk management process has been built to identify, evaluate, analyse and mitigate significant risks to the achievement of our business objectives.

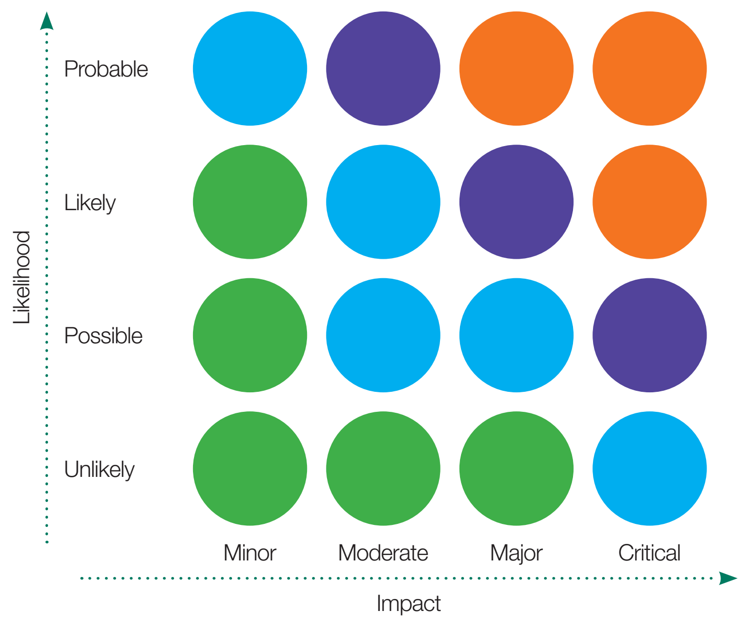
This year we have aligned our risk reporting with our risk management process in order to give a more holistic view of our risk landscape.

Identify the principal risk
Evaluate the level of risk
Analyse the potential impact
Mitigate to lower risk exposure

Turn over the page to see our principal risks and associated mitigations.

Our risk appetite

We use risk appetite (as shown below) to ensure the appropriate focus is placed on the correct risks. Identified risks are scored on a gross and a net risk basis using our predefined scoring matrix. Risks are then prioritised for mitigation based on both of these scores and using our risk appetite. The top risks, currently three, are reviewed by the Board on an annual basis, with prioritised risks below the top three being reviewed by the Audit Committee.



Ultimate risk and is unacceptable. Risk treatment is required as soon as possible.

Significant risk and is unacceptable. Risk treatment is required within reasonable timeframes.

Moderate risk and is acceptable. However, risk treatment may be considered in the longer term.

Limited risk and is acceptable. No further action is required.

Identify	Evaluate	Analyse	Mitigate
Strategic risks			
Business change We do not successfully change our business, especially in relation to technology initiatives, business model, ecosystem and organisational design to support the change	↑	– We do not keep up with market expectations and competitor activities – Negative impact on future revenue and damage to future growth potential – Loss of existing customers and inability to attract new customers – Negative reputational impact – We are slow to identify and respond to change	– Strategic opportunities are regularly reviewed by the Group Board – Change and strategic projects are identified and their delivery monitored by the Executive Committee and Group Project Management Office ("PMO") – Technology Advisory Group review of key technology initiatives on a regular basis – Product development needs identified via customer input and external research – Detailed subscription and pricing initiatives planned and being delivered
Change management With new business priorities and changes in senior personnel, there is a risk associated with the change management impact on people, processes and systems	↑	– Loss of talent and resources key to strategic delivery – Inability to operate effectively and maintain a competitive edge – Loss of sensitive information and knowledge	– Change management programme, including talent reviews, system requirements reviews and programme management – Key man dependency and succession planning processes
Financial risks			
Processes and systems Our processes and systems are not fit for purpose and/or do not provide data in a consistent or appropriate format. This risk is especially relevant as we seek to change the business (see business change risk)	↔	– Inaccurate reporting of financial and non-financial information, leading to damage to reputation – Business decisions made on the basis of inaccurate information – Reduced understanding of existing customers – Negative impact on the speed and the ability to compare and/or consolidate information – Increased data risk exposure	– Financial reporting review and external audit procedures – Financial data verification – Internal audit process reviews, with areas for improvement identified and remediation plans put in place – System reviews and transformation projects
Compliance risks			
Regulatory and compliance failure We suffer a significant compliance or regulatory failure	↔	– Negative reputational impact – Data breach, corruption or loss leading to potential regulatory penalties or financial loss – Impact on current and future revenues and damage to future growth potential – Loss of existing customers and inability to attract new customers	– Group-wide compliance programme which seeks to ensure that all local, national and international regulatory and compliance requirements are identified and complied with – Key examples of compliance requirements include data protection, PCI compliance and the Bribery Act
Source code and intellectual property We do not appropriately protect our source code and intellectual property	↓	– Unauthorised copies of our software are made, leading to loss of revenue and/or customers – Negative reputational impact – Impact on current and future revenues and damage to future growth potential	– Local registration of trademarks – Use of third parties and security tools and techniques to securely store and protect source code and intellectual property – Access controls and monitoring systems to police unauthorised use of products

Identify	Evaluate	Analyse	Mitigate
Operational risks			
Loss of data Accidental or malicious loss of data (being either our customers' data or our own data). This includes the risk of cyber attack	↑	– Negative reputational impact – Data breach, corruption or loss, leading to potential regulatory penalties or financial loss – Negative impact on current and future revenue and damage to growth potential – Loss of existing customers and inability to attract new customers	– Framework in place, but being further developed and enhanced to control the risks associated with the protection of data – Ongoing monitoring of security incidents
Online solutions The availability of live online solutions does not meet customer expectations or requirements	<>	– Negative reputational impact – Negative impact on current and future revenue and damage to growth potential – Loss of existing customers and inability to attract new customers	– Detailed product and services release and quality control procedures – Thorough quality assurance processes and initiatives relating to the level of service provided to customers – Detailed framework to control the risks associated with the provision of online services – Ongoing monitoring of availability of online solutions
Skills and resources We do not have or cannot attract and retain the required skills and resources for strategic and business delivery	↓	– Potential to create key person dependencies – Capacity issues and inability to focus sufficient management attention where required – Inability to execute strategy and achieve business deliverables	– Talent management, skills attraction and recruitment processes in place – Resource allocation processes in place
Resource allocation We do not appropriately allocate resources to key priorities	<>	– Budgeted financial performance and KPI targets are not achieved – Strategic initiatives are not completed and our potential is not realised	– Detailed business planning and budget processes to review allocation of resource and financial results on a regular basis
Brand Inadequate brand awareness amongst customers and prospects	<>	– We do not keep up with market expectations and competitor activity – Negative impact on current and future revenue and damage to growth potential – Loss of existing customers and inability to attract new customers – Inability to attract new talent – Negative reputational impact	– Global brand campaign targeting customer and prospects – Consistency of brand messaging
Traditional products We suffer a major issue with a significant, traditional, on-premise product (bugs, meeting customer expectations or upgrade experiences)	↓	– Negative reputational impact – Negative impact on current and future revenue and damage to future growth potential – Loss of existing customers and inability to attract new customers	– Detailed product and services release and quality control procedures – Thorough quality assurance processes and initiatives relating to the level of service provided to customers

Key

↑ Increase in risk

↓ Decrease in risk

<> No change in risk

Momentum with revenue growth, subscription growth and cloud adoption.

Group performance

The Group delivered organic revenue growth of 5% (2013: 4%), and increased organic operating profit margin to 27.5% (2013: 27.1%).

The strong momentum around subscription adoption reported in the first half of the year remains the primary driver of the increased organic growth rate for the full year. This was supported by continued progress in up-selling maintenance and support to existing customers, offset by weaker performances in the mid-market in France and in North American payments.

Organic operating profit growth reflects a reduction in overheads that previously supported the non-core products disposed of in March and April 2013, alongside improved operating leverage resulting from organic growth and disciplined cost management.

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from acquisitions, disposals and products held for sale to aid comparability. A reconciliation of organic operating profit to the underlying operating profit reported in 2013 is shown on page 45.

Statutory performance has been impacted by material movements in key exchange rates during the year, particularly in Europe, North America, South Africa and Brazil. Statutory figures also include the contribution of acquisitions and disposals. The current year statutory operating profit includes a £44m goodwill impairment relating to our Brazilian operations. The prior year statutory operating profit included a £186m non-recurring item relating to the disposal of non-core products.

Recurring revenue

The Group has delivered an improvement in organic recurring revenue growth to 7% (2013: 6%), which is evidence of strengthening momentum in subscription adoption across the Group. This has resulted in an improved contract renewal rate of 83% (2013: 82%). The improvement in growth was achieved despite a slowdown in the performance of North American payments, which was impacted by market-wide pricing pressure.

Recurring revenue represents 73% of the Group's total revenue, representing a change in mix of 2%. This highlights the success of our subscription initiatives this year in particular, and continues a long-running strategic shift to higher quality and less cyclical revenue that is underpinned by our maintenance and support contract base.

SSRS revenue

Organic SSRS revenue contracted by 1% in the year (2013: flat). Weak new licence and professional services revenue in France has weighed on SSRS performance in the European mid-market. The Group also faced strong comparators as a result of legislative change in certain markets, particularly in the UKI.

These factors were offset by an improved SSRS performance in Spain, which is no longer contracting, and a strong performance from Sage ERP X3 in North America and South Africa.

Revenue

Statutory revenue contracted by 5% to £1,307m (2013: £1,376m). The decline mainly reflects the inclusion of £57m of revenue from disposals in the prior year, and adverse foreign exchange movements. These factors offset organic revenue growth in the core business.

The average exchange rates used to translate the Consolidated income statement for the year are set out on page 47.

Operating profit

Statutory operating profit increased to £298m (2013: £181m) and includes a £44m goodwill impairment charge relating to our Brazilian operations. Statutory operating profit in the prior year included a non-recurring loss on the disposal of non-core products of £186m.

Organic operating profit margin in the prior year excludes the contribution from non-core products disposed in March and April 2013. A reconciliation of the previously reported 2013 underlying margin of 27.3% to the 2013 organic margin of 27.1% is shown on page 45.

Organic operating profit increased by 7% to £360m (2013: £337m), and organic operating profit margin increased to 27.5% (2013: 27.1%). The increase is primarily due to a reduction in overheads that previously supported the non-core products. Operating profit margin has also benefited from an improvement in operating leverage as a result of revenue growth, and from a disciplined approach to managing the cost base.

Research and development pexpenditure

Total R&D expenditure was £131m, which represents 10% of total organic revenue. During the year, R&D expenditure on Invest products increased 25% organically as resources have been reallocated from Sunset and Harvest products. All R&D expenditure incurred this year was expensed.

Revenue

	Statutory			Organic		
	2014	2013	Change	**2014**	2013	Change
Europe	**£750m**	£777m	-3%	**£750m**	£724m	+4%
Americas	**£412m**	£448m	-8%	**£412m**	£393m	+5%
AAMEA	**£144m**	£151m	-4%	**£144m**	£129m	+12%
Group	**£1,307m**	£1,376m	-5%	**£1,306m**	£1,246m	+5%

Operating profit

	Statutory			Organic		
	2014	2013	Change	**2014**	2013	Change
Europe	**£206m**	£156m	+33%	**£215m**	£204m	+6%
Americas	**£53m**	(£14m)	n/a	**£106m**	£98m	+8%
AAMEA	**£39m**	£39m	+1%	**£39m**	£35m	+11%
Group	**£298m**	£181m	+65%	**£360m**	£337m	+7%
Margin	**22.8%**	13.1%		**27.5%**	27.1%	

Revenue mix

	Recurring revenue			SSRS revenue		
Organic	**2014**	2013	Change	**2014**	2013	Change
Europe	**£536m**	£501m	+7%	**£215m**	£224m	-4%
Americas	**£335m**	£317m	+6%	**£77m**	£76m	+2%
AAMEA	**£81m**	£71m	+14%	**£63m**	£58m	+10%
Group	**£951m**	£889m	+7%	**£355m**	£357m	-1%
% of total organic revenue	**73%**	71%		**27%**	29%	

Organic to statutory reconciliations

	2014			2013		
	Revenue	**Operating profit**	**Margin**	Revenue	Operating profit	Margin
Organic	**£1,306m**	**£360m**	**27.5%**	£1,246m	£337m	27.1%
Non-organic adjustments[1]	**£1m**	**–**		£57m	£18m	
Underlying	**£1,307m**	**£360m**	**27.5%**	£1,303m	£355m	27.2%
Impact of foreign exchange	**–**	**–**		£73m	£21m	
Underlying (as reported)	**£1,307m**	**£360m**	**27.5%**	£1,376m	£376m	27.3%
Recurring items[2]	**–**	**(£16m)**		–	(£5m)	
Non-recurring items[3]	**–**	**(£46m)**		–	(£190m)	
Statutory	**£1,307m**	**£298m**	**22.8%**	£1,376m	£181m	13.1%

1 Non-organic adjustments comprise contributions from acquisitions, disposals and products held for sale.

2 Recurring items comprise amortisation of acquired intangible assets, acquisition-related items and fair value adjustments.

3 Non-recurring items comprise items that management judge to be one-off or non-operational.

Earnings per share

Underlying basic earnings per share increased by 8% to 22.69p (2013: 20.98p) due to a lower effective tax rate and a reduction in the average number of shares in issue to 1,094.4m (2013: 1,168.8m). The reduction was due to share repurchases and inclusion of the full impact of the share consolidation effected in June 2013 into the average share base. These factors were partly offset by an increase in net interest cost.

Basic earnings per share ("EPS") reconciliation	2014 pence	2013 pence
Underlying basic EPS	**22.69**	20.98
Impact of foreign exchange	**–**	1.29
Underlying basic EPS (as reported)	**22.69**	22.27
Recurring items	**(1.44)**	(17.59)
Non-recurring items	**(4.18)**	(0.71)
Statutory basic EPS	**17.07**	3.97

Statutory basic earnings per share increased to 17.07p (2013: 3.97p), which reflects the factors set out above, the inclusion of the non-recurring loss on disposal of non-core products in the prior year and the £44m impairment charge recorded this year.

Net finance cost

Net finance costs increased to £21m (2013: £16m). This was principally due to the annualisation of interest on gross debt following the raising of US$400m of US private placement ("USPP") loan notes in May 2013. The average interest rate on borrowings during the year was broadly in line with the prior year at 3.75% (2013: 3.78%).

Taxation

The statutory income tax expense was £90m (2013: £117m). The effective tax rate on statutory profit before tax was 32% (2013: 71%). The effective tax rate on underlying profit before tax was 27% (2013: 28%). This is in excess of the standard rate of UK tax due to the higher tax rates applicable in the other jurisdictions in which we operate. The prior year expense includes a non-recurring tax charge of £17m on the disposal of the non-core products.

The income tax charge and the total tax paid in the year are underpinned by Sage's tax policy, which is aligned with the overall goals of the business including Sage's vision, strategy, code of ethics and guiding principles.

We seek to manage our tax affairs in a responsible and transparent manner, to comply with relevant legislation and with due regard to our reputation. Our approach is in line with the principles issued by the Confederation of British Industry ("CBI") in May 2013. Sage's tax policy has been agreed by the Board, with progress being monitored by the Group Audit Committee. The policy has been shared with the UK tax authorities.

Cash flow and net debt

Cash flow	2014	2013
Underlying operating profit	**£360m**	£376m
Non-recurring cash items	**(£2m)**	(£2m)
Depreciation/amortisation/profit on disposal	**£28m**	£30m
Share-based payments	**£8m**	£3m
Working capital movements	**(£1m)**	£11m
Exchange rate and other movements	**(£11m)**	(£1m)
Statutory cash flow from operating activities	**£382m**	£417m
Net interest	**(£19m)**	(£11m)
Tax paid	**(£107m)**	(£119m)
Net capital expenditure	**(£27m)**	(£19m)
Free cash flow	**£229m**	£269m

Statutory cash flow from operating activities	**£382m**	£417m
Non-recurring cash items	**£2m**	£2m
Underlying cash flow from operating activities	**£384m**	£419m
Underlying cash conversion[1]	**107%**	112%

[1] Underlying cash flow from operating activities divided by underlying operating profit.

Going forward, underlying cash conversion will be calculated using underlying cash from operating activities after operating capital expenditure. Underlying cash conversion this year is 99% on this basis.

The cash outflow for acquisitions completed in the year and the purchase of the remaining 25% of Folhamatic was £65m and there were no disposal proceeds.

A total of £217m (2013: £572m) was returned to shareholders through ordinary dividends paid of £126m (2013: £122m) and shares repurchases of £91m (2013: £251m). In the prior year, a special dividend was paid of £199m that did not reoccur this year. Net debt stood at £437m at 30 September 2014 (30 September 2013: £384m), which is equivalent to 1.1x rolling 12-month EBITDA.

Treasury management

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. During the year, the Group's syndicated bank multi-currency revolving credit facility was renewed to June 2019, the facility level increased to £510m (US$551m and €218m tranches) (2013: £346m, US$271m and €214m tranches). At 30 September 2014, £111m (2013: £10m) of these facilities were drawn, with the increase primarily due to the completion of an acquisition in Germany close to the year-end and the purchase of the remaining 25% of Folhamatic in Brazil.

Total USPP loan notes at 30 September 2014 were £432m (US$700m) (2013: £432m, US$700m). Approximately £123m (US$200m) of USPP borrowings are due for repayment in March 2015. After the year-end, the Group has, subject to documentation, priced and agreed investor allocations for the refinancing of this debt in the USPP market. The agreed refinancing is US$200m (£123m) at 3.73% fixed until 2025, €55m (£43m) at 1.89% fixed until 2022 and €30m (£23m) at 2.07% fixed until 2023.

Acquisitions

On 15 September 2014, the Group acquired 100% of the share capital of Exact Software Deutschland GmbH ("Exact Lohn"), a provider of payroll services and software, for a cash consideration of €16m (£13m). As a result of the acquisition the Group expects to become one of the leading providers of payroll software solutions in Germany.

The put and call arrangement to acquire the remaining 25% non-controlling interest in Folhamatic in Brazil was settled during the year for consideration of £50m, increasing the Group's ownership to 100%.

Foreign exchange

The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates.

The average rates used to translate the Consolidated income statement and to neutralise foreign exchange in prior year figures are as follows:

Average exchange rates (equal to GBP1)	**2014**	2013	Change
Euro (€)	**1.23**	1.19	+3%
US Dollar ($)	**1.66**	1.56	+6%
South African Rand (ZAR)	**17.65**	14.60	+21%
Australian Dollar (A$)	**1.81**	1.58	+15%
Brazilian Real (R$)	**3.81**	3.30	+15%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic priority remains an acceleration of growth, both organically and through targeted acquisitions, and investment will support that aim. This growth underpins the Board's sustainable progressive dividend policy, with surplus capital being returned to shareholders from time to time.

Consistent with this policy, the Board is proposing a 7% increase in the total ordinary dividend per share for the year to 12.12p per share (2013: 11.32p per share). The ordinary dividend for the year is covered 1.9x by underlying earnings per share.

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 is alleged to be in the region of £101m (A$188m). The claim was heard by the Court in late 2013 and judgment is pending.

Events after the reporting date

On 30 September 2014, the Group appointed Citigroup Global Markets Limited to manage an irrevocable buyback programme during the close period that commenced on 1 October 2014 and ran up to 3 December 2014.

On 16 October 2014, the Group acquired PAI Group, Inc. ("PayChoice"), a provider of payroll and HR services for small and medium sized businesses in the US, for US$158m (£97m) in cash. The acquisition strengthens Sage's position in the large and growing US payroll market.

On 5 November 2014, Stephen Kelly joined the Board as Chief Executive Officer.

Steve Hare
Chief Financial Officer

Regional performance

Europe

Organic revenue growth	2014	2013
France	**+3%**	0%
UKI	**+5%**	+5%
Spain	**+1%**	-2%
Germany	**+3%**	+1%
Sage Pay	**+7%**	+25%
Rest of Europe	**+3%**	+8%
Europe	**+4%**	+2%

Revenue in Europe grew organically by 4%, with organic recurring revenue up 7% (2013: 5%) and organic SSRS revenue contracting by 4% (2013: 2% contraction). Software subscription revenue growth of 31% is a highlight, with product feature innovation, new tiered pricing strategies and legislative change acting as subscription catalysts. 75% of recurring revenue growth came through subscription across both the SSB and SMB segments, driven by key product initiatives that included Sage Ciel Flex, Sage 100 i7 and Sage 50 Payroll.

SSRS contraction reflects some substitution effect resulting from subscription growth this year, which continues the longer-term shift to higher quality recurring revenue streams. There was also SSRS contraction in the mid-market that mainly affected France, driven by a weak new licence performance and a change in sales mix. France contributes almost 50% of total European mid-market revenue.

France – strong subscription momentum offsets mid-market weakness

In France, organic revenue grew by 3%, with growth excluding the mid-market of 4%. Strong subscription momentum remained the primary driver, with over 40% of France's recurring revenue base comprised of software subscription revenue that grew 24% in the year.

Success continues to centre on the Sage 100 i7 upgrade programme, which is now available across both accounts and payroll, and the tiered subscription-only Sage Ciel Flex offering. Sage Ciel Flex has been particularly successful in offsetting a declining performance of the legacy Ciel product in the retail channel. These initiatives highlight the attraction of subscription to both SMB and SSB customers respectively.

UKI – value-adding subscription catalysts drives growth

UKI revenue has grown organically by 5%. Subscription is taking hold in the UKI with growth of 30% in the year, with Sage 50 Payroll in the SSB segment and Sage 200 in the SMB segment behind this strong performance. Subscription revenue now represents almost 25% of total UKI recurring revenue.

Sage One also delivered strong growth in paying subscriptions, which grew from over 21,000 to 47,000. Whilst Sage One is not yet a material constituent part of the UKI revenue base, it is an important product in driving market share growth in the SSB segment.

These good performances were partially offset by a decline in SSRS revenue, which was boosted last year by the Real-Time Information ("RTI") legislative change initiative.

Spain – new pricing strategies and up-selling drive return to growth

Revenue in Spain grew 1% organically after several consecutive reporting periods of contraction. The recovery was led by a return to SSRS growth, which contracted by 7% last year alongside modest contraction in recurring revenue. Sage Murano and Sage Despachos upgrade initiatives were the primary drivers of this improvement in the SMB and Accountants segments respectively.

Spain's return to growth is the result of positive and successful management action in an economic environment that is still uncertain despite some signs of improvement. We are now seeing better growth rates for Sage Contaplus, our flagship SSB product in Spain. This follows the introduction of new, simplified pricing tiers and software and support bundles, which have improved renewal rates and encouraged customers to move to higher value plans.

Germany – improved recurring revenue growth supports growth

In Germany, the rate of organic growth increased to 3%. SSRS contraction slowed to 2% compared to the prior year contraction of 4%, whilst recurring revenue growth increased to 7% from 5% last year, reflecting focus on premium support up-selling across several SSB and SMB products including Sage Office Line.

Sage Pay – growth rate slows after one-off price increase supported prior year growth

Sage Pay delivered organic revenue growth of 7%. Growth of 25% in the prior year was primarily due to a price increase made in the second half of 2012 that is now fully represented in the comparator. The payments landscape in the UK is highly competitive and this has impacted the rate of new customer acquisition. Progress around the cross-sell of payments into the accounting installed base has also been below expectation but remains an opportunity for 2015.

Rest of Europe

Organic revenue in Portugal grew by 1% (2013: 17%), with prior year growth largely due to a non-recurring legislative catalyst. Whilst current year SSRS revenue has therefore contracted by 21% against a strong comparator, recurring revenue has grown by 19% through focus on support contract penetration and renewals as customers look to remain legislatively compliant.

In Switzerland, revenue grew 3% organically (2013: 3%), whilst organic revenue grew 5% in Poland (2013: 7%).

Organic operating profit

Organic operating profit in Europe increased to £215m (2013: £204m), representing a margin of 28.6% (2013: 28.1%), primarily as a result of revenue growth improving operating leverage. The Group continues to invest in Europe in support of growth, particularly across R&D, S&M and customer support, whilst reducing the overhead base that supported non-core products that were disposed of last year.

Americas

Organic revenue growth	2014	2013
Sage Business Solutions ("SBS")	**+5%**	+6%
Sage Payment Solutions ("SPS")	**+1%**	+4%
North America	**+4%**	+6%
Brazil	**+9%**	n/a
Americas	**+5%**	+6%

The Americas, where full year results from Brazil are recorded in organic revenue for the first time, delivered organic revenue growth of 5%. Organic recurring revenue grew 6% (2013: 7%) and organic SSRS revenue grew 1% (2013: 2%). The rate of growth in the Americas has fallen, despite the introduction of high-single digit growth in Brazil, as a result of a slowdown in the rate of premium support up-selling and a sharp decline in the rate of growth in Sage Payment Solutions.

SBS – premium support underpins growth

SBS grew organic revenue by 5%. Premium support up-selling remained the principal driver of growth reflecting focus on migrating tax-only Sage 50 US and Canada customers to the full premium support service in the SSB segment. The business also delivered growth in the SMB segment through Sage 100 and Sage 300 premium support initiatives. However, the overall rate of maintenance and support growth has fallen modestly as certain upgrade initiatives came to an end during the second half of the year.

SSRS revenue in the mid-market grew at double-digits as Sage ERP X3 continues to perform strongly in North America. This offset some SSRS revenue contraction in the SMB segment across the sunset portfolio as customers migrate to other products that better serve their needs.

SPS – pricing and competitive pressures reduce rate of growth

SPS grew organic revenue by 1%, down from 4% last year, reflecting a particularly challenging second half of the year. As highlighted with our third quarter trading update, the slowdown reflects market-wide pricing pressure driving margin compression through the merchant acquirer channel and the loss of a signification merchant acquirer partner in the first half of 2014.

A number of steps have been taken to stabilise margin compression but the merchant acquirer loss will have a negative impact on revenue in the first half of 2015. We remain cautious about the growth prospects of payments going into 2015 and are focused on driving the cross-sell of integrated payment solutions into the Sage installed base.

Brazil – accounting and payroll software delivers double-digit growth despite economic slowdown

Organic revenue in Brazil grew by 9%. Accounting and payroll software revenue has grown in excess of 20% during the year, benefiting from some legislative change. Technical content revenue growth was low as the subdued demand for this service continues, with businesses looking to reduce costs in the face of toughening macroeconomic trading conditions. We are taking steps to respond to this issue that include bundling some technical content into the core accounting subscription.

Organic operating profit

Organic operating profit in Americas increased to £106m (2013: £98m), representing a margin of 25.7% (2013: 25.0%). The increase in margin is the result of improved operating leverage and controlled expenditure, particularly around headcount costs. There has also been a strong focus on reallocation of R&D investment towards Invest products and on reducing non-core product-related overheads.

AAMEA

Organic revenue growth	2014	2013
South Africa	**+16%**	+14%
Australia	**+6%**	+1%
Middle East and Asia	**+12%**	+11%
AAMEA	**+12%**	+9%

Organic revenue grew strongly in AAMEA at 12%, with organic recurring revenue growing 14% (2013: 11%) and organic SSRS revenue growing 10% (2013: 7%). South Africa again led the acceleration in growth despite a marked slowdown in the wider economy.

South Africa – strong double-digit growth performance

Organic revenue growth in South Africa increased to 16%, with the rate of organic recurring revenue growth accelerating to 19% from 16%, and SSRS growth increasing to 13% from 12%.

The South African mid-market has continued to perform well, with Sage ERP X3 and VIP People Payroll the standout products. Payroll subscription revenue and payments growth drove the acceleration in recurring revenue growth.

South African growth is also underpinned by annual price increases that reflect the current rate of inflation of around 6%.

The contribution of revenue from the wider African continent continues to increase in importance, comprising 13% of total South African revenue and growing 22% organically (2013: 22%).

Australia, Middle East and Asia

In Australia, we delivered organic revenue growth of 6%, with price increases on key products Micropay and Handisoft responsible for the majority of this growth.

The Middle East and Asia grew organically by 12%, with good growth in the Middle East and Singapore driving performance.

Organic operating profit

AAMEA organic operating profit has increased to £39m (2013: £35m), although this represents a decrease in margin to 27.2% (2013: 27.4%). During the year, there was increased investment in headcount across customer support, professional services and mid-market payroll. There was also additional investment into the rest of Africa with the opening of a new office in Lagos. Profitability in AAMEA was largely unaffected by the non-core product disposals.

Our Corporate responsibility policy

Our Corporate responsibility ("CR") activities offer Sage the opportunity to be a good corporate citizen while supporting our global vision.

Our global CR policy focuses on four key areas where we believe we can make the most difference. For three of these – People, Environment and Industry – we have established a global framework for our operating companies to work within, allowing them flexibility over which area to invest in according to what will have the most meaning and impact locally. Whilst local legal standards apply as an absolute minimum, we aim to achieve good practice in our local markets and share this across the Group. The fourth area – Community – is entirely locally driven, allowing our people to support causes close to them and to become involved in their communities.

Sage has been independently assessed against the FTSE4Good criteria and satisfied the requirements to become a constituent of the FTSE4Good Index Series, which is an equity index designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

People

Given the nature of our business we have not included information specifically about human rights issues in this report. We have a Code of Ethics, available at www.sage.com, which recognises the importance of treating all of our employees fairly, covering issues such as responsible employment, diversity and equal opportunities. This is an effective way of communicating, at a high level, the principles which should be applied in the conduct of our business.

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 the wider impact we have through the use of resources and how much landfill waste we generate.

Industry

We aim to leverage the unique relationships that we have with our customers across the globe to continue to understand and support the issues and challenges that they face.

Community

Our local communities are important to us. We support a number of charities and community organisations worldwide in order to make a positive impact on the communities where we have a presence. Our employees are dedicated to raising funds for charity and volunteering their time to help the local community.

Board reporting

Our CR policy has been endorsed by our Board who are updated on CR risks and opportunities by the Company Secretary.

Ethics

We are committed to conducting business in an honest and ethical manner. We act according to our Code of Ethics, which is integral to us and sets out a range of principles we adhere to. In particular, we do not tolerate bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. We enforce effective systems and processes to counter bribery and corruption and we continue to create new ways for employees to anonymously report any related concerns.

As a UK company, The Sage Group plc is bound by the laws of the UK, including the Bribery Act 2010, in respect of our conduct both at home and abroad. In addition, we will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which we operate.

As well as ensuring our own conduct is appropriate, we have also put in place procedures to prevent bribery being committed on our behalf by any associated persons, particularly in our subsidiaries, and third parties we work with. Our leaders sign 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.

Data protection

We take data security and privacy seriously. Customer data is handled sensitively, with respect, and in a way that complies, as a minimum, with the requirements of data protection laws in the countries in which we operate and, where appropriate, regional legislation. We also work with local legislative bodies and data protection agencies and continuously look to strengthen our systems and procedures.

People

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. Our people pride themselves on delivering an extraordinary customer experience to underpin this vision.

They are also proud to work at Sage and, in turn, we are committed to leveraging, developing and recognising talent across our organisation.

Guiding principles

Our guiding principles drive our culture and shape how we think, plan, behave and make decisions.

Simplicity

Maintaining simplicity in a complex world is challenging, but we believe it is vital to work in an organisation where things are clear, easy to understand and direct. We believe it creates an environment that is more relaxed and that frees people to perform to their potential.

Agility

Business is fast-paced and ever changing, so when customers need us we have to respond quickly and efficiently. However, being reactive isn't enough. We believe in a more proactive approach, which requires us to anticipate and interpret our customers' needs so that we're ready to meet them. Having the agility to find relevant, effective solutions and deliver them at the right time is what sets us apart.

Innovation

We're always looking at new ways to improve the customer experience. From product innovation to how we work together, creativity can make all the difference. That's why we encourage our teams to explore innovative ideas, because our future success depends on it.

Trust

By using Sage products our customers are committing to us, so they must be able to trust us to deliver. Our customers need to know we are on their side, providing tailored products and services that meet their needs and offering expert advice and support to help them run their businesses.

Integrity

Whether we are providing software products to our customers or giving them business advice and support, integrity is central to maintaining our credibility. It is about delivering on our promises, being reliable and maintaining the highest of standards. That is how we build trust and loyalty with our customers.

Building inner confidence

We are committed to making Sage an inspiring and engaging place to work. Our brand is all about creating business confidence for our customers – so it is important that our people all have the "inner confidence" needed to ensure that we deliver this to our customers.

Our people therefore require the right training, the right tools to do the job, feel supported by their managers and understand how their work fits with what we are trying to achieve as a business. We try hard to create this environment but there is always more we can do.

In February 2014, we launched our first global People Survey. 82% of our people – around 10,600 employees – responded, so we are confident that the results give a clear and true reflection of how our people feel about working at Sage. The results have provided us with a real insight into what is working well for our people as well as some key areas for us to focus on. Work is well underway across our business to develop action plans and a further interim survey will take place in early 2015 to track our progress.

Redefining the Sage Employee Value Proposition

As part of our ongoing commitment to making Sage a great place to work we have initiated a global project to redefine the Sage Global Employer Brand and Employee Value Proposition ("EVP"). We have engaged our people through focus groups and workshops to understand what is important to them so that we can define our core proposition. We will be establishing a clear framework to enable us to bring our EVP to life consistently across the business and at all points of the employee experience life cycle.

Equipping our people for change

Ensuring our people are equipped with the relevant skills and training is a key focus. In many regions we've invested heavily in bespoke learning and development to ensure our people continue to deliver an extraordinary customer experience.

In Spain, the Sage Sales University provides a platform to ensure employees are clear on business priorities and targets. It also provides a networking opportunity so that colleagues can learn from one another's experiences.

In North America, employees within R&D benefit from expanded learning tools, including an online learning platform that provides real time, online access to enhance technical skills and applications.

We've also implemented a number of programmes to improve our capabilities in support of our customers, including investing in technical skills and cross-training of our support teams to extend coverage beyond a single product. For example, in North America, nearly half of our analysts are able to serve customers across multiple products, enhancing their engagement, talents and value.

Transforming the way we work

Our global strategy requires us to transform the way that we work. As cloud technology evolves to make data accessible anywhere and on any device, Sage is responding by providing customers with flexibility and choice to take advantage of these technologies.

This has resulted in more people working across traditional boundaries with a greater need to share and access common data, as we see increasing levels of global collaboration to deliver our strategic initiatives.

We are investing in technology to support these new ways of working, particularly by leveraging common platforms and enabling our people to take advantage of the cloud.

At a regional and country level we are also streamlining our systems and processes to ensure we achieve our goals. We are aligning our finance functions across North America and Europe to best meet the needs of the business and we're exploring ways in which we can leverage our scale using common ERP systems.

Sage People Survey

We are confident that our results give a clear and true reflection of how our people feel about working at Sage.

10,600
82% employees responded to the survey

77%
of respondents are proud to work at Sage

73%
of our people understand our business strategy

In North America we have implemented a new Human Capital Management System to provide a consistent system of record across the region whilst linking seamlessly with other HR and Finance tools. In support of this work and the increasing collaboration and efficiency it represents, we now have a Chief Information Officer responsible for both North America and Europe.

A further example of integration and sharing best practice is the launch of the first phase of a cloud-based global performance management system, which builds on work initiated in North America, for the benefit of teams across the world.

We are also looking at ways in which Office 365 can enable our people to connect globally, access news and information, share insights and provide feedback to help facilitate the delivery of our vision and strategy.

As well as supporting us in achieving our business ambitions, these projects and initiatives generate improvements for our global Sage community and provide further professional growth and career development opportunities.

Recognising our people

Sage strives to provide a work environment where our people feel valued and appreciated in order to help attract, motivate and retain the talent required to achieve our goals.

We continue to recognise and celebrate success and this year we launched the Sage Europe awards to recognise the contribution and outstanding performance of over 7,000 employees in that region in bringing our strategy to life. The awards build on existing country-based programmes, such as the Sage Guiding Principle Awards, which are well established within our Sage UKI organisation.

In South Africa, we recognise employees' contribution to success through a range of monthly, quarterly and annual awards. Employees are invited to an annual "Oscars" weekend as thanks for their hard work and dedication, where awards are presented to recognise outstanding performance.

In North America, in addition to existing programmes such as the Extraordinary Customer Experience awards, several targeted programmes were implemented this year to acknowledge employees' time, talents and effort. The Customer Experience Honors programme recognises and rewards customer-facing support and service team members for the value they deliver as part of our Sage Advisory Level Services.

Developing our talent

To meet the needs of our global strategy we have taken a well-planned approach to the development of our talent.

Across our leadership population we have continued to implement our global talent management process "Talking Talent" to assess capabilities, identify talent strengths, risks and opportunities as well as targeted succession planning for key roles. We continue to invest in leadership evaluation and have increased our investment in performance management.

Our approach has identified internal successors for key senior roles in the organisation, including the recent appointment of our Chief Marketing Officer, Santiago Solanas, and our Mid-market Europe Chief Executive, Jayne Archbold.

We have extended our programme beyond the Top 100 leaders to nearly 200 leaders in Europe and we are taking this further into the business and across all regions to gain a better understanding of key talent. In North America, this process has been widened to include key roles within R&D, Sales Operations and Product Management that align closely to strategic performance.

In addition, we have rolled out several leadership development programmes at a global and regional level including Confident Leader, Leading Change, Creating a High Impact Performance Environment and Leading and Working in a Matrix Environment.

Global mobility is playing an increasing role in transferring skills and knowledge across Sage and our approach enables us to close skills gaps, address talent shortages and fuel business growth around the world. At the same time, the employee benefits from the opportunity to experience a new culture, bring their skills and experience to a new group of colleagues and projects, and accelerate their own development.

Examples of where global talent has been deployed include leveraging expertise between regions through the deployment of senior executives and other key talent to assist with strategic projects. We encourage the sharing of knowledge, experience and success as a way of improving our approach to new products, initiatives and projects.

Santiago Solanas, Group Chief Marketing Officer

Diversity

Sage customers come from many nationalities and backgrounds and our commitment is that Sage people will reflect their diversity.

We will demonstrate our commitment by:

- Promoting equal opportunity for our current and potential team members
- Reflecting the communities in which we work
- Aiming to build teams which reflect the diversity of our customers
- Treating our customers, partners and team members fairly and with respect
- Promoting an environment free from discrimination, bullying and harassment, and tackling any behaviour which may breach this intent
- Providing support and encouragement to our people to develop their careers and increase their contribution to Sage and our customers

We will provide equal opportunity to all our people and will not tolerate discrimination on grounds of gender, gender identity, marital status, sexual orientation, race, colour, nationality, religion, age, disability or any other grounds other than performance.

We will regularly assess and refocus our effectiveness in reflecting the diversity of our customers, and strive to improve all the time.

Gender

We continue to 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.

Following the appointment of Inna Kuznetsova as a Non-executive Director in March 2014 we have 25% female representation at Board level. Our top leadership population is 22% female, and this proportion is higher within the majority of our core operating companies. 46% of our total workforce profile is female. Examples of some local gender-specific initiatives include Spain's Equality Plan and the UKI's Enterprise for Women network aimed at supporting and encouraging career development of women through networking events and workshops.

Year-end employee count split by region[1]

	Europe	Americas	AAMEA	Group and central operations	Total
2013[2]	7,063	3,546	2,006	145	12,760
2014	**7,114**	**3,585**	**2,134**	**142**	**12,975**

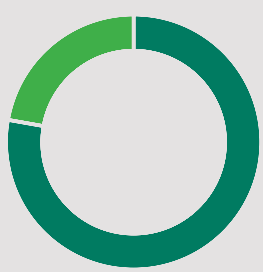
1 Figures shown are on an organic basis.

2 Last year, employees and associated costs attributable to Sage ERP X3 were disclosed as part of Group and central operations. This year they are included as part of Europe. 2013 figures have been restated on a like-for-like basis.

Board diversity

	2014	2013
Men	**6**	6
Women	**2**	1
% Men	**75%**	86%
% Women	**25%**	14%

Top leadership diversity



	2014	2013*
Men	**127**	114
Women	**36**	33
% Men	**78%**	78%
% Women	**22%**	22%

Total workforce diversity

	2014	2013
Men	**7,017**	6,830
Women	**5,958**	5,930
% Men	**54%**	54%
% Women	**46%**	46%

* Prior year top leadership diversity figures have been restated on a like-for-like basis with the current year to include all employees who are registered directors of one or more Group companies. The previously reported numbers of 84 men and 27 women captured employees who fulfil a leadership role in delivering global strategy. However, not all employees who are registered directors of one or more Group companies fall into this category.

Environment

We aim to reduce the energy our business uses and make the most of recycling opportunities. We comply with local laws as a minimum standard and Sage continues to take part in the global Carbon Disclosure Project.

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013 (the "Regulations")). We include this reporting data here in order to provide a complete CR picture.

Reporting year

We have defined our greenhouse gas emissions reporting year so that it aligns with our financial year, being 1 October 2013 to 30 September 2014.

Global greenhouse gas emissions data

For period 1 October 2013 to 30 September 2014

Emissions from:	Tonnes of CO_2 Equivalent (CO_2e)	
	FY14	FY13
Combustion of fuel and operation of facilities	**9,238**	9,550
Electricity, heat, steam and cooling purchased for own use	**15,796**	17,943
Company's chosen intensity measurement: – Emissions reported above normalised to tonnes of CO_2e per total GBP£1,000,000 revenue	**19.16**	19.98

Organisation boundary and responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible.

We have reported on all material emission sources for which we deem ourselves to be responsible. These sources align with our operational control and financial control boundaries. We do not have responsibility for any emission sources that are beyond the boundary of our operational control. For example, business travel other than by car (including, for example, commercial flights) is not within our operational control and, therefore, is not considered to be our responsibility.

Methodology

The methodology used to calculate our emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by the Department for Environment, Food & Rural Affairs ("DEFRA"). We have also utilised DEFRA's 2014 conversion factors within our reporting methodology. In some cases, we have extrapolated total emissions by utilising available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report & Accounts. For further details, our methodology document can be found at www.sage.com/about-sage/corporate-social-responsibility.

Scope of reported emissions

Emissions data has been reported for all the Group's operations in Australia, Austria, Belgium, Brazil, France, Germany, Ireland, Malaysia, Morocco, North America, Poland, Portugal, Singapore, South Africa, Spain, Switzerland, the United Arab Emirates and the UK.

In the prior year, given the short time between the passing of the Regulations and the preparation of the report, it was not possible to report on all emissions. We have put the following procedures in place to enable us to report on a wider range of emissions this year:

- Development of a Group-wide mandatory greenhouse gas reporting manual
- Roll-out of Group-wide training sessions
- Country level review procedures
- Group-level quality reporting

The emissions that have not been included in this year's report relate to building usage in our operations in Belgium and the United Arab Emirates, where energy usage is not itemised on invoices. We have also not included emissions derived from refrigerant gas usage in relation to our operations in XRT Brazil, Singapore and the United Arab Emirates, as this information has not been gathered throughout the reporting year.

Intensity ratio

In order to express our annual emissions in relation to a quantifiable factor associated with our activities, we have used revenue in our intensity ratio calculation, as this is the most relevant indication of our growth and provides for a good comparative measure over time.

Baseline for 2014 targets

The 2013 data forms the baseline data for subsequent periods.

Carbon Disclosure Project

We once again took part in this project during the year under review by reporting our gas (Scope 1) and electricity (Scope 2) emissions for the financial year ended 30 September 2013.

Reducing carbon and waste

We have continued to make a concerted effort to reduce our carbon footprint. For example, across our business we have continued to focus on the reduction of business travel emissions by:

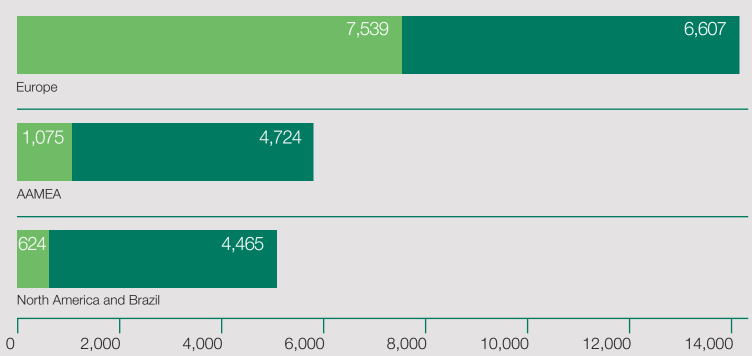
- Introducing a new car travel policy
- Purchasing new, more fuel efficient fleets
- Introducing the use of bio-ethanol
- Promoting the use of rail travel
- Installing more offices with motion sensor LED lights
- Restricting heating to working hours in many of our sites

Total CO_2e by type

Combustion of fuel and operation of facilities	9,238
Electricity, heat, steam and cooling purchased for own use	15,796

Sum of CO_2e

(tonnes)



- Combustion of fuel and operation of facilities
- Electricity, heat, steam and cooling purchased for own use

Industry

We pride ourselves on really understanding our customers, both their common needs and their unique requirements, and we look to deploy that empathy and insight in our CR activities.

30,000+
conversations each day with our customers

13,710
businesses polled for our Sage Business Index

Understanding the issues small and medium sized businesses face

Having a clear understanding of the challenges our customers face is important to us to ensure our products and services meet their needs. In addition to the over 30,000 conversations we have each day with our customers through our support offering, we also conduct regular research and surveys, both locally and globally, to collect as much insight and information as we can.

Our global Sage Business Index survey helps us remain close to what matters most to SMEs. This year we surveyed close to 14,000 businesses across 18 countries, providing a comprehensive study of business confidence and the pressures faced by decision makers within companies around the world.

Local markets also carry out their own research allowing Sage to gain an insight into individual markets and adapt our business to support them. For example, in Spain we carry out "Sage Observatory", a collection of four annual surveys learning about how technology, the government and the economy are affecting SMEs in Spain.

Supporting local businesses and organisations

Our vision of being the most valuable supporter of small and medium sized businesses means helping them understand and navigate through the business challenges they face. This year we launched our global Business Navigators campaign, which aims to raise awareness and promote the benefits mentoring can have on business growth and success.

Locally we sponsor different organisations which are aiding small and medium sized businesses. For example, in the UKI we are sponsoring Europe's first £1m technology accelerator programme, Ignite 100, to support technology start-ups in Newcastle, who are encouraged to join an 18-week accelerator programme. As well as £10,000 funding, Sage offers guidance and expert advice to the Ignite 100 start-ups.

In North America we support the National Association of Women Business Owners annual event and conference, whose aim is to support women business owners and give them the power to succeed. We encourage education in our industry through events such as the Economics and Management week, and through our work with the South African Institute of Chartered Accountants ("SAICA"). Sage also hosts online forums and information sessions throughout the year, providing knowledge on economic and legal changes that are affecting SMEs.

Ignite 100

Sage provided £10,000 funding to Ignite 100, Europe's first £1m technology accelerator programme, as well as providing guidance and expert advice to Ignite 100's start-ups.

£10,000
funding for Ignite

"I'm delighted that Sage is now leading the way by working with Ignite 100 to support early-stage technology start-ups. Sage has inspired plenty of entrepreneurs in the past. Now that it is actively supporting technology businesses in Newcastle through community support and mentoring, it will continue to do so in the future."

— Paul Smith, co-founder and director of Ignite 100

Helping non-profit organisations with business software is also high on our agenda. In North America, Sage has continued a partnership with TechSoup, an organisation that provides free business software to not-for-profit organisations. This year alone, Sage has donated software to 438 organisations, with a value of $221,000 (£135,000), twice as much as the previous year.

We also support our customers by providing them with opportunities they would not usually have. This year we launched the “Bag yourself a Billboard” competition through which the UK-based online creative community, Gather.ly, won a £100,000 advertising space in London’s tech city to help boost their business.

Developing the entrepreneurs of tomorrow

We believe passionately in the value of developing future talent, both within Sage and in the wider business community.

We work with a number of organisations to help nurture the entrepreneurs of tomorrow, such as the Junior Achievement Foundation in Spain which gives university students the experience of developing their own company. Twenty Sage volunteers worked with the 152 students who took part and guided four projects through to the national competition.

In South Africa, we continue our support of the Life College, which focuses on developing emotional intelligence, entrepreneurship and leadership in youth. We continue to sponsor their annual event, The Life College Xchange, a competition where students are provided with seed capital to launch a small business. The event also gives students the chance to network and learn from business experts. In Portugal we support Vodafone Labs Lisboa, Start-up Lisboa and Start-up Campus campaigns, which all work towards the development of entrepreneurs.

Throughout the business we develop the new talent of tomorrow through apprenticeships. In the UKI, we take on 12 apprentices each year, offering valuable learning opportunities for students to build a career. In South Africa, in addition to our long-standing partnership with SAICA, through the Thuthuka programme we identify students with an aptitude for maths, science and accounting. The winner is awarded the Olympiad prize, including a full bursary from Sage to further their education in accountancy. In South Africa, we also provide a full bursary and three-week vacation scheme to a student studying either an accountancy or technology-related course through the Tomorrow Trust.

12
Apprentices in the UKI

438
Organisations Sage has donated software to

David Milstead, UK Apprentice

David Milstead, 22, is one of our 12 apprentices in the UK with a passion for coding and product development. On deciding university wasn’t for him, he found the Sage apprenticeship scheme was the right path to develop his skills and build a career. David is now a key member of our research and development team.

> “I’m really enjoying the apprenticeship and software development is definitely the career path for me. I’d like to go on to a junior developer’s role so I can progress my career through to senior developer and manager.”
>
> **– David Milstead**

Community

Our involvement in local communities is about more than business, so we empower our operating companies to set their own targets and goals because they know best what will really make a difference locally.

Giving our time to help charities

We support a number of charities and community organisations locally and globally. Moreover, our people love taking the opportunity to dedicate some of their time to the local causes that matter to them. In North America and the UKI, through the Volunteer Day Benefits programme, our employees are given paid days off to volunteer on programmes such as Right to Read and Code Club, where they support, teach and develop children's learning and skills.

Sage Day is an annual event in July, where our employees have the opportunity to get involved in local communities and charity work together. This year, in South Africa, it coincided with Mandela Day, so our employees chose to raise money to purchase homeware through Sage Day, with 50 volunteers visiting Afrika Tikkun's Diepsloot community centre to deliver the parcels of homeware and entertain the children.

Our operating companies also come up with unique and fun ways to raise money. In South Africa, we host an annual Shave-athon to support the Cancer Association of South Africa, who carry out research to find cures and treatments for cancer patients. This year we raised R135,000 (£8,000). In the UKI, our employees took part in three annual bike rides: Coast to Coast, London to Paris and London to Alpe d'Huez. They raised an impressive £24,000 for Cancer Research, contributing to a total of £668,000 over our eight-year partnership.

We also do more than just donate funds. For example, our team in Spain continued their annual support of the National Food Bank, donating 400 kilos of food this year. We held a food donation day in Portugal in partnership with Kelly Services as well as donating 800 toys to children with cancer through the One Toy One Smile campaign.

Throughout the business, we also have initiatives in place to encourage our employees to continue supporting the community through matching donations, providing personal sponsorship and encouraging them to vote for the charities we should support.

Investing in young people

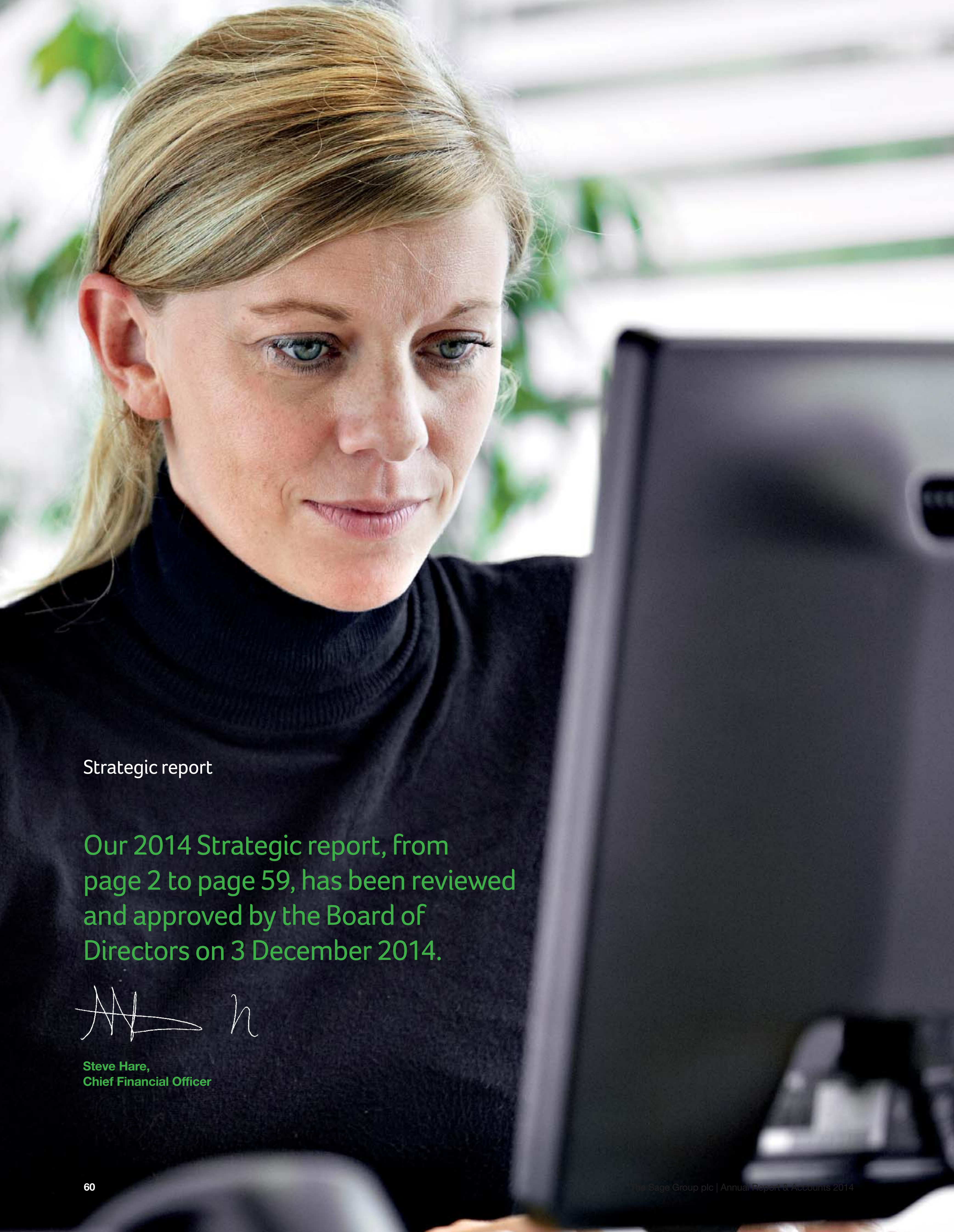
Sage has always believed in the talent of tomorrow and this is seen through our support of apprentices and bursaries. In South Africa, we have a long-standing joint initiative with Penreach Trust and King David School Foundation. Sage's support provides training and resource materials for educators in rural or disadvantaged areas to help deliver a better education. This year, in South Africa, we have sponsored the installation of a library at Dr Beyer Naude School in Soweto, with employees donating books. In Portugal, we also held a book donation initiative labelled "reusing is better than recycling".

Afrika Tikkun Diepsloot community centre

In South Africa, Sage has supported Afrika Tikkun, a well-established non-governmental organisation which works in six of the most impoverished communities in South Africa, for the past six years. This year our staff raised funds during Sage Day to buy homeware for the Diepsloot community and donated their time to visit the community centre.

> "Thank you very much for making a difference to the families that received your gifts. The warmth and artistic flair of the Sage staff left many of our children with smiles on their faces. These are moments of magic that allow some of our children to forget about some of the hardships they are faced with on a daily basis and enjoy life."

– Afrika Tikkun

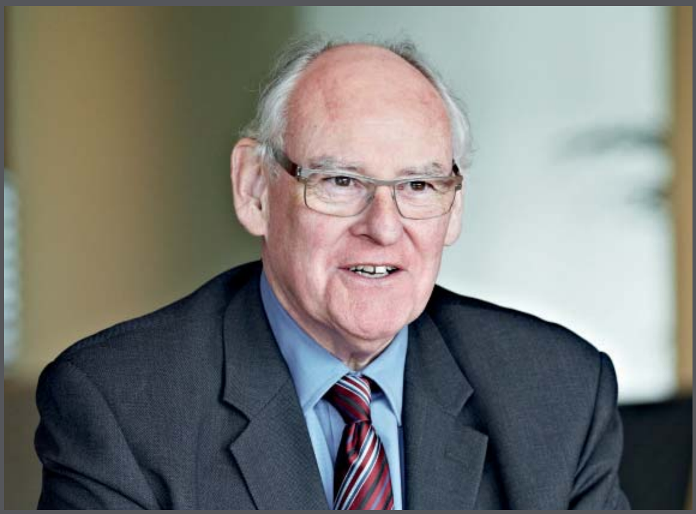


Strategic report

Our 2014 Strategic report, from page 2 to page 59, has been reviewed and approved by the Board of Directors on 3 December 2014.

Steve Hare,
Chief Financial Officer

Dear Shareholders



The Board of the Company is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. One of the ways in which the Board achieves this is by requiring that good governance principles and practices are adhered to throughout the Company. The Board determined that the following is a helpful summary of its role:

Good 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 promotes success whilst permitting the management of risk to appropriate levels.

It also involves the exercise of judgement as to the definitions of success for the Company, the levels of risk we are willing to take to achieve that success 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.

Compliance with the UK Corporate Governance Code 2012 ("the Code") and its statement requirements

Throughout the financial year ended 30 September 2014 and to the date of this report, Sage has complied with the provisions of the Code, including updates which have applied since our year-end. The Code is publicly available at the website of the UK Financial Reporting Council at www.frc.org.uk. This corporate governance section of the Annual Report & Accounts describes how we have applied the principles of the Code.

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 executive team is required to provide such information to the Board as the Board needs to enable it to exercise its judgement over these matters. It must also evidence appropriate process. There is a very fine distinction between the approval of processes and their definition. Only exceptionally would the Board intervene to initiate or define.

The Board also sets the tone for the Company. The way in which it conducts itself, its attitude to ethical matters, its definition of success and the assessment of appropriate risk, all define the atmosphere within which the executive team works.

Good corporate governance is not about adhering to codes of practice (although adherence may constitute a part of the evidence of good governance) but rather about the exercise of a mindset to do what is right. One of the challenges facing any Board is the way in which the non-executive and the executive directors interact. It is clear that they each have the same legal responsibility but it is generally unrealistic to expect executive directors to speak individually with the same freedom as the non-executive directors. Equally, executive directors who just "toe the executive line" in contradiction to their own views may not be effectively contributing to good governance. A well-functioning Board needs to find the right balance between hearing the collective executive view, being aware of the natural internal tensions in an executive team and allowing independent input from the non-executive directors.

One of the consequences of both increasing the watchdog role of the Board and finding this balance between individuality and team behaviour is driving more and more Boards to have fewer and fewer executive directors. In our circumstances as a holding company for a number of businesses, the reduced Board size works effectively and an appropriate balance is struck.

Notwithstanding the tensions created by many external expectations, which may be wholly or in part unrealistic, a successful Board should, ideally, be composed of a group of respected, experienced, like-minded but diverse people who coalesce around a common purpose of promoting the long-term success of the company, provide a unified vision of the definitions of success and appropriate risk, endeavour to support management (i.e. those who honestly criticise at times but encourage all the time) and who create confidence in all stakeholders in the integrity of the business.

Donald Brydon, CBE
Chairman

Board of Directors

Donald Brydon (69)

Chairman

Appointed to the Board:
6 July 2012

Experience:
Donald had a 20 year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management, followed by 15 years with the AXA Group, including the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington. He has also recently chaired the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, the ifs School of Finance, Smiths Group plc and is a past Chairman of EveryChild. Donald has also served as Senior Independent Director of Allied Domecq plc and Scottish Power plc.

Other current appointments:
- Royal Mail plc – Chairman
- Medical Research Council – Chairman

Board Committees:
- Nomination Committee (Chair)
- Remuneration Committee

Stephen Kelly (52)

Chief Executive Officer – Executive Director

Appointed to the Board:
5 November 2014

Experience:
Stephen has over 30 years' leadership experience in the SME and technology sector. He has previously served as Chief Executive Officer of two high-growth, public software companies – NASDAQ listed Chordiant Software, Inc. from 2001 to 2005 and LSE listed Micro Focus International plc. from 2006 to 2010. In 2012 he was appointed Chief Operating Officer for UK Government where he was the most senior executive responsible for the UK Government's Efficiency & Reform agenda, including Digital, Commercial, IT and SME strategies.

Stephen has been an angel investor and director in a number of high growth start-ups (including Deloitte UK Technology Fast 50 Award winners).

Steve Hare (53)

Chief Financial Officer – Executive Director

Appointed to the Board:
3 January 2014

Experience:
Prior to joining Sage, Steve was Operating Partner and Co-Head of the Portfolio Support Group at the private equity firm Apax Partners, which he joined in 2009. Before his work at Apax Partners, he built over 10 years' experience leading the finance function for three listed UK companies culminating as CFO for FTSE 100 company Invensys plc from 2006 to 2009. Between 2004 and 2006 Steve was Group Finance Director for Spectris plc, the FTSE 250 precision instrumentation and controls company and from 1997 to 2003 he was with Marconi PLC, serving as CFO from 2001.

Steve qualified as a Chartered Accountant in 1985 with Ernst & Whinney, now part of Ernst & Young.

Ruth Markland (61)

Senior Independent Non-executive Director

Appointed to the Board:
13 September 2006

Experience:
Ruth has over 30 years' experience of international services businesses, and has held a number of non-executive director positions. She joined Freshfields in 1977 and served as Managing Partner of Asia at Freshfields Bruckhaus Deringer from 1996 to 2003. She also served as the Chairman of the Board of Trustees at the WRVS until November 2012.

Other current appointments:
- Standard Chartered plc – Senior Independent Non-executive Director
- Arcadis NV – member of the Supervisory Board

Board Committees:
- Audit Committee
- Nomination Committee
- Remuneration Committee (Chair)

Changes to the Board

In the financial year to 30 September 2014 and to the date of this report, there have been the following changes to the Board of Directors:

Executive directors

Steve Hare	CFO	Appointed on 3 January 2014
Guy Berruyer	CEO	Retired on 5 November 2014
Stephen Kelly	CEO	Appointed on 5 November 2014

Non-executive directors

Drummond Hall	Appointed on 1 January 2014
Inna Kuznetsova	Appointed on 6 March 2014
Ian Mason	Retired on 30 November 2013
Mark Rolfe	Retired on 30 November 2013

Inna Kuznetsova (46)

**Independent
Non-executive Director**

Appointed to the Board:
6 March 2014

Experience:
Inna is former Chief Commercial Officer and Executive Board member at CEVA Logistics, where she worked from 2012 until 2014. Prior to joining CEVA, Inna spent 19 years at IBM, where she held a number of different roles focusing on building and running strong organisations in sales, business development and marketing, culminating as Vice-President, Marketing & Sales Enablement, IBM Systems Software and ISVs.

Other current appointments:
- None

Board Committees:
- Audit Committee
- Nomination Committee
- Remuneration Committee

Jonathan Howell (52)

**Independent
Non-executive Director**

Appointed to the Board:
15 May 2013

Experience:
Jonathan is currently Group Finance Director of Close Brothers Group plc, joining in February 2008, and previously held the same position at the London Stock Exchange Group plc from 1999. Jonathan has also been a non-executive director of EMAP plc and Chairman of FTSE International. The early part of his career was at Price Waterhouse where he qualified as a chartered accountant.

Other current appointments:
- Close Brothers Group plc – Group Finance Director

Board Committees:
- Audit Committee (Chair)
- Nomination Committee
- Remuneration Committee

Neil Berkett (59)

**Independent
Non-executive Director**

Appointed to the Board:
5 July 2013

Experience:
Neil has over 30 years' experience in a wide range of highly competitive consumer industries. Most recently, he was Chief Executive of Virgin Media Group from March 2008 to June 2013, having joined ntl, Virgin Media's predecessor, as Chief Operating Officer in September 2005. Before ntl he was Managing Director, Distribution, at Lloyds TSB plc. His previous roles include Chief Operating Officer at Prudential Assurance Company Ltd UK, Head of Retail at St George Bank, Senior General Manager at the Australian division of Citibank Limited, Chief Executive at Eastwest Airlines Australia and Financial Controller at ICL Australia.

Other current appointments:
- Guardian Media Group – Chairman
- Bank of Queensland Ltd – Non-executive Director
- NSPCC – member of the Board of Trustees

Board Committees:
- Audit Committee
- Nomination Committee
- Remuneration Committee

Drummond Hall (65)

**Independent
Non-executive Director**

Appointed to the Board:
1 January 2014

Experience:
Previously Drummond was Chief Executive of Dairy Crest Group plc from 2002 to 2006, prior to which the majority of his career was spent with Procter and Gamble, Mars and PepsiCo. Drummond was a non-executive director of Mitchells & Butlers plc from July 2004 to January 2010 and Chairman from June 2008 to November 2009.

Other current appointments:
- WH Smith plc – Senior Independent Non-executive Director
- First Group plc – Senior Independent Non-executive Director

Board Committees:
- Audit Committee
- Nomination Committee
- Remuneration Committee

Executive Committee

Stephen Kelly

Steve Hare

Richard Drury

Ivan Epstein

Santiago Solanas

Pascal Houillon

Alvaro Ramirez

Michael Robinson

Klaus-Michael Vogelberg

Stephen Kelly (52)

Chief Executive Officer, Board of Directors

For Stephen Kelly's skills and experience see page 62.

Steve Hare (53)

Chief Financial Officer, Board of Directors

For Steve Hare's skills and experience see page 62.

Richard Drury (52)

Group Human Resources Director

Based: UK

Experience:

Richard is responsible for leading human resources at Sage. His role is to develop and lead the implementation of our global strategy for organisational design, reward, leadership development, performance, talent, employee engagement and internal communications. Richard joined Sage in June 2013 from technology business Invensys plc, where he held a number of human resources leadership roles including Group Human Resources Director, and was responsible for providing services to over 21,000 employees across Europe, the Americas, Asia and the Middle East. Prior to Invensys, Richard worked in human resources in Whitbread's hotel and pub retail businesses and with British Airways, where he held both HR and customer services leadership roles.

Ivan Epstein (54)

Chief Executive Officer, AAMEA

Based: South Africa

Experience:

Ivan leads Sage's businesses across Australia, Africa, the Middle East and Asia, which include some of Sage's highest growth countries. Starting his career at Price Waterhouse, Ivan then co-founded Softline in 1988 leading it from start-up to a listing on the Johannesburg Stock Exchange in 1997. Softline was delisted and acquired by Sage in 2003, when Ivan joined the Executive Committee as CEO of the Southern Hemisphere, becoming CEO of AAMEA in 2010. Amongst his accomplishments, Ivan has been awarded the Ernst & Young "South Africa's Best Entrepreneur" accolade in 1999/2000 in recognition of his entrepreneurial attributes and contribution to South African business. He was also awarded the Computer Society South Africa "IT Personality of the Year" accolade in 2009 for his contribution to the IT sector.

Santiago Solanas (46)

Chief Marketing Officer

Based: Spain

Experience:

Santiago has recently been appointed as Group CMO, after seven years with Sage. He has been CEO of Sage Spain for the past four years, renewing the leadership team, restructuring the business, increasing its efficiency and returning it to growth in difficult economic circumstances in Spain. During this time he has also been the Accountants Segment leader for Europe and has led the brand roll-out for the region. He joined Sage in 2007 as Managing Director of the SSB division in Spain, after a career of over 20 years in the IT and software industry, including brand, sales and marketing management roles at Oracle, Microsoft and IBM.

Pascal Houillon (52)

Chief Executive Officer, North America and Brazil

Based: US

Experience:

Pascal leads Sage's business in the USA, Canada and Brazil. From 1997 to April 2011 he was CEO of Sage France, where he was also responsible for Belgium, Brazil, Switzerland and Morocco. Pascal joined Sage France in 1989 and went on to become Regional Director and Sales Director, before leading the Sybel business after it was acquired by Sage in 1995. Starting his career as a systems analyst for UAP Insurance, Pascal co-founded Sinequanon in 1987, providing business management solutions to SMEs. He was also Vice President of Syntec, the French software and IT association, for nine years.

Alvaro Ramirez (53)

Chief Executive Officer, Europe

Based: Spain

Experience:

Since January 2011 Alvaro has been responsible for Sage's European strategy, operations and business performance. Previously, as CEO of Sage Spain, he grew the Spanish business both organically and through acquisition, transforming it into a market-leading software company. Alvaro joined Sage in 2003 after Sage acquired Grupo SP, which he co-founded in 1989. He grew Grupo SP to become Spain's leader for entry-level business management software, with subsidiaries in Portugal and across Central and South America.

Michael Robinson (53)

Company Secretary and Group Legal Director

Based: UK

Experience:

Michael joined Sage in 2002 as Company Secretary and Group Legal Director. After reading Law at Oxford, Michael qualified as a solicitor and spent 15 years at one of the UK's largest law firms.

Klaus-Michael Vogelberg (49)

Chief Technology Officer

Based: UK

Experience:

Responsible for Sage's global technology strategy and software architecture, Klaus-Michael is also Acting Chief Technology Officer for Sage Europe. From 2004 to 2007 he was R&D Director for Sage UK & Ireland. Klaus-Michael joined us when Sage acquired the German KHK Software group in 1997, where he was R&D Director and a partner. A software entrepreneur, Klaus-Michael set up his first business aged 19 while studying aeronautical engineering and national economics.

Our Governance framework

The role of the Board and its committees

Board

Strategy development, growing shareholder value, oversight and control, and corporate governance

Our Board provides leadership to the business as a whole to drive it forward for the benefit, and having regard to the views, of its shareholders and other stakeholders.

The Board is responsible for ensuring that an effective internal framework of systems and controls is put in place which clearly defines authority and accountability and promotes success whilst permitting the management of risk to an appropriate level.

The Board sets the strategy for the business. It has delegated the authority to manage the business to Stephen Kelly, Chief Executive Officer, who delegates specific responsibilities to members of the Executive Committee, including the development and implementation of strategy.

The Board also delegates other matters to Board committees and management as appropriate.

Audit Committee

To oversee the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors.

Page 71

Nomination Committee

To review the composition of the Board and plan for its progressive refreshing with regard to balance and structure as well as succession planning.

Page 76

Remuneration Committee

To determine the framework, policy and levels of remuneration and make recommendations to the Board on the remuneration of the Chief Executive Officer, Chairman, executive directors, the Company Secretary and senior executives.

Page 77

Chief Executive Officer

Executive Committee

Developing and implementing strategy, operational plans, budgets, policies and procedures; monitoring operating and financial performance; assessing and controlling risks; prioritising and allocating resources; and monitoring competitive forces in each area of operation.

The terms of reference of each committee, which are reviewed on an annual basis, can be found on our website.

The Board and each committee are satisfied that they receive sufficient, reliable and timely information in advance of meetings and are provided with all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

Board and Committee meetings and attendance

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Donald Brydon	7/7	–	5/5	7/7
Guy Berruyer[1]	7/7	–	–	–
Stephen Kelly[2]	–	–	–	–
Steve Hare[3]	5/5	–	–	–
Ruth Markland	7/7	5/5	5/5	7/7
Drummond Hall[4]	5/5	4/4	5/5	5/5
Jonathan Howell	6/7	5/5	5/5	7/7
Neil Berkett	6/7	5/5	5/5	7/7
Inna Kuznetsova[5]	3/3	3/3	4/4	4/4
Mark Rolfe[6]	1/1	1/1	–	2/2
Ian Mason[7]	1/1	1/1	–	2/2

Notes:

1 Retired from the Board on 5 November 2014.
2 Joined the Board on 5 November 2014.
3 Joined the Board on 3 January 2014.
4 Joined the Board on 1 January 2014.
5 Joined the Board on 6 March 2014.
6 Retired from the Board on 30 November 2013.
7 Retired from the Board on 30 November 2013.

Board roles

Chairman Responsible for leading the Board, its effectiveness and governance	The Chairman is responsible for leading the Board, its effectiveness and governance and for monitoring and measuring the implementation of strategy. The role of Chairman also carries a particular responsibility to monitor and assess Sage's corporate governance practices. 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. These meetings without the Chairman are chaired by the Senior Independent Director. The Chairman also ensures that shareholder engagement is 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 Company Secretary.
Chief Executive Officer Responsible for the formulation of strategy and running of the Group	The responsibilities of the Chief Executive Officer include: – the design, development and agreement of strategy with the Board – implementation of the strategy and policy and the running of the Group – managing the overall performance of Sage, concentrating on revenue and profitability as well as capital expenditure The Chief Executive Officer also identifies acquisitions and monitors competitive forces, as well as ensuring an effective and motivated leadership team. The Chief Executive Officer chairs the Executive Committee and maintains a close working relationship with the Chairman.
Senior Independent Director Discusses any concerns with shareholders that cannot be resolved through the normal channels of communication	The role of Senior Independent Director is: – To provide a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman – Together with the other independent non-executive directors, to evaluate the performance of the Chairman The Senior Independent Director is available to consult with shareholders.
Company Secretary Ensures good information flows to the Board and its committees and between senior management and non-executive directors	The Company Secretary is available to all directors to provide advice and assistance, and is responsible for providing governance advice to the Board. The Company Secretary ensures Board procedures are complied with, that applicable rules and regulations are followed and acts as secretary to the Board and all of the committees. Minutes of all meetings are circulated to all directors. He facilitates the induction of new directors and assists with professional development as required. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The roles of the Chairman and the Chief Executive Officer are quite distinct from one another and are clearly defined in written terms of reference for each role. These terms of reference are available on our website.

Focus of the Board for the year

In the year under review, the Board's focus has been on strategy and ensuring that the structures, capabilities and reports are in place to support the Group strategy. The Board has received regular reports from both the Chief Executive Officer and the Chief Financial Officer.

In particular, in response to continued external changes discussed in the Strategic report, time has been spent considering:

- The move to cloud solutions and to a subscription-based customer relationship, including consideration and review of competitor activity in these areas
- The Payments businesses and external factors impacting their future

Actions taken to minimise the major risks faced by Sage, as described on pages 40 to 43, have also been regularly discussed and the Board has looked at succession issues, particularly in light of recent and ongoing changes within our executive teams.

The Board has formally adopted a schedule of matters reserved to it for decision. This schedule is reviewed on an annual basis, was last reviewed on 25 September 2014 and is available via our website.

The Board meets not less than six times per year. During this year, it met seven times.

Board composition

The Board is made up of the Chairman, Chief Executive Officer, Chief Financial Officer and five independent non-executive directors. In order to evolve and develop not just our Board, but also our business, a number of changes were made to the Board during the year.The directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. This experience and judgement is considered vital to our success. It is the balance of skills, experience, independence and knowledge of those directors which ensures the duties and responsibilities of the Board and its committees are discharged effectively.

The Board carefully monitors the independence of its non-executive directors, particularly those who have given long service. Having reviewed the current Board, the non-executive directors are all considered to be independent. Donald Brydon was considered independent at the date of his appointment.

All directors are subject to election or re-election by shareholders at each Annual General Meeting.

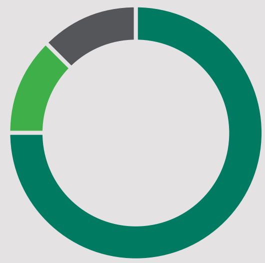
Diversity

The Board has due regard for the benefits of diversity in its membership, and strives to maintain the right diversity balance. The Chairman seeks to ensure that the composition of the Board includes individuals with deep knowledge and experience, bringing a wide range of perspectives to the business.

Sage continues to support the aims and objectives of The Davies Report on Women on Boards. The Board, as at the date of this Annual Report & Accounts, comprises 25% women (2013: 14%). The Board must continue to provide strong leadership at Sage, and, therefore, continues to appoint only the most appropriate candidates to the Board.

Whilst applying this policy in the Group, no measurable objectives have been set. Further details of our policies in this area are set out on page 54.

Tenure

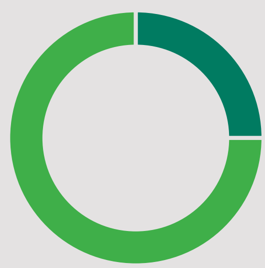


	2014
0–2 years	75%
3–6 years	12.5%
7–9 years	12.5%

Gender

	2014
Male	75%
Female	25%

Executive/Non-executive



	2014
Executive	25%
Non-executive	75%

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts of interest. At 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, with only those directors who have no interest in the matter taking the decision. No conflicts of interest have been identified during the year.

Board effectiveness

The Board has adopted a written set of objectives for the financial year, against which it assesses progress at each meeting. This ensures that the Board focuses on key issues relevant to Sage and can monitor progress in all these areas.

Board and committee papers which are clear, focused and relevant ensure that the Board has the information it needs to consider the issues relevant to the business. The papers are issued on a timely basis to ensure that the Board and its committees have ample time to consider and digest their contents and that the Board has the information it needs to discharge its duties. Regular attendance at Board meetings by key executives ensures that the Board has the opportunity to discuss the risks and opportunities within our business with leaders from across the Group.

Performance evaluation

The Board recognises the importance of reviewing its practices and performance on a regular basis and has evaluated its performance and that of its committees and individual members. In the past, the Board evaluated its performance in a number of different ways including detailed questionnaires and discussions between individual directors and the Chairman. In this financial year, the Board used an independent third party, Dr Rob Goffee, Emeritus Professor of Organisational Behaviour at the London Business School, to undertake the review. Dr Goffee has no other connection with Sage. Each director completed a detailed questionnaire relating to the Board, its role and the interaction of its members. This questionnaire was then used as the basis for individual interviews with each director.

The results and outcomes of the review were discussed by the Board as a whole, both with and without Dr Goffee present. Key topics during these discussions included board composition, diversity including gender diversity, the pattern of Board meetings, risk, shareholder engagement and succession. As a result, new Board objectives have been set, taking into account the findings from the review. In addition to the Board review, the Chairman's performance was evaluated by the Senior Independent Director through correspondence and discussion with the Chairman and the other independent non-executive directors and was found to be effective, having regard to his continued time commitment to his role.

> "This three step process – questionnaire, interview and board discussions – has allowed a full review of Board capabilities, operation and governance. Content and process issues have been addressed both for the Board and its individual members."
>
> **— Dr Rob Goffee, Emeritus Professor of Organisational Behaviour at the London Business School**

Induction and professional development

To ensure a full understanding of Sage is developed, new Board members undergo a full, formal and tailored induction programme.

During the year, Drummond Hall and Inna Kuznetsova received such an induction, which included:

- A full day meeting a team of our senior executives at a Group and operating company level
- Visits to our business in the US and meetings with the heads of the European business
- Bespoke training as deemed necessary based on individual needs

To assist the Board in undertaking its responsibilities, training is available to all directors and training needs are assessed as part of the Board evaluation procedure. All directors have access to the advice and services of the Company Secretary who ensures that directors take independent professional advice when it is judged necessary in order to discharge their responsibilities as directors.

Board meetings are held at our operating companies both inside and outside the UK. Non-executive directors also visit our overseas operations on a regular basis. This provides the Board and individual non-executive directors with the opportunity to broaden their understanding of Sage and the key markets in which we operate.

Risk management and internal controls

The system of internal controls and risk management is designed to meet our particular needs and to address the risks to which our business is exposed. By its nature, this system can only provide reasonable, not absolute, assurance against material misstatement or loss and it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board is responsible for the Group's system of internal controls. The effectiveness of the system of internal controls and risk management is regularly reviewed by the Board, in compliance with the UK Corporate Governance Code, and such a review was undertaken during the year.

Risk management

There is an ongoing process to identify, evaluate and manage our significant risks, as set out on pages 40 to 43. This process is considered to be an integral part of the internal controls environment and is managed on a day-to-day basis by the Group Risk and Assurance Director. This process was in place for the year under review and up to the date of the approval of the report.

The risk management process is set to ensure risks are identified from a top down/strategic perspective as well as a bottom up/local perspective. Facilitated risk workshops are undertaken with the Executive Committee and at each of the major territories within the Group. Results from risk management activities are reported to and discussed directly with the Executive Committee, the Audit Committee and the Board.

Internal controls

Financial reporting

As part of the internal controls processes, we have specific procedures and systems to govern financial reporting. The requirements for presenting financial information are governed by the Group Accounting Manual, against which the external auditors review the financial statements. Financial control requirements are set out in a Financial Controls Policy, which is subject to annual internal audit reviews. Any part of the Group not subjected to an internal audit review of financial controls in any given year is required to self-assess and self-certify on the effectiveness of their financial control environment.

Whistleblowing

A whistleblowing telephone hotline service operates in most of our operating companies, allowing employees to raise concerns in relation to dishonesty or malpractice on an entirely confidential basis. The Audit Committee receives regular reports on any matters raised through these services and monitors the use throughout the Group.

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

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 Officer and the Executive Committee, as discussed on page 66. Within the Group team there are a number of central administrative functions such as Group Treasury, Corporate Communications and Group Legal. These functions report to the Board through its executive members and the members of the Executive Committee.

A number of Group-wide policies, issued and administered centrally, have been set to 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 are set out in a delegation of authority matrix which is communicated to management throughout Sage. 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.

Budgetary process

A comprehensive budgeting system is in place, with annual budgets for all operating companies being approved by respective local 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.

Monitoring and review

There are processes in place to monitor the system of internal controls and to report any significant control failings or weaknesses and planned mitigating actions. These processes include:

- On an ongoing basis, the Sage operating companies certify that Sage's policy requirements have been received and understood
- Management representations covering compliance with relevant policies and the accuracy of financial information are collated on an annual basis

Internal audit

Internal audit activities are provided by an in-house 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 Chair in order to ensure independence.

Internal audit's role is to advise management and the Board on the extent to which systems of risk management and internal controls are effective. The internal audit plan is determined through a structured process of risk assessment and the scope of work provides assurance over both key risks and our main business functions.

The internal audit plan is flexed as necessary during the year to take into account any key business changes. During this year, key areas reviewed, over and above financial, HR and IT controls, were the provision of online services, information security, storage of source code and compliance with external regulatory and internal policy requirements. The full plan was delivered during the year and the results were in line with expectations.

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 and all information on Sage's activities, published financial results and the Annual Report & Accounts can be found on our website. There is regular dialogue with individual institutional shareholders and there are presentations to analysts after our announcement of the year-end and half-year results.

At each meeting, the Board receives an update on presentations to investors and communications from shareholders to ensure that the Board has an understanding of their views. The Annual General Meeting is used to communicate with private and institutional investors and the Board welcomes their participation.

Information included in the Directors' report

Certain information, fulfilling certain requirements of the Corporate Governance Statement, can be found in the Directors' report and is incorporated into this Corporate governance section by reference. For reference, relevant sections of the Director's report are:

- Substantial shareholdings
- Deadlines for voting rights
- Repurchase of shares
- Amendment of the Company's articles of association
- Appointment and replacement of directors
- Powers of the directors

By order of the Board

M J Robinson, Company Secretary
3 December 2014

Audit Committee Membership:
- Jonathan Howell – Chair
- Neil Berkett
- Drummond Hall
- Inna Kuznetsova
- Ruth Markland

"Our work continued to focus on the appropriateness of the Group's financial reporting, the rigour of external and internal audit processes, the Group's management of risk and its systems of internal control. We also conducted a tender for the Group's statutory audit which resulted in the proposal to shareholders to confirm the appointment of Ernst & Young LLP as Group auditors for the 2015 financial year. We provide more detail on these activities on the next pages."

Key objective

To oversee Sage's financial reporting, risk management and internal control procedures and the work of its internal and external auditors.

Committee meetings

All members of the Committee attend each meeting. In addition, meetings are usually attended by the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the Director of Finance and the Group Risk and Assurance Director. Other senior executives attend as required to provide information on matters being discussed which fall into their area of responsibility. The external auditors also attend each meeting. During the year, the Committee meets individually with the external auditors without executives present, the Chief Financial Officer and the Group Risk and Assurance Director. During the year, the Committee met five times – four in accordance with its terms of reference and an additional meeting on the external audit tender.

Relevant financial experience

Jonathan Howell is Chair of the Audit Committee and, as a member of the Institute of Chartered Accountants in England and Wales and the Chief Financial Officer of a FTSE 250 company, is considered by the Board to have the recent and relevant experience required by the UK Corporate Governance Code 2012. All the other members of the Committee are independent non-executive directors who have a wide range of relevant business experience.

Responsibility	Activity in the year
To review and advise the Board on:	
The interim and annual financial statements, the accounting policies used and on the significant issues in relation to the financial statements	The Committee reviewed the interim and annual financial statements and reported to the Board on the appropriateness of the accounting policies and practices adopted. As part of this review, the Committee considered the significant issues in relation to the financial statements and received reports from the Group finance team and the external auditors on the Annual Report & Accounts
Whether the Annual Report & Accounts taken as a whole is fair, balanced and understandable	The Committee reviewed the results of processes put in place to provide assurance on this aspect. The processes included the review and assessment of the Annual Report & Accounts by management and internal and external audit
The effectiveness of the internal control environment and risk management procedures, including whistleblowing procedures	The Committee considered reports produced by the Risk and Assurance team during the year and at the year-end as set out on page 74
The nature and extent of significant financial and business risks to Sage and the mitigation of these risks	The Committee received and discussed detailed Group risk update reports during the year. In addition, the Committee allowed time for in-depth reviews of particular risk and finance areas. During the year, these areas considered included IT and data security, the future development of the finance function across the Group and risks specific to our Payments businesses
In addition, the Committee is responsible for:	
Reviewing and approving the nature and scope of external and internal audit work, the results of that work and management's related responses	The Committee considered and approved the planned activities of internal audit along with the scope of the external audit for the year. Regular reports were received from internal and external audit and discussed by the Committee
Setting and monitoring compliance with the policy on non-audit services	The policy on non-audit services was updated and approved by the Committee during the period. Compliance with the new policy was confirmed during the year
Ensuring the external auditors are effective and independent	The Committee considered the independence of the external auditors and the effectiveness of the external audit process as set out on page 75
Making recommendations to the Board on external auditors' remuneration and appointment	The Committee conducted a formal tender process during the 2014 financial year with details of the process undertaken and the recommendations made provided on page 75

Financial reporting

The Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the interim and annual financial statements:

- The appropriateness of accounting policies and practices
- Compliance with external financial reporting standards and relevant statutory requirements
- Significant judgements made, as set out in more detail below
- Disclosure and presentation in the financial statements
- Whether the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess Sage's performance, business model and strategy

The Committee considered the work, judgements and conclusions of the Group finance team and received reports from the external auditors setting out their view on the accounting treatments included in the financial statements. The external auditors' reports are based on a full audit of the annual financial statements and a review of the interim financial statements.

Processes are in place to ensure that assurance can be provided on whether the Annual Report & Accounts is considered to be fair, balanced and understandable. The Committee receives drafts and working papers relating to the Annual Report & Accounts in order to facilitate its review and input. Management representations, external and internal audit reviews have also taken place to provide this assurance to the Audit Committee and the Board.

Significant issues

The significant issues considered by the Committee were as follows:

Matter considered	Action
Revenue recognition The key area of judgement and complexity is the timing of revenue recognition, particularly in relation to the recognition and deferral of revenue on maintenance and support contracts, for instance, where products are bundled	– The Committee considered a revenue recognition paper prepared by management which set out the basis of the implementation of the accounting policies and practices in this area. It also confirmed that no changes to the fair value allocation methodology had been made in the current year. The paper also incorporated the benchmarking of accounting policy application by each operating unit – Revenue recognition is an area of focus for PricewaterhouseCoopers who performed detailed audit procedures and reported on their work to the Committee
Goodwill impairment testing Goodwill is an area of focus for the Committee given the materiality of the Group's goodwill balances and the evolution of Sage's business model as it continues to execute its strategy. The judgements in relation to goodwill largely relate to the assumptions applied in calculating the value in use of the Cash Generating Units ("CGUs") and the ongoing appropriateness of the CGUs being used for the purpose of impairment testing	– The Committee reviewed and considered a detailed report from management on the work undertaken and the assessments made in relation to the impairment testing of goodwill. The report considered the determination of CGUs, the future performance expectations of the businesses concerned and the discount rates applied to future cash flow forecasts – The Committee also reviewed the assumptions underpinning the impairment of the goodwill relating to the business in Brazil. The Audit Committee reviewed and challenged the sensitivity analysis including the macroeconomic environment and cost of capital assumptions used – This was an area of focus for PricewaterhouseCoopers, who reported their findings and assessment to the Committee
Archer litigation The claim for damages made by Archer Capital in relation to the potential purchase of MYOB, which continues to be strongly rejected by management, continued to be considered in the current year	– The Committee received a report from management on the status of the litigation and an update from the Group Legal Director on any new or relevant legal considerations – PricewaterhouseCoopers discussed the matter with management, the Group Legal Director, and external legal counsel and reported their findings and assessment to the Committee
Tax provisions The Group recognises certain provisions and accruals in respect of tax which involves a degree of estimation and uncertainty for certain items whose tax treatment cannot be finally determined until a resolution has been reached with the relevant tax authority	– The Committee received a report from management detailing the key risks against which provisions had been made and the methodologies used to determine the appropriate level of each provision based on advice from our external tax advisors – This was also an area of focus for PricewaterhouseCoopers, who reported on their work and assessment to the Committee

Risk management and internal controls

The Group has a clear organisational structure for the control and monitoring of its business. The Committee reviews the framework of internal controls and the processes by which the Group's control environment is evaluated, the effectiveness of the internal controls environment and risk management procedures, including whistleblowing procedures.

In this regard, the Committee received reports from internal audit on the operation of, and issues arising from, the Group's internal controls and procedures. External audit has also provided input and observations on the internal control environment.

Risk management

The Committee reviews the Group's risk management framework in order to ensure it is appropriate and operating effectively. In doing so, the Committee received reports from the Group Risk and Assurance Director, covering:

- Risk appetite
- The effectiveness of the risk management processes and their adoption across the Group
- A summary of the most critical risks to the Group, controls identified to mitigate these risks and actions planned to reduce risks where considered necessary

The Board has an ongoing process to identify, evaluate and manage the significant risks faced by the Group, details of which can be found on pages 40 to 43.

As part of its agenda, the Committee allowed time for in-depth reviews of particular risk areas. During the year, the risk areas considered were IT and data security, the future development of the finance function and risks specific to our Payments businesses.

Whistleblowing and incident reports

The Audit Committee receives regular reports on any matters reported through the whistleblowing process.

The Group operates whistleblowing telephone hotline services in many of its operating companies, including those in the UK and US which, together with confidential reporting systems in other operating companies, allow employees to report matters of concern on a confidential basis.

In reviewing whistleblowing, fraud and incident reports, the Committee assesses the cause of the particular incidents, along with actions taken to resolve and prevent recurrence. The Committee also reviewed compliance activities in relation to the Group's policies and received a report on the status of compliance with these policies.

Taxation

The Committee received a report during the year from the Group Tax Director on the Group's tax policy, approach to tax management and status of compliance. Any tax issues requiring significant judgement were presented to, and reviewed by, the Board or a designated committee.

Internal audit

The Committee monitored and reviewed the scope and results of internal audit's activities including the quality and timeliness of management responses. The annual internal audit plan is approved by the Committee at the beginning of the financial year, with any subsequent changes to the plan requiring Committee approval. Progress against the plan is monitored throughout the year. Significant issues identified within audit reports are considered in detail by the Committee along with the appropriateness of mitigation plans to resolve those issues.

An internal audit charter is in place which outlines the objectives, authority, scope and responsibilities of internal audit. Performance against this charter, and the effectiveness of internal audit, is reviewed by the Committee on an annual basis.

The Committee also considers and evaluates the level of internal audit resource to ensure it is appropriate to provide the required level of assurance over the key risks, processes and controls throughout the Group.

External audit

The Committee reviews and makes recommendations with regard to the appointment of the external auditors. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditors' reappointment.

Competitive tender process

During the year the Committee conducted a formal tender for the proposed appointment of a new external audit firm for the 2015 financial year. The Committee appointed a selection panel to undertake much of the detailed work and invited three of the Big Four firms to tender. PricewaterhouseCoopers LLP had been external auditors since 1988 and no formal tender process had taken place since that appointment. Therefore, by mutual agreement, it was agreed that they would not be invited to participate in the tender process.

In the process, the tendering firms met with senior finance management across the Group and submitted detailed written proposals before presenting to the selection panel. The selection panel and Committee assessed the firms against key criteria and recommended to the Board that Ernst & Young LLP be appointed as auditors to Sage for the financial year ending 30 September 2015. The criteria used to reach this decision included:

- The quality of the central team
- Commitment to sharing ideas and insights on best practice developments in accounting and reporting
- Capability to provide comprehensive and high quality audit services
- Approach to ensuring a smooth transition process
- Approach to tender process
- Independence and quality of the team

Accordingly, a resolution proposing the appointment of Ernst & Young LLP as our auditor will be put to shareholders at the AGM in March 2015.

Effectiveness of the external audit process

The Committee also monitored the conduct and effectiveness of external audit during the year through review of:

- Experience and expertise of the auditors
- The fulfilment of the agreed audit plan and any variations from this plan
- The robustness and perceptiveness of the external auditors in their handling of key accounting and audit judgements
- Interaction between management and the auditors, including the dedication of sufficient time by management to the audit process
- Communication with, and support to, the Committee
- Insights, added value and reports
- The content of the external auditors' report
- Independence, objectivity and scepticism

Private meetings were held with the external auditors at two of the Audit Committee meetings to provide additional opportunity for open dialogue and feedback from the Committee and the auditors without management being present.

Independence and the provision of non-audit services

In order to ensure the independence of the external auditors, the Committee received a formal statement of independence from the external auditors. In addition, the Committee ensured compliance with Sage's Auditor Independence Policy, the principal requirements of which are:

- The external auditors may not undertake certain prohibited services, which include taxation compliance and planning, acquisition due diligence, internal audit services, remuneration and compensation services and legal and actuarial advice
- The Committee must approve any individual non-audit services above a specific fee value
- The ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, which is currently 70% of the average of the external audit fees billed over the previous three years

This policy was updated during 2014 to take into account recent changes in EU regulation. The implementation of the policy was effective from the beginning of the 2015 financial year.

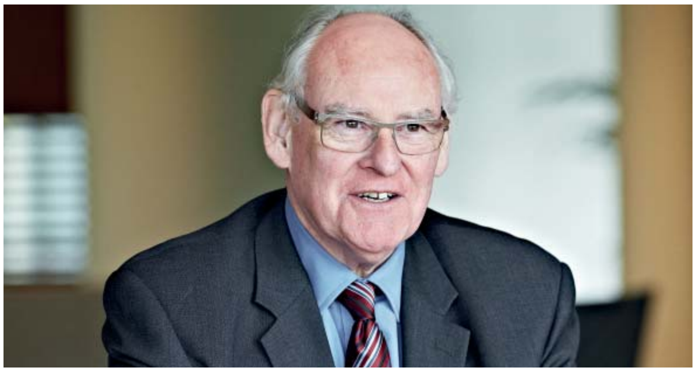
The Committee believes that it receives particular benefit from certain non-audit services provided by the external auditors due to their wide and detailed knowledge of Sage. Discretion is therefore used, subject to the controls set out above, in obtaining such services from the external auditors, although other accountancy firms are also used when appropriate. During the year, non-audit services obtained from the external auditors included tax compliance (prior to the updating of the Auditor Independence Policy) and advice and support relating to corporate restructuring.

The total audit fees charged by the auditors during the year were £2.1m and the amount of non-audit fees was £1.0m. The ratio of non-audit fees for the year to the average of the external audit fees over the previous three years was 48%. A breakdown of total audit and non-audit fees charged by the auditors for the year under review is shown in note 3.2 to the financial statements.

Jonathan Howell
Chairman of the Audit Committee

3 December 2014

Nomination Committee



Nomination Committee Membership:

- Donald Brydon – Chair
- Jonathan Howell
- Neil Berkett
- Drummond Hall
- Inna Kuznetsova
- Ruth Markland

"This year saw changes in both executives and non-executives. The Committee ran a robust and wide-ranging process, resulting in key appointments to strengthen the Board's existing skills."

Key objective

To review the composition of the Board and to plan for its progressive refreshing, with regard to balance and structure. The Committee also considers issues of succession.

Committee meetings

The Committee is required, in accordance with its terms of reference, to meet at least once per year. During the year, the Committee met five times.

Responsibility	Activity in the year
Reviewing the structure of the Board	The Committee dealt with the appointment of a new Chief Executive Officer and the appointment of two non-executive directors, with further detail provided below on the process undertaken
Evaluating the balance of skills, knowledge, experience and diversity of the Board	The Committee considered the skills, knowledge, independence and experience of the Board and reaffirmed the approach to diversity, as described on page 54
Advising the Board on areas where further recruitment may be appropriate	The Committee considered the skills and experience of the Board members, resulting in new appointments to non-executive roles. It continues this review on an ongoing basis
Succession planning for key executives at Board level and below	Whilst there have been several Board appointments during the current year, the Committee has continued to work to ensure appropriate succession and mix amongst both the executive and non-executive directors, as shown on page 53

Board appointments

In identifying a new Chief Executive Officer, the Committee retained the services of executive search consultants, Egon Zehnder. Egon Zehnder worked closely with the Chairman who led the process on behalf of the Committee.

A number of potential candidates were identified by the consultants and some candidates approached Sage directly. An initial long list of possible appointees was discussed with the Chairman, from which a shortened list was created. All candidates on the shortened list were interviewed by Committee members. Following the interviews and fully considering the experience and skills of the candidates, as well as the diversity of the Board, the Committee unanimously recommended the appointment of Stephen Kelly as Chief Executive Officer to the Board.

In identifying new non-executive directors, the Committee retained the services of The Zygos Partnership and Egon Zehnder as search consultants. Taking into account the diversity of the Board, a number of potential candidates were identified who all met the Committee. Drummond Hall's wealth of experience in large, listed companies and knowledge of marketing issues within those companies were seen by the Committee as of particular interest. Inna Kuznetsova's international experience and knowledge of the technology industry made her an exceptional candidate in the view of the Committee.

The Zygos Partnership and Egon Zehnder have no connection with Sage or the appointed directors other than for the provision of these services.

As described in our report for the previous financial year, in identifying a potential new Chief Financial Officer, the Committee retained the services of Russell Reynolds as search consultants. The search resulted in the appointment of Steve Hare as Chief Financial Officer. Russell Reynolds have no connection with Sage or the appointed directors other than for the provision of these services.

Donald Brydon
Chairman of the Nomination Committee

3 December 2014

Remuneration Committee Membership:
- Ruth Markland – Chair
- Donald Brydon
- Jonathan Howell
- Neil Berkett
- Drummond Hall
- Inna Kuznetsova

"We align our performance measures to our strategy and continue to reinforce alignment with our shareholders through the application of our remuneration policy."

Ruth Markland

Key objective

To determine the framework, broad policy, and levels of remuneration for the Group's Chief Executive Officer ("CEO"), the Group's Chief Financial Officer ("CFO"), the Chairman of the Company and other executives as deemed appropriate. This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company.

Committee meetings

No one other than a member of the Committee is entitled to be present at its meetings. The CEO may, as required, attend meetings, except where his own performance or remuneration is discussed. No director is involved in deciding his or her own remuneration.

The Committee is required, in accordance with its terms of reference, to meet at least four times per year. During this financial year, the Committee met seven times.

Key Responsibilities
Making recommendations to the Board, within agreed terms of reference, on Sage's framework of executive remuneration
Determining 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
Monitoring remuneration for senior executives below Board level
Approval of share awards

Dear fellow shareholder,

It is my pleasure to present the Directors' remuneration report for the year ended 30 September 2014.

We aim to be entirely transparent in our remuneration practices and provide shareholders with the information needed to make informed decisions about our Company. We have sought to develop our disclosure further in this year's report and hope that you find this useful.

Our remuneration principles for executive directors and the Executive Committee

Our remuneration principles, which our detailed policy supports, are as follows:

- We offer competitive and fair rates of pay and benefits to attract and retain the best people
- We aim to create a strong performance-oriented environment and reward achievement of our Company strategy and business objectives
- Pay and employment conditions elsewhere in the Group are considered when determining executive base and bonus reviews
- The interests of our senior management team are aligned with those of shareholders by having a significant proportion of remuneration performance-based and delivered through shares

Remuneration policy

Our remuneration policy remains unchanged from last year, having been approved at the 2014 Annual General Meeting. We operate a remuneration structure made up of base salary and benefits, a bonus plan and a long-term incentive plan, which provides a clear link between pay and our key strategic priorities.

Our remuneration policy is guided by a common reward framework.

Reward policies

Attract and retain. Remuneration packages are designed to attract high-calibre executives in a competitive international market which includes private-equity backed organisations as well as listed companies, and to remunerate executives fairly and responsibly.

Motivate and reward. Remuneration is designed to motivate delivery of our key business strategies, create a strong performance-orientated environment and reward achievement of meaningful targets over the short and long term.

Reward principles

Alignment with the wider Group. The remuneration policy for executives reflects the overriding remuneration philosophy and principles of the wider Group considering pay and employment conditions elsewhere in the Group.

Stretching performance targets. The Remuneration Committee considers that a successful remuneration policy links a significant part of the remuneration package to the achievement of stretching corporate performance targets and a strong alignment of interest with shareholders.

We believe that the policy as a whole is well aligned to the current business strategy and the outcome reflects business performance.

Activities of the Remuneration Committee ("the Committee")

The main activities of the Committee since the last report were as follows:

- Reviewed the performance of the Group for the year, and the performance of the executive directors in order to determine bonus outcomes
- Approved share awards for 2014
- Confirmed the overall package including a one-off share award for the incoming CEO
- Agreed the remuneration arrangements for the outgoing CEO
- Set base salaries and established the executive directors' bonus arrangements for 2015
- Reviewed the Directors' remuneration report
- Considered remuneration market trends and corporate governance developments
- Approved the base salaries for 2015 and the 2014 bonuses of seven Executive Committee members
- Proposed new LTIP

Remuneration for 2014

Sage continued to deliver on its three-year strategy for accelerated growth, with a view to doubling the long-term historic average organic growth rate from 3% to 6% by the end of the 2015 financial year. In summary, for the year ended 30 September 2014, Group organic revenue growth was 5%, reflecting good acceleration in growth on the prior year and underlying pre-tax profit was £340m. In addition, underlying operating profit margin increased to 27.5%. Combined with the achievement of strategic objectives, this resulted in 55% and 57% of the maximum bonus opportunity for 2014 paying out for the CEO and CFO respectively.

Details of the remuneration decisions for 2014 are set out in the Directors' annual remuneration report on pages 83 to 92.

Remuneration for 2015

We are delighted that Stephen Kelly joined us as CEO from 5 November 2014. Details of his remuneration are set out on page 87. Base salaries and bonus measures for 2015 have been established for both the new CEO and the CFO.

Guy Berruyer will continue to be employed by the Company until 31 March 2015 although he stepped down from the role of CEO and as a director of the Company on 5 November 2014. During his employment, Mr Berruyer will continue to receive his normal base salary and benefits, but will not be eligible for a bonus or housing allowance for the period from 5 November 2014. During this period, he will be available to assist the new CEO as required.

The revised UK Corporate Governance Code was published just before the start of the financial year commencing on 1 October 2014. Consequently, there was insufficient time for the Committee to consider and set a suitable policy for the application of malus and clawback in relation to annual incentives for the performance year starting on 1 October 2014. The Committee plans to review in detail and develop a suitable policy for application to future performance periods.

Performance Share Plan – key changes

The current Performance Share Plan rules expire on 15 March 2015. The new rules will be put to shareholders for approval at the AGM. The key changes to the plan are as follows:

Introduction of malus and clawback provisions, allowing the Committee to exercise discretion to reduce the level of unvested awards or reclaim (within three years of release) previously paid awards. Circumstances where the Committee may elect to apply this discretion include a material misstatement of the Group's audited results or a material failure of risk management or serious reputational damage to the Group or a business unit as a result of the participant's misconduct.

Committee discretion to grant awards subject to a holding period. Where a holding period is attached to an award, the default holding period is two years. The Committee does not intend to apply a holding period to PSP awards granted in 2015 but will keep the application of this provision under review for future grants.

Remuneration disclosure

This report complies with the requirements of the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (September 2012) and the Listing Rules.

The report is in two sections:

- **A summary of the Directors' remuneration policy report (pages 80 to 82)**. This section contains details of the remuneration policy approved at the 2014 AGM and is for information only
- **The Directors' annual remuneration report**. This section sets out details of how our remuneration policy was implemented for the year ended 30 September 2014 and how we intend for the policy to apply for the year ended 30 September 2015 and is the subject of an advisory shareholder vote

At the AGM in March 2015:

- The renewal of the Performance Share Plan will be put to a binding shareholder vote
- The Directors' annual remuneration report will be put to an advisory shareholder vote

Ruth Markland

Ruth Markland
Chairman of the Remuneration Committee

Directors' remuneration policy report

Summary of Directors' remuneration policy report

The remuneration policy was approved at the AGM in March 2014. Provided for information only are details of the policy that were referenced in Committee activities over the past reporting year which includes the Remuneration policy table, minimally updated, below, and the recruitment remuneration arrangements, executive director service contracts and terms and conditions for non-executive directors. The full policy report, as approved by shareholders, can be found in last year's remuneration report, a copy of which can be found in the Investor Relations section at www.sage.com.

Remuneration policy table

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out below, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes, "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Base salary Supports the recruitment and retention of executive directors of the calibre required to deliver the Group's strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually, any increases generally apply from January. When determining base salary levels, consideration is given to the following: – Pay increases for other employees in major operating businesses of the Group – The individual's skills and responsibilities – Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30) – Corporate and individual performance	Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Committee's discretion to take account of individual circumstances such as: – Increase in scope and responsibility – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level) – Alignment to market level	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually.
Pension Provide a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary). An individual may elect to receive some or all of their pension contribution as a cash allowance.	25% of base salary for all executive directors. No element other than base salary is pensionable.	None.
Benefits Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance, life assurance and financial advice. Additional benefits may be also be provided in certain circumstances which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.	Set at a level which the Remuneration Committee considers: – Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation	None.
Annual bonus Rewards and incentivises the achievement of annual financial and strategic targets. An element of compulsory deferral until shareholding guideline is met, providing a link to the creation of sustainable long-term value creation.	Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Committee, reflect overall business performance or individual contribution. The annual bonus is delivered in cash. Executives must defer 20% of their bonus into shares until the shareholding guidelines have been met. Deferred shares normally vest after three years and may be adjusted to reflect the impact of any variation of share capital, in accordance with the plan rules. On the vesting of awards, executives receive an amount (in cash or shares) equal to the dividends paid or payable between the date of grant and the vesting of the award on the number of shares which have vested.	For maximum performance: – 125% of salary For on-target performance: – 75% of salary For threshold performance: – 15% of salary	Performance is assessed using the following metrics: – 80% of the award is based on financial measures – 20% of the award is based on strategic measures The measures and targets are set by the Committee each year. The measures that will apply for the financial year 2015 are described in the Directors' annual remuneration report.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Performance share plan Motivates and rewards the achievement of long-term business goals. Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy. Supports achievement of our strategy by targeting performance under our key financial performance indicators of organic revenue growth and EPS growth.	Contingent awards of shares are made annually with vesting dependent upon the achievement of performance conditions over three years. The Remuneration Committee has discretion to decide whether and to what extent targets have been met, and if an exceptional event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them. Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules. On the vesting of awards, executives receive an amount (in cash or shares) equal to the dividends paid or payable between the date of grant and the vesting of the award on the number of shares which have vested.	Awards vest on the following basis: – Target performance: 20% of the maximum shares awarded – Stretch performance: 80% of the maximum shares awarded – Exceptional performance: 100% of the shares awarded – With straight-line vesting between each level of performance – Current annual award levels for executive directors are 250% of base salary at the time of grant – Overall individual limit of 300% of base salary under the rules of the plan The Committee retains the discretion to make awards up to the individual limit under the plan and, as stated in previous Remuneration reports, would expect to consult with significant investors if awards were to be made routinely above current levels, as the Committee did prior to increasing award levels for 2013.	Performance is assessed against three independently measured metrics which are equally weighted: – 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 extracting companies) The measures and targets are set by the Committee. Details of the targets that will apply for 2015 are set out in the Directors' annual remuneration report.
All-employee share plans Provides an opportunity for directors to voluntarily invest in the Company.	UK-based executive directors are entitled to participate in a UK tax approved all-employee plan, The Sage Group Savings-Related Share Option Plan, under which they make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital.	Participation limits are those set by the UK tax authorities from time to time. Currently this is £500 per month.	None.
Chairman and non-executive director fees Provide an appropriate reward to attract and retain high-calibre individuals. Non-executive directors do not participate in any incentive scheme.	Fees are reviewed periodically. The fee structure is as follows: – The Chairman is paid a single, consolidated fee – The non-executive directors are paid a basic fee, plus additional fees for chairmanship of Board Committees and to the Senior Independent Director – Fees are currently paid in cash but the Company may choose to provide some of the fees in shares – The Chairman has use of a car and driver. – Non-executive directors may be eligible to benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate	Set at a level which: – Reflects the commitment and contribution that is expected from the Chairman and non-executive directors – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30) The Chairman fee has been set at £360,000 and fixed at this level for five years from the date of appointment (July 2012). Overall fees paid to directors will remain within the limit stated in our articles of association, currently £1m. Actual fee levels are disclosed in the Directors' annual remuneration report for the relevant financial year.	None.

Notes:

- Annual bonus performance measures have been selected to provide an appropriate balance between incentivising directors to meet profitability and other financial targets for the year and achieve strategic operational objectives. The measures and targets are selected every year by the Committee.
- There are no specific provisions to withhold or recover sums paid under the current short and long-term incentives. The PSP renewal, pending shareholder approval, will incorporate such provisions for the long-term incentives. Application to short-term incentives will be reviewed in the forthcoming year.
- While our remuneration policy follows the same principles across the Group, packages offered to employees reflect differences in market practice in the different countries the Group operates in and also differences in size of role. Performance share plan: organic revenue growth and EPS are key measures of the success of the execution of our long-term strategy. TSR is considered a key measure for a number of our shareholders and provides further alignment with value created for shareholders.
- All directors submit themselves for re-election annually.

Recruitment remuneration arrangements

In the event of hiring a new executive director, the Committee will seek to align the remuneration package with our remuneration policy, which may include the elements outlined in the policy table above. However, the Committee retains the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of the recruitment. This may, for example, include the following circumstances:

- An interim appointment is made to fill an executive director role on a short-term basis
- Exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis
- An executive director is recruited at a time in the year when it would be inappropriate to provide a bonus or LTIP award for that year as there would not be sufficient time to assess performance. The quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis
- An executive is recruited from a business or location that offered some benefits that the Committee might consider appropriate to buy out but that do not fall into the definition of "variable remuneration forfeited" that can be included in the buyout element under the wording of the regulations
- The executive received benefits at his previous employer which the Committee considers it appropriate to offer

The Committee may also alter the performance measures, performance period and vesting period of the annual bonus or long-term incentive, subject to the rules of the plan, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained.

In determining appropriate remuneration arrangements on hiring a new executive director, the Committee will take into account relevant factors; this may include the calibre of the individual, local market practice, the existing remuneration arrangements for other executives and the business circumstances. We seek to ensure that arrangements are in the best interests of both Sage and its shareholders and seek not to pay more than is appropriate.

The Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the timeframe of awards. We will generally seek to structure buyout awards on a comparable basis to awards forfeited.

The rules of The Sage Group Performance Share Plan permit the grant of two awards in the first year of employment; the individual limit from the plan rules would apply to each award.

In order to facilitate the awards mentioned above, the Committee may therefore rely on exemption 9.4.2. of the Listing Rules which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a director.

The remuneration package offered to new directors may include buyout remuneration and other remuneration components included in the remuneration policy (as per the policy table above), including: base salary/fees, pension, benefits, annual bonus and long-term incentives.

The maximum level of variable pay which may be awarded to new executive directors, excluding buy-out arrangements and awards in the first year of employment detailed above, would normally be in line with the maximum level of variable pay that may be awarded under the annual bonus plan and performance share plan, but in any event the Committee would not make an award of annual variable pay above 500% of base salary.

Executive director service contracts

All current executive directors have service contracts, which may be terminated by the Company for breach by the executive or by giving 12 months' notice by the Company or the individual.

Service contacts for new directors will generally be limited to 12 months' notice. However, the Committee may agree a longer period, of up to 24 months initially, reducing by one month for every month served until it falls to 12 months.

Terms and conditions for non-executive directors

The appointment of the non-executive directors is for a fixed term of three years, during which period the appointment may be terminated by the Board on six months' notice. The Chairman's term of appointment is five years. There are no provisions on payment for early termination in letters of appointment.

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.

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for executive directors for the financial years ended 30 September 2013 and 2014.

	(a) Salary/fees £'000		(b) Benefits[1] £'000		(c) Bonus[2] £'000		(d) Pension[3] £'000		(e) PSP awards[4] £'000		Total £'000	
Director	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Executive directors												
G S Berruyer[5]	**765**	719	**121**	120	**539**	651	**191**	180	**–**	–	**1,616**	1,670
S Hare[6]	**360**	–	**15**	–	**256**	–	**89**	–	**–**	–	**720**	–
Non-executive directors[7]												
D H Brydon	**360**	360	**46**	–	**–**	–	**–**	–	**–**	–	**406**	360
R Markland	**88**	87	**–**	–	**–**	–	**–**	–	**–**	–	**88**	87
N Berkett	**60**	15	**–**	–	**–**	–	**–**	–	**–**	–	**60**	15
D Hall	**45**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	–
J Howell	**74**	23	**–**	–	**–**	–	**–**	–	**–**	–	**74**	23
I Kuznetsova	**34**	–	**–**	–	**–**	–	**–**	–	**–**	–	**34**	–
I Mason	**10**	59	**–**	–	**–**	–	**–**	–	**–**	–	**10**	59
M Rolfe	**13**	76	**–**	–	**–**	–	**–**	–	**–**	–	**13**	76

Notes:

1 Benefits provided to the executive directors included: car benefits or cash equivalent, private medical insurance, permanent health insurance, life assurance and financial advice. A housing allowance of £100,000 per annum was provided to Guy Berruyer. Donald Brydon receives a company car benefit.

2 Bonus payable in respect of the financial year including any deferred element at face value at date of award. Further information about how the level of 2014 award was determined is provided in the additional disclosures below.

3 Pension emoluments for both executive directors were equal to 25% of base salary.

4 The 2014 PSP value is based on the PSP award due to vest in March 2015. The value of the award is based on performance to 30 September 2014. Further information about the level of vesting is provided in the additional disclosures below.

5 The CEO's salary increase of 8% to £780,000 was with effect from 1 January 2014. The figures stated in the table above are pro rata.

6 Steve Hare was appointed as a Director on 3 January 2014. Figures in the table relate to the period from that date to the end of the financial year.

7 Changes in the composition of the non-executive directors during 2014 were the retirements of I Mason and M Rolfe on 30 November 2013, D Hall joining on 1 January 2014 and I Kuznetsova joining on 6 March 2014.

Additional disclosures for single figure for total remuneration table

Base salary

2014

As reported in the last Annual Report & Accounts, the Committee agreed to increase the CEO's base salary to £780,000 effective from 1 January 2014. This increase moved the CEO's salary in line with a level that the Committee felt was appropriate for the role. The CEO was recruited in 2010 on a significantly lower base salary than his predecessor (whose salary was £770,000 on departure in 2010) with a view to increasing the salary level once established in the role. The decision was based upon the CEO's strong performance in the role, and ongoing commitment to the Group over the last three years.

The new CFO was hired on a base salary of £480,000.

2013

Base salaries were increased by 1.5% from 1 January 2013, and reflect the level of salary budget increases in our key employment markets.

Annual bonus

2014

The bonus targets for 2014 were set by reference to the same measures as the previous year and remain aligned with the three-year strategic goals. The actual target range has not been disclosed as this is considered by the Board to be commercially sensitive information, whereas many of our competitors are unlisted companies who do not provide this level of disclosure. An indication of where actual performance fell within the range is given in the table below. It is intended for retrospective disclosure to be made after a period of three years, and continue on a rolling basis.

2014 Annual bonus

Bonus measure	% Weighting	Threshold	Target	Stretch	Performance outcome as a % of maximum bonus
Underlying PBT[1]	50				Achievement of £340m for 2014 was ahead of the target range, resulting in 62% of the maximum bonus in relation to underlying PBT becoming payable.
Organic revenue growth	30				Organic revenue growth was 5%, within the target range, and the profit underpin was exceeded, leading to 57% of the bonus relating to the organic revenue growth measure becoming payable.
Strategic measures (see table below)	20				Guy Berruyer's strategic objectives achievement for 2014 led to 37% of the bonus relating to strategic measures becoming payable.
					Steve Hare's strategic objectives for 2014 were close to target which led to 45% of the bonus relating to strategic measures becoming payable.
Overall assessment					Guy Berruyer received a bonus equal to 69% of salary (55% of the maximum). No bonus was deferred into shares as the CEO has met the Company's shareholding requirement of 150% of annual salary.
					Steve Hare received a bonus equal to 71% of salary (57% of the maximum). 20% was deferred into Sage shares under the Company's shareholding requirement of 150% of annual salary.

- Shared measures
- Measures specific to CEO
- Measures specific to CFO

1 PBT is defined as statutory profit before tax excluding recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and imputed interest; and non-recurring items that management judge to be one-off or non-operational. The impact of foreign exchange is neutralised in prior year figures.

Executive directors' personal strategic objectives

CEO measures	CFO measures
Payment strategy Successful conclusion of our payments strategy review	**Global Finance strategy** Define vision, strategy and resulting implementation commitments for Global Finance
Organisation Maintain momentum in organisational change to support our strategy for both short and long-term strategies	**KPIs** Implement revised reporting of KPIs to the Board and Executive Committee
Cloud products Improve cloud solutions, increasing product offerings to achieve desired run rates across products and geographical segmentations	**Cloud products** Improve cloud solutions, increasing product offerings to achieve desired run rates across products and geographical segmentations
Net promoter scores Improve customer net promoter scores	**Net promoter scores** Improve our net promoter scores through a focused approach to providing an extraordinary customer experience

2013

As in 2014, the bonus was based on 50% profitability, 30% organic revenue growth, with PBT underpin and 20% strategic measures. None of the bonus for the year was deferred because Mr Berruyer had met the shareholding requirement in full.

PSP awards

	2014	2013
Performance period	**1 Oct 2011 – 30 Sept 2014**	1 Oct 2010 – 30 Sept 2013
Grant date	**March 2012**	March 2011
Vesting date	**March 2015**	March 2014
Vesting % (see performance below)	**0%**	0%

Performance

Award for the period was based on EPS growth in excess of RPI over three years. Awards are also subject to a TSR multiplier whereby the level of vesting based on EPS performance is adjusted according to TSR performance over the same period.

	2014				2013			
	Achieved	**Threshold/ Vesting %**	**Stretch Maximum vesting %**	**Vesting %**	Achieved	Threshold/ Vesting %	Stretch Maximum vesting %	Vesting %
EPS[1]	**RPI + 7.9%**	**RPI + 9%/ 25%**	**RPI + 27%/ 100%**	**0%**	RPI + 6%	RPI + 9%/ 25%	RPI + 27%/ 100%	0%
TSR percentile rank	**29th[2]**	**Lower quartile/ 75%**	**Upper quartile/ 150%**	**79%**	43rd[3]	Lower quartile/ 75%	Upper quartile/ 150%	93%
Vesting % (EPS * TSR)				**0%**				0%

Notes:

1 EPS – For all PSP awards, EPS refers to earnings per share before recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments, imputed interest and non-recurring items management judge to be one-off or non-operational. These adjustments are net of tax and the impact of foreign exchange is neutralised in prior year EPS. This measure has been selected since the timing of acquisitions can be unpredictable, with the result that the amortisation charge in respect of intangible assets is inherently difficult to budget. The neutralised foreign currency basis has been selected as the Board considers this to be consistent with the presentation and assessment of results by shareholders.

2 TSR Peer Group FTSE 100 index at the start of the performance period (1 October 2012), excluding financial services and extracting companies.

3 TSR Peer Group: Adobe Systems, ARM Holdings, Blackbaud, Cap Gemini, Cegid, Dassault Systemes, Exact, Intuit, Micro Focus International, Microsoft, Oracle, Salesforce.com, SAP, Software AG

Awards granted in 2014

Awards granted under the PSP in 2014 will vest depending on performance against three equally weighted measures, measured over three years:

- 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 extracting companies)

For each measure, three levels of performance are defined below, with straight-line vesting between each level of performance: target, stretch and exceptional.

The performance targets applying to the award granted during the financial year are:

Measure	Between target and stretch	Between stretch and exceptional
EPS growth (CAGR)	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)
Organic revenue growth (CAGR)	Between 4% and 8%	Between 8% and 10% (or above)

As outlined in the policy table, awards are made in shares and the number of shares is determined based on a percentage of base salary. The following table sets out details of awards of conditional shares made during the year under the PSP.

			Amount vesting		
	Date of award	Face value	Threshold performance (% of face value)	Maximum performance (% of face value)	End of performance period
CEO	10 March 2014	250% of salary	20%	100%	30 September 2016
CFO	10 March 2014	250% of salary	20%	100%	30 September 2016

Notes:

- The face value has been calculated using the share price the day before the day of grant of 419p.
- These awards vest on the third anniversary of the date of award.

Loss of office payments

No payments for loss of office were made to past directors during the year. No payments have been made that have not already been included in the single figure of remuneration set out earlier in this report.

Change in remuneration of CEO compared to Group employees

The table below shows the percentage change in total remuneration of the CEO with a comparator group of UK employees over the same time period.

	CEO	UK Employees
Salary	+8%[1]	+5.6%[2]
Taxable benefits	+1%	+10%
Annual incentive	-17%	+12%[3]

Notes:

1 Referencing last year's disclosure, the increase reflects Guy Berruyer's growth in the role and moved his salary to a more appropriately competitive level. The decision considered the CEO's strong performance in the role and ongoing commitment to the Group over the last three years and aligns his pay with that of his predecessor.

2 The percentage change for UK Group employees shown is the 2014 annual pay review and promotions/market adjustments during 2014.

3 For annual incentives, the comparator group used is the UK management population.

Historical executive pay and Company performance

The table below summarises the CEO single figure for total remuneration, annual bonus payout and PSP vesting as a percentage of maximum opportunity for the current year and previous five years.

	CEO	2009	2010	2011	2012	2013	2014
CEO single figure of remuneration (in £'000)	Guy Berruyer[1]	–	–	2,935	1,196	1,670	**1,616**
	Paul Walker[2]	1,797	2,196	–	–	–	**–**
Annual bonus payout (as % maximum opportunity)	Guy Berruyer	–	–	66%	21%	72%	**55%**
	Paul Walker	38%	83%	–	–	–	**–**
PSP vesting (as % of maximum opportunity)	Guy Berruyer	–	–	61%	0%	0%	**0%**
	Paul Walker	74%	26%	–	–	–	**–**

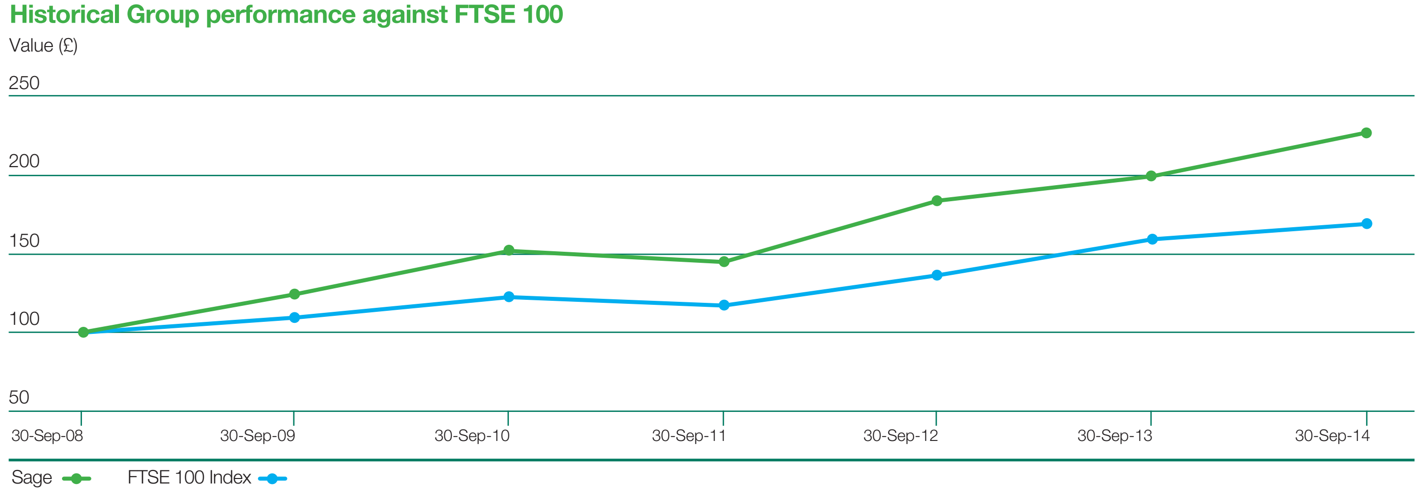
Notes:

1 Guy Berruyer was appointed CEO on 1 October 2010.

2 Paul Walker resigned as CEO on 1 October 2010.

The graph below shows the total shareholder return of the Group and the FTSE 100 over the last six years. The FTSE 100 index is the index against which the TSR of the Group should be measured because of the comparable size of the companies which comprise that index.

Historical Group performance against FTSE 100



Notes:

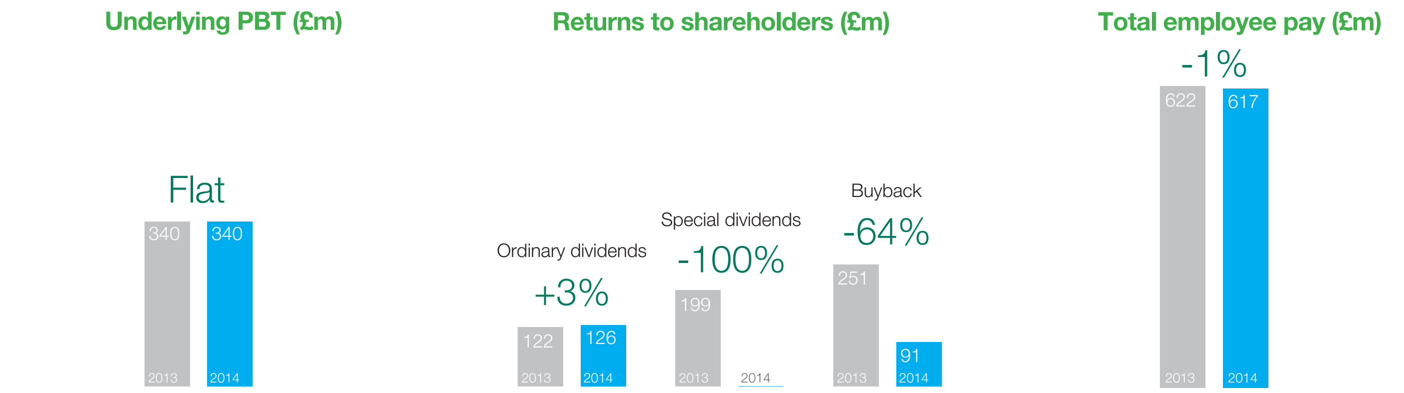
– This graph shows the value, by 30 September 2014, of £100 invested in The Sage Group plc on 30 September 2008 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax and returns to shareholders by way of dividends and share buyback for 2013 and 2014.

The information shown in this chart is based on the following:

- Underlying PBT – Underlying profit before income tax taken from table on page 104
- Returns to shareholders – Total dividends taken from note 14.5 on page 149, share buyback taken from consolidated statement of changes in equity on page 107
- Total employee pay – Total staff costs from note 3.3 on page 118, including wages and salaries, social security costs, pension and share-based payments



Notes:

- The 2013 reported PBT figure includes the profit contribution from certain products disposed of during 2013.
- The returns to shareholders for 2013 includes significant returns to meet the leverage target of 1x net debt to EBITDA, which included the proceeds from the non-core disposals. In 2014, we have used the buyback to help maintain the leverage target and have continued to pursue a progressive dividend policy.

Statement of implementation of remuneration policy in the following financial year

Appointment of the CEO

Stephen Kelly joined the Board as CEO on 5 November 2014. On an ongoing basis, he will be entitled to receive an annual bonus and award under the PSP to the same extent as his predecessor.

His remuneration package is set out below:

- Base salary – £790,000 per annum, subject to review in January 2016. In considering the new CEO's base salary, the Committee referenced Mr Kelly's previous experience and external market benchmarking as well as the timing of his commencement which was after the Company's normal annual salary review. Mr Kelly's salary represents an increase of just over 1% of the departing CEO's salary
- Annual bonus – 75% of base salary for on-target performance and 125% of salary for maximum performance in line with current policy
- Long-term incentives – a standard PSP award equal to 250% of base salary in the year in line with normal policy. The award will be subject to performance conditions set out below and a three-year performance period
- In addition, and to further align his incentives with shareholders, he received a one-off PSP award of 125% of base salary with a six-year vesting period. This award will vest at the end of the financial year 2019/20 provided that the Group's TSR CAGR has been at least 15% over the period from the date of the award to the vesting date, with 20% of the award vesting if, over the period in question, the Group's TSR is equal to the median of the performance of the companies in the FTSE 100 (excluding Financials and Mining) and 100% of the award vesting if TSR is equal to or greater than the upper quartile performance of companies in the FTSE 100 (excluding Financials and Mining). No payment has been made to buyout awards from his previous employer
- Benefits – provided in line with our policy
- Pension – a Company contribution to the defined contribution plan of 25% of base salary. He will be eligible to receive some or all of his pension allowance in cash if he elects to do so, in line with our pension policy
- Shareholding guidelines – all executive directors are required to hold 150% of their annual salary in the Company's shares. Until this requirement is met, 20% of his bonus will be deferred into shares and he will retain (net of any shares sold to meet tax liability) 50% of shares vesting from deferred bonus, PSP and exercise of options

Retirement of the CEO

Guy Berruyer will be paid his base salary and contractual benefits until his termination date of 31 March 2015. Mr Berruyer continued to receive a housing allowance and will be eligible for a bonus for the period he remained CEO up to and including 5 November 2014. Such bonus will be payable in alignment with the Company's annual bonus timeline and performance measures. He will not receive a PSP award for 2015.

Any unlapsed options granted under the Sage Group Executive Share Option Scheme will be exercisable for a period of six months following his termination date. Awards granted under the Sage PSP may be retained and will be exercisable in accordance with the plan rules. These awards will vest at the end of their respective performance periods pro rata to the time elapsed between the date of grant of the relevant award and his termination date, and to the extent that the relevant performance targets have been met over the full performance period.

Components of remuneration

Effective from 1 January 2014, the base salary for the outgoing CEO was £780,000. The base salary for the new CEO, effective from his joining on 5 November 2014 is £790,000.

The new CFO was appointed on a base salary of £480,000. His salary increased to £494,400, an increase of 3%, with effect from 1 January 2015. The CFO's pension provision (25% of salary) and benefits remain unchanged from 2014.

Pension and benefits are in line with benefits stated in the policy table.

The maximum bonus opportunity under our annual bonus plan is unchanged in 2015 at 125% of salary. 20% off any bonus must be deferred into shares by the CEO and CFO until they are compliant with their shareholding requirement of 150% of salary. The performance measures remain 50% profitability (underlying PBT), 30% organic revenue growth and 20% strategic measures, unchanged from 2014. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of our competitors are unlisted companies and not required to disclose targets; our disclosure could provide our competitors with a considerable advantage. It is intended for retrospective disclosure to be made after a period of three years, in alignment with our three-year strategy, and continue to be made on a rolling basis.

The CEO and CFO received a standard PSP award of 250% of base salary in 2015. As outlined above, the CEO also received a one-off joining award under the PSP.

The extent of vesting of the standard PSP award will be assessed against three equally weighted, 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 extracting companies)

The long-term measures remain unchanged from 2014.

Measure	Between target and stretch	Between stretch and exceptional
EPS growth (CAGR)	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)
Organic revenue growth (CAGR)	Between 4% and 8%	Between 8% and 10% (or above)

Remuneration policy review

Further to the recent publication of the UK Corporate Governance Code, the Committee will, during 2015, consider the extension of clawback and malus provisions in relation to annual incentives. Implementation of any changes would be considered for the following financial year.

Illustration of our remuneration policy for 2015

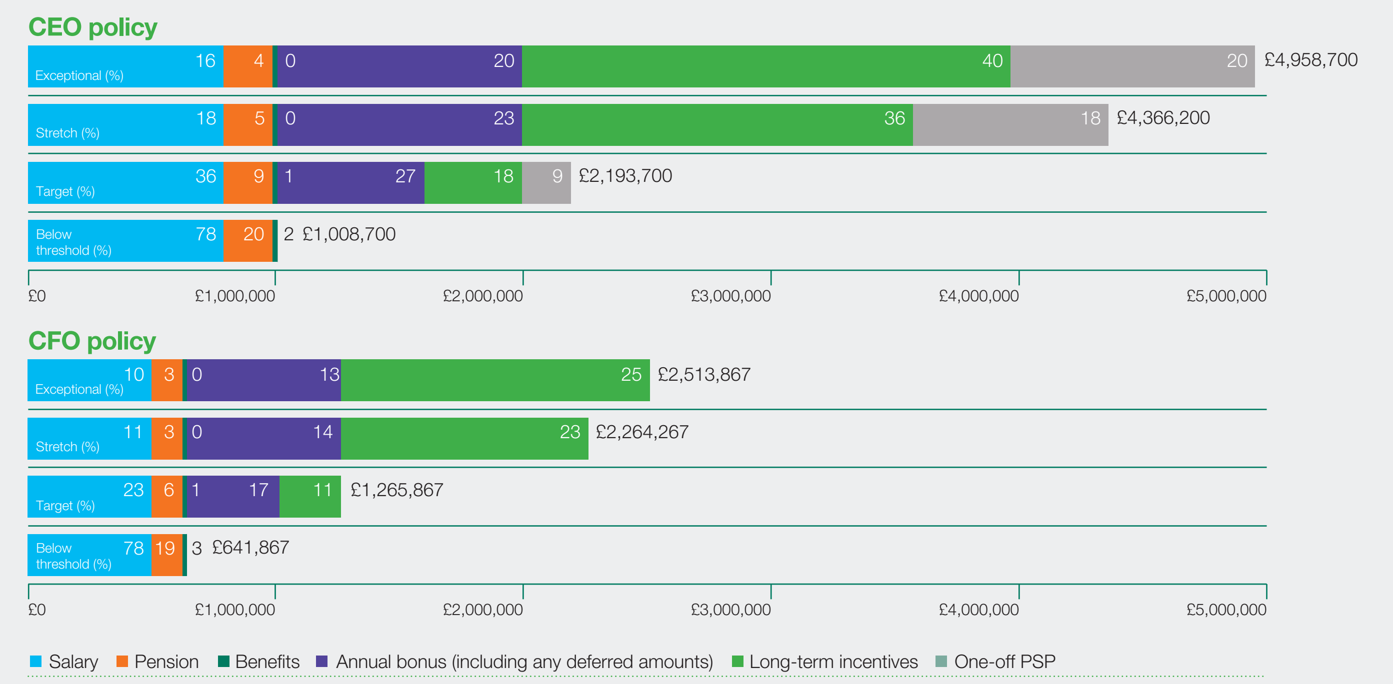
The tables below set out an illustration of the remuneration policy in line with the remuneration policy above and include base salary, pension, benefits and incentives.

The tables provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component. Benefits are calculated as per the single figure of remuneration.

Four scenarios have been illustrated for each executive director:

Below threshold performance	No bonus payout No vesting under the Performance Share Plan
Target performance	75% of salary payout in annual bonus (60% of maximum opportunity) Shares equivalent to 50% of salary vesting under the Performance Share Plan (20% of total shares available)
Stretch performance	125% of salary payout in annual bonus (100% of maximum opportunity) Shares equivalent to 200% of salary vesting under the Performance Share Plan vesting (80% of total shares available)
Exceptional performance	125% of salary payout in annual bonus (100% of maximum opportunity) Shares equivalent to 250% of salary vesting under the Performance Share Plan vesting (100% of total shares awarded)

The scenarios below do not take into account share price appreciation or dividends. For the purpose of the illustrations the value of each component has been rounded to the nearest £1,000.



Directors' shareholdings and share interests (audited information)

Executive directors are required to hold 150% of their annual salary in the Company's shares. Until this requirement is met, executive directors must defer 20% of their bonus into shares, and retain (net of any shares sold to meet tax liability) 50% of shares received from deferred bonus, PSP and exercise of options.

At the year-end, Guy Berruyer met the requirement, while 20% of Steve Hare's bonus was deferred into shares.

Interests in shares

The interests of each person who was a director of the Company as at 30 September 2014 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2014 number	Ordinary shares at 30 September 2013 number
G S Berruyer	712,434	705,232
D H Brydon	53,024	38,024
R Markland	4,753	4,753
N Berkett	27,999	28,000
D Hall	10,000	0
S Hare	0	0
J Howell	12,833	12,833
I Kuznetsova	0	0
Total	**821,043**	798,842

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 2014 and the date of this report.
– For information, Stephen Kelly's shareholding as at the date of this report was 67,500 shares.

Details of the executive directors' interests in outstanding share awards under the ESOS, PSP, deferred shares and all-employee plans are set out below.

Executive share options (audited information)

The Group's only 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 2013 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2014 number	Date exercisable
G S Berruyer	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
Total		**373,720**				**373,720**	

Notes:

– No options were varied during the year.
– The performance criteria for options which became exercisable on or after 6 January 2008 are based on EPS growth measured over a fixed three-year period from the start of the financial year in which the grant was made. 30% of options would vest at the end of the period if the increase in EPS exceeded RPI by 15% (an average of 5% per year) and 100% of those options would vest if RPI was exceeded in that period by 27% (an average of 9% per year). Between those points, options vest on a straight-line basis. There was no further retesting.
– The market price of a share of the Company at 30 September 2014 was 365.40p and the lowest and highest market price during the year was 311.60p and 439.78p respectively.

Performance Share Plan (audited information)

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

Director	Under award 1 October 2013 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2014 number**	Vesting date
G S Berruyer	–	464,894	–	–	**464,894**	10 March 2017
	527,286	–	–	–	**527,286**	14 March 2016
	476,062	–	–	–	**476,062**	12 March 2015
	737,795	–	–	(737,795)	**0**	–
	1,741,143	**464,894**	**–**	**(737,795)**	**1,468,242**	
S Hare	–	286,088	–	–	**286,088**	10 March 2017
	–	116,873	–	–	**116,873**	20 January 2017
	–	**402,961**	**–**	**–**	**402,961**	
Total	**1,741,143**	**867,855**	**–**	**(737,795)**	**1,871,203**	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 March 2014, the date of the awards made in the year ended 30 September 2014, was 419p.
- The performance condition for awards made in March 2011, 2012 and 2014 is set out earlier in this report. The performance condition for awards made in March 2013 and January 2014 is the same as the condition for March 2014.

Deferred shares (audited information)

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

Director	Shares at 1 October 2013 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	**Shares at 30 September 2014 number**	Vesting date
G S Berruyer	12,404	–	12,404	–	**0**	10 January 2014
Total	**12,404**	**–**	**12,404**	**–**	**0**	

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 recommends otherwise.
- Awards are not subject to further performance conditions once granted.
- No variations were made in the terms of the awards in the year.

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 10-year period. The limits and the Group's current position against those limits as at 27 November 2014 (the last practicable 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	**3.35%**
10% of Group's share capital can be used for all share schemes	**4.14%**

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.

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. Fees received by the directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. Mr G S Berruyer is a Non-executive Director of Meggitt Plc. For the year under review, fees in respect of this non-executive directorship were £52,687.56.

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 (not to be unreasonably withheld) 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.

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2014, or on date of contract if later	Notice period under contract
Executive directors			
G S Berruyer	1 October 2010	6 months	12 months from the Company and/or individual
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
Non-executive directors			
N Berkett	5 July 2013	1.5 years	6 months from the Company or 1 month from individual
D H Brydon	6 July 2012	3 years	6 months from the Company and/or individual
J Howell	15 May 2013	1.5 years	6 months from the Company or 1 month from individual
R Markland	13 September 2012	1 year	6 months from the Company or 1 month from individual
D Hall	3 January 2014	2.5 years	6 months from the Company or 1 month from individual
I Kuznetsova	6 March 2014	2.5 years	6 months from the Company or 1 month from individual

Consideration by the directors of matters relating to directors’ remuneration

The following directors were members of the Remuneration Committee when matters relating to the directors’ remuneration for the year were being considered:

- Ms R Markland (Chair)
- Mr D H Brydon
- Mr N Berkett
- Mr D Hall
- Mr J Howell
- Ms I Kuznetsova

The Committee received assistance from Mr R Drury (Group Human Resources Director), Ms R Fyffe (former 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.

External advisers

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, institutional investor views and in the development of the Company’s incentive arrangements. Total fees for advice provided to the Committee during the year were £60,450.

The Committee is satisfied that the advice they have received has been objective and independent.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services.

Statement of shareholding voting

The table below sets out the results of the vote on the Remuneration report and the Remuneration policy respectively at the 2014 AGM:

	Votes for		Votes against			
	Number	%	Number	%	Votes cast	Votes withheld
Remuneration report	795,851,111	96.20%	31,404,471	3.80%	827,255,582	2,134,887
Remuneration policy	778,225,813	94.98%	41,157,395	5.02%	819,383,208	10,007,261

Ruth Markland
Chairman of the Remuneration Committee
3 December 2014

Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 30 September 2014.

The Annual Report & Accounts contains statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 97.

Strategic report

The information that fulfils the reporting requirements relating to the following matters can be found on the following pages of the Strategic report:

Subject matter	Page
Important events since the year-end	47 – Financial and operating review in the Strategic report
Future developments	10 – Performance review in the Strategic report
Greenhouse gas emissions	55 – Environment section of the Strategic report

Corporate governance statement

The Disclosure and Transparency Rules ("DTR") require certain information to be included in a corporate governance statement in the Directors' report. This information can be found in the Corporate governance report on pages 61 to 76, which is incorporated into this Directors' report by reference and, in the case of the information referred to in DTR 7.2.6, in this Directors' report.

Disclosure of information under Listing Rule 9.8.4

Information on allotments of shares for cash pursuant to the Group employee share schemes can be found on page 144 within the notes to the Group financial statements.

Results and dividends

The results for the year are set out on page 104. Full details of the proposed final dividend payment for the year ended 30 September 2014 are set out on page 149. The Board is proposing a final dividend of 8.00p per share following the payment of an interim dividend of 4.12p per share on 6 June 2014. The proposed total dividend for the year is therefore 12.12p per share.

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, we invested £131m (2013: £145m) in research and development.

Political donations

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 interests in its long-term performance share plan and details of their options over the ordinary share capital of the Company are given in the Directors' remuneration report on page 90. 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 operating companies at any time during the year.

The names of all persons who, at any time during the year, were directors of the Company can be found on pages 62 to 63 under Board of Directors and Changes to the Board.

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 2014, 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 Company's registered office.

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. Employees regularly receive updates on the financial and economic factors affecting the Group from both central and local management. Many employees are stakeholders in the Company through participation in share option schemes and a long-term performance share plan. Further details of employment policies are given on pages 51 to 54.

Substantial shareholdings

At 30 September 2014, the Company had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital	Nature of holding
Aberdeen Asset Managers	61,706,538	5.62	Indirect
Schroders plc	55,221,546	5.02	Indirect
Aviva plc	50,389,626	4.59	Direct and indirect

In the period from 30 September 2014 to 27 November 2014, we received no further notifications. Information provided to the Company under the DTRs is publically available via the regulatory information service and on the Company website.

Share capital

The Company's share capital is as set out on page 144. The Company has a single class of share capital which is divided into ordinary shares of $1\frac{4}{77}$p each.

Rights and obligations attaching to shares

Voting

In a general meeting of the Company, subject to the provisions of the articles of association 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
- 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 3 March 2015 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 of association):

- 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 of association, 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 of association, 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 of association).

Repurchase of shares

The Company obtained shareholder authority at the last Annual General Meeting (6 March 2014) to buy back up to 109,710,822 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price is the higher of 105% of the average of the middle market quotations for an ordinary share 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).

In the year under review, the Company repurchased a total of 24,206,805 ordinary shares of $1\frac{4}{77}$p each at prices between 312.3p and 399.0p per share. The aggregate amount of consideration paid was £90m. Following repurchase, these shares were held in treasury. The rationale for these share repurchases is referred to on page 35 in the Strategic report. The movement in earnings per share comprises profit growth and a change in the weighted average share base as a result of share repurchases, the impact of which is as follows:

	% chg	Underlying basic EPS
2013		20.98
Due to change in underlying profit after tax	1.3%	0.27
Due to change in weighted average share base	6.9%	1.44
2014	**8.2%**	**22.69**

In the year under review no treasury shares were cancelled. On 30 September 2014, the Company appointed Citigroup Global Markets Ltd ("Citi") to manage an irrevocable buyback programme during the close period which commenced on 1 October 2014 and will run up to 3 December 2014. From 1 October 2014 to 27 November 2014, the last practicable date prior to publication of the Annual Report & Accounts, 3,457,020 ordinary shares of $1^{4}/_{77}$p each were repurchased through Citi at a weighted average price of 363.8p per share. The highest and lowest prices paid for these shares were 390.7p per share and 347.0p per share respectively. The purchased shares have not been cancelled and are held as treasury shares. These shares represent 0.3% of the issued share capital. The total number of ordinary shares in issue (excluding shares held as treasury shares) at 27 November 2014 is 1,076,443,965.

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 of association, 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 makes an arrangement or composition 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 of association.

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$551 million and €218 million five-year multi-currency revolving credit facility agreement dated 26 June 2014 between, amongst others, the Company and Lloyds Bank plc (as facility agent), on a change of control, if any individual lender so requires and after having consulted with the Company in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to the Company, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable
- Under a note purchase agreement dated 11 March 2010 relating to US$200 million senior notes, Series A, due 11 March 2015, US$50 million senior notes, Series B, due 11 March 2016 and US$50 million 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 a note purchase agreement dated 20 May 2013 relating to US$50 million senior notes, Series D, due 20 May 2018, US$150 million senior notes, Series E, due 20 May 2020, US$150 million senior notes, Series F, due 20 May 2023 and US$50 million senior notes, Series G, due 20 May 2025 between Sage Treasury Company Ltd and the note holders and guaranteed by the Company, on a change of control of the Company, 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 all three agreements, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our 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 our strategic objectives. The Group has set a long-term minimum leverage target of 1x net debt to EBITDA and will work to maintain this going forward.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short and long-term cash flow forecasts. The Company has committed facilities which are available to be drawn for general corporate purposes including working capital. The 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 2014 the Group did not see deterioration in days' sales outstanding.

The credit risk on liquid funds is considered to be low, as the Board-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 80% of borrowings, are at fixed interest rates and bank debt, which comprises 20% of borrowings, are at floating interest rates. At 30 September 2014, the Group had £145m 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 2014, the Group's principal borrowings comprised US private placement loan notes of £432m (2013: £432m), which have an average fixed interest rate of 3.88%, and bank debt of £111m (2013: £10m), which has an average floating interest rate of 1.21%. An explanation of this increase is on page 46 of the Financial and operating review.

Foreign currency risk

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies 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 2013 and 30 September 2014, these exposures were immaterial to the Group.

Disclaimer

The purpose of this Annual Report & Accounts is to provide information to the members of the Company. The Annual Report & Accounts 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 & Accounts 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 & Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report & Accounts should be construed as a profit forecast.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report & Accounts, including the Directors' 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 ("IFRS") 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 and the Company 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 IFRS 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
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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's financial statements, Article 4 of the International Accounting Standards 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.

Directors' statement

The directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 62 to 63, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- To the best of their knowledge, the Directors' report and the Strategic report include 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 director as at the date of this report further confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware
- 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.

In addition, the directors as at the date of this report consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

By Order of the Board

M J Robinson,
Company Secretary

3 December 2014

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Group financial statements

Independent auditors' report to the members of The Sage Group plc

Report on the group financial statements

Our opinion

In our opinion, The Sage Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 30 September 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

The Sage Group plc's financial statements comprise:

- the consolidated balance sheet as at 30 September 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Materiality

- Overall group materiality: £16 million which represents 5% of adjusted profit before tax.

Audit scope

- We performed an audit of the complete financial information of 13 reporting units.
- Of these reporting units, the 3 most significant, representing 66% of the group by revenue and 77% by adjusted profit before tax, were visited by the group team during the audit process.
- The 13 reporting units where we performed audit work accounted for approximately 96% of group revenue and 96% of the group by adjusted profit before tax.

Areas of focus

- Goodwill impairment assessment
- Revenue recognition
- Provisions for uncertain tax positions
- Archer litigation

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

The results of our audit work on the areas below were based on the evidence obtained to support our opinion on the financial statements as a whole.

Area of focus	How our audit addressed the area of focus
Goodwill impairment assessment Refer to page 73 (Audit Committee Report), page 111 (Critical accounting estimates and judgements), and pages 124-126 (notes). We focused on this area due to the size of the goodwill balance (£1,433.0 million as at 30 September 2014), and because the directors' assessment of the 'value in use' of the group's Cash Generating Units ("CGUs") involves judgements about the future results of the business and the discount rates applied to future cash flow forecasts. In particular, we focused our audit effort on goodwill recognised in relation to the Brazil CGU due to the impairment charge of £44.3 million recognised in the current year. The remaining goodwill balance related to Brazil is approximately £76.8 million. The Brazilian business was acquired by the group in 2012, but performance since acquisition has been impacted by a general deterioration in the macroeconomic environment in Brazil, resulting in the current year impairment. The most significant element of the goodwill balance is that recognised on the two US CGUs, SBS and SPS, totalling £687.7m. Although, based on historical performance, the Directors believe there is significant headroom between the value in use of the CGUs and their carrying value, this remained an area of focus for us as a result of the size of the related goodwill balance.	We evaluated and challenged the composition of management's future cash flow forecasts, and the process by which they were drawn up. In particular, we focused on whether they had identified all the relevant CGUs, including Brazil and the US. We found that management had followed their clearly documented process for drawing up the future cash flow forecasts, which was subject to timely oversight and challenge by the Directors and which was consistent with the Board approved budgets. We compared the current year actual results with the FY14 figures included in the prior year forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. Actual performance in Brazil was found to be lower than what had been expected and therefore management has reflected actual FY14 revenue growth rates and operating margins in this year's model. We feel this judgement is appropriate given the past performance of Brazil. For all CGUs, and in particular, Brazil and the US we also challenged management's assumptions in the forecasts for: – long term growth rates, by comparing them to economic and industry forecasts; and – the discount rate, by assessing the cost of capital for the company and comparable organisations, as well as considering territory specific factors. We found the assumptions to be consistent and in line with our expectations. We challenged management on the adequacy of their sensitivity calculations over all their identified CGUs. We determined that the calculations were most sensitive to assumptions for revenue growth rates and discount rates. For all CGUs other than Brazil we calculated the degree to which these assumptions would need to move before an impairment conclusion was triggered. We discussed the likelihood of such a movement with management and agreed with their conclusion that it was unlikely. In respect of Brazil we found the assumptions for revenue growth (11% per annum), operating margin (26%) and discount rate (17%) to be acceptable although note that any change in these assumptions would have a direct impact on the impairment charge.
Revenue recognition Refer to page 73 (Audit Committee Report), page 111 (Critical accounting estimates and judgements), and page 116 (notes). We focused on this area because the timing of revenue recognition and its presentation in the income statement has inherent complexities in the software industry. These mainly involve accounting for 'bundled' transactions where software and maintenance and support elements are purchased together, with the portion of the fee relating to software being recognised immediately and the remainder of the revenue relating to maintenance and support being deferred and recognised over the contractual period. There is opportunity to misstate the allocation of revenue between the software/licence and maintenance and support elements of each individual transaction, especially when discounts to the list price are offered. As such, there is the potential for error and for management manipulation of the timing of revenue recognition. There is also a risk of error in terms of the calculation of the deferral of revenue, as systems in various territories are not standardised, with the use of spreadsheets common across the group.	We tested the apportionment of revenue for licence, software and maintenance and support was in compliance with Sage's accounting manual and recalculated the allocation between these elements of revenue on a sample of transactions. Where discounts had been given we tested that they had been appropriately allocated between the multiple revenue elements. We also tested a sample of transactions to ensure that the amount of revenue deferred was accurately calculated and appropriately recognised. This involved agreeing revenue for maintenance and support services to invoice terms and supporting calculations. For transactions close to the period end we tested that cut-off procedures were appropriately applied. Additionally, where revenue was recorded through journal entries outside of normal business processes we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised. No significant issues were noted from our work.

Area of focus	How our audit addressed the area of focus
Provisions for uncertain tax positions Refer to page 73 (Audit Committee Report), page 111 (Critical accounting estimates and judgements) and pages 121-122 (notes). We focused on this area due to the judgement required in assessing the level of provisions to cover the risk of challenge of certain of the group's tax positions. Provisions are held principally in respect of deferred tax assets, current tax deductions previously taken and ongoing tax audits.	We evaluated and challenged management's rationale for the level of provisions held. We considered the status of recent and current tax audits and enquiries, the outturn of previous claims and the macro-tax environment in each territory. We obtained and assessed, where relevant, third party advice that management had used to formulate the provisions. We also considered any penalty regimes that could apply should any of the tax positions be successfully challenged. From the evidence obtained we consider the level of provisioning to be acceptable in the context of materiality. We note, however, that the assumptions and judgements that are required to formulate the provisions mean that the range of possible outturns is broad.
Archer litigation Refer to page 47 (Strategic report), 73 (Audit Committee Report) and page 111 (Critical accounting estimates and judgements) and page 120 (notes). A compensation claim against the group by Archer Capital for approximately AUS$144m (£88m) is currently the subject of legal proceedings. This claim is for compensation in respect of an aborted deal to acquire an Australian software company. The court case took place early in FY14, and a judgment is expected in the near future. We focused on this issue as there is uncertainty as to the likely outcome. The Directors have not made a provision for settlement on the basis they consider the likelihood of loss to be remote.	We discussed this issue with internal and external legal counsel and read available external information in order to understand the latest position of the proceedings and assess management's views as to the strength of the claim against the group. From the evidence obtained we agreed with management's decision not to make a provision. However, given the uncertainty involved, the matter is not without risk.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The group's trading operations are made up of operating businesses situated in a number of territories across the globe. The group financial statements are a consolidation of 18 reporting units, comprising the group's operating businesses and head office function.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

Accordingly, of the group's 18 reporting units, we performed an audit of the complete financial information of 13 reporting units, which were selected either due to their size, or their risk characteristics. This gave us coverage over 96% of the group by revenue. As part of our year end audit procedures, the group team visited the UK, French and US component teams (the three most significant units in the group). These visits involved discussing the audit approach and any issues arising from our work, as well as meeting local management. In addition to this, the group team attended all clearance meetings, including Brazil, either in person or by call. This, together with additional procedures performed at the group level, gave us the evidence we needed for our opinion on the group financial statements as a whole.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£16 million (2013: £16 million).
How we determined it	5% of adjusted profit before tax (adjusted to add back the goodwill impairment charge of £44.3m).
Rationale for benchmark applied	We believe that profit before tax, adjusted for exceptional costs, provides us with a consistent year on year basis for determining materiality by eliminating the non-recurring disproportionate impact of these items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (2013: £0.8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 93, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
– the statement given by the directors on page 97, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
– the section of the Annual Report on page 72, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 97, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of The Sage Group plc for the year ended 30 September 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

3 December 2014

(a) The maintenance and integrity of the 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.

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

Consolidated income statement
For the year ended 30 September 2014

	Note	Underlying 2014 £m	Adjustments (note 3.6) 2014 £m	Statutory 2014 £m	Underlying as reported * 2013 £m	Adjustments (note 3.6) 2013 £m	Statutory 2013 £m
Revenue	2.1	**1,306.8**	**–**	**1,306.8**	1,376.1	–	1,376.1
Cost of sales		**(74.5)**	**–**	**(74.5)**	(80.2)	–	(80.2)
Gross profit		**1,232.3**	**–**	**1,232.3**	1,295.9	–	1,295.9
Selling and administrative expenses		**(872.5)**	**(61.4)**	**(933.9)**	(920.1)	(9.4)	(929.5)
Loss on disposal of non-core products		**–**	**–**	**–**	–	(185.9)	(185.9)
Operating profit	2.2, 3.2, 3.3	**359.8**	**(61.4)**	**298.4**	375.8	(195.3)	180.5
Finance income	3.5	**2.1**	**–**	**2.1**	1.4	–	1.4
Finance costs	3.5	**(22.2)**	**(0.8)**	**(23.0)**	(16.6)	(1.2)	(17.8)
Finance costs – net	3.5	**(20.1)**	**(0.8)**	**(20.9)**	(15.2)	(1.2)	(16.4)
Profit before income tax		**339.7**	**(62.2)**	**277.5**	360.6	(196.5)	164.1
Income tax expense	4	**(90.5)**	**0.7**	**(89.8)**	(99.2)	(17.4)	(116.6)
Profit for the year		**249.2**	**(61.5)**	**187.7**	261.4	(213.9)	47.5
Profit attributable to:							
– Owners of the parent		**248.3**	**(61.5)**	**186.8**	260.3	(213.9)	46.4
– Non-controlling interest	14.6	**0.9**	**–**	**0.9**	1.1	–	1.1
		249.2	**(61.5)**	**187.7**	261.4	(213.9)	47.5
Earnings per share attributable to the owners of the parent (pence)							
– Basic	5	**22.69p**		**17.07p**	22.27p		3.97p
– Diluted	5	**22.65p**		**17.04p**	22.23p		3.96p

All operations in the year relate to continuing operations.

* Underlying as reported is at 2013 reported exchange rates.

Consolidated statement of comprehensive income
For the year ended 30 September 2014

	Note	2014 £m	2013 £m
Profit for the year		**187.7**	47.5
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/gain on post-employment benefit obligations	14.4	**(0.4)**	1.1
Deferred tax credit/(charge) on actuarial loss on post-employment benefit obligations	4	**0.4**	(0.4)
		–	0.7
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	14.3	**(39.6)**	28.4
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	14.3	**–**	(44.5)
		(39.6)	(16.1)
Other comprehensive expense for the year, net of tax		**(39.6)**	(15.4)
Total comprehensive income for the year		**148.1**	32.1
Total comprehensive income for the year attributable to:			
– Owners of the parent		**147.2**	31.0
– Non-controlling interest	14.6	**0.9**	1.1
		148.1	32.1

Consolidated balance sheet
As at 30 September 2014

	Note	2014 £m	2013 £m
Non-current assets			
Goodwill	6.1	**1,433.0**	1,515.2
Other intangible assets	6.2	**98.1**	113.5
Property, plant and equipment	7	**126.7**	128.8
Deferred income tax assets	10	**21.9**	18.7
		1,679.7	1,776.2
Current assets			
Inventories	8.1	**2.0**	2.2
Trade and other receivables	8.2	**321.5**	311.2
Cash and cash equivalents (excluding bank overdrafts)	12.3	**144.6**	100.8
		468.1	414.2
Total assets		**2,147.8**	2,190.4
Current liabilities			
Trade and other payables	8.3	**(297.3)**	(287.6)
Current income tax liabilities		**(23.7)**	(35.7)
Borrowings	12.4	**(125.4)**	(21.0)
Other financial liabilities	13.4	**(60.1)**	(30.0)
Deferred consideration		**(3.5)**	(8.2)
Deferred income		**(402.7)**	(406.8)
		(912.7)	(789.3)
Non-current liabilities			
Borrowings	12.4	**(415.8)**	(440.6)
Other financial liabilities	13.4	**–**	(54.2)
Post-employment benefits	9	**(13.6)**	(12.9)
Deferred income tax liabilities	10	**(19.1)**	(23.1)
Deferred income		**(2.7)**	–
		(451.2)	(530.8)
Total liabilities		**(1,363.9)**	(1,320.1)
Net assets		**783.9**	870.3
Equity attributable to owners of the parent			
Ordinary shares	14.1	**11.7**	11.7
Share premium		**535.9**	532.2
Other reserves	14.3	**88.8**	60.4
Retained earnings		**147.5**	267.0
		783.9	871.3
Non-controlling interest	14.6	**–**	(1.0)
Total equity		**783.9**	870.3

The consolidated financial statements on pages 104 to 154 were approved by the Board of Directors on 3 December 2014 and are signed on their behalf by:

S Hare,
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 30 September 2014

	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 2013	**11.7**	**532.2**	**60.4**	**267.0**	**871.3**	**(1.0)**	**870.3**
Profit for the year	–	–	–	186.8	186.8	0.9	187.7
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations (note 14.3)	–	–	(39.6)	–	(39.6)	–	(39.6)
Actuarial loss on post-employment benefit obligations (note 9)	–	–	–	(0.4)	(0.4)	–	(0.4)
Deferred tax credit on actuarial gain on post-employment obligations (note 10)	–	–	–	0.4	0.4	–	0.4
Total comprehensive (expense)/income for the year ended 30 September 2014	–	–	(39.6)	186.8	147.2	0.9	148.1
Transactions with owners:							
Employee share option scheme:							
– Proceeds from shares issued	–	3.7	–	–	3.7	–	3.7
– Value of employee services, net of deferred tax	–	–	–	7.8	7.8	–	7.8
Purchase of treasury shares (note 14.4)	–	–	–	(89.5)	(89.5)	–	(89.5)
Expenses related to purchase of treasury shares	–	–	–	(0.2)	(0.2)	–	(0.2)
Close period share buyback programme (note 13.4)	–	–	–	(30.1)	(30.1)	–	(30.1)
Purchase of non-controlling interest (note 13.4)	–	–	68.0	(68.1)	(0.1)	0.1	–
Dividends paid to owners of the parent (note 14.5)	–	–	–	(126.2)	(126.2)	–	(126.2)
Total transactions with owners for the year ended 30 September 2014	–	3.7	68.0	(306.3)	(234.6)	0.1	(234.5)
At 30 September 2014	**11.7**	**535.9**	**88.8**	**147.5**	**783.9**	**–**	**783.9**

Consolidated statement of changes in equity continued

	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 2012	13.3	524.5	76.5	760.8	1,375.1	(2.1)	1,373.0
Profit for the year	–	–	–	46.4	46.4	1.1	47.5
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations (note 14.3)	–	–	28.4	–	28.4	–	28.4
Exchange differences recycled to the income statement in respect of the disposal of foreign operations (note 14.3)	–	–	(44.5)	–	(44.5)	–	(44.5)
Actuarial gain on post-employment benefit obligations (note 9)	–	–	–	1.1	1.1	–	1.1
Deferred tax charge on actuarial gain on post-employment obligations	–	–	–	(0.4)	(0.4)	–	(0.4)
Total comprehensive (expense)/income for the year ended 30 September 2013	–	–	(16.1)	47.1	31.0	1.1	32.1
Transactions with owners:							
Employee share option scheme:							
– Proceeds from shares issued	–	7.7	–	–	7.7	–	7.7
– Value of employee services	–	–	–	2.9	2.9	–	2.9
Purchase of treasury shares (note 14.4)	–	–	–	(251.0)	(251.0)	–	(251.0)
Expenses related to purchase of treasury shares	–	–	–	(2.0)	(2.0)	–	(2.0)
Close period share buyback programme (note 13.4)	–	–	–	30.0	30.0	–	30.0
Cancellation of treasury shares (note 14.1)	(1.6)	–	–	–	(1.6)	–	(1.6)
Dividends paid to owners of the parent (note 14.5)	–	–	–	(320.8)	(320.8)	–	(320.8)
Total transactions with owners for the year ended 30 September 2013	(1.6)	7.7	–	(540.9)	(534.8)	–	(534.8)
At 30 September 2013	11.7	532.2	60.4	267.0	871.3	(1.0)	870.3

Consolidated statement of cash flows
For the year ended 30 September 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	**382.4**	417.4
Interest paid		**(21.6)**	(12.6)
Income tax paid		**(107.2)**	(118.6)
Net cash generated from operating activities		**253.6**	286.2
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	15.1	**(14.1)**	(14.7)
Acquisition of other financial assets		**–**	(6.0)
Disposal of subsidiaries, net of cash disposed	15.4	**–**	81.4
Purchases of intangible assets	6.2	**(8.3)**	(9.6)
Purchases of property, plant and equipment	7	**(19.7)**	(14.1)
Proceeds from sale of property, plant and equipment		**1.1**	4.7
Interest received	3.5	**2.1**	1.4
Net cash generated from investing activities		**(38.9)**	43.1
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**3.7**	7.7
Purchase of treasury shares		**(91.0)**	(251.0)
Purchase of non-controlling interest	13.4	**(50.4)**	–
Finance lease principal payments		**(1.9)**	(1.1)
Proceeds from borrowings		**171.0**	514.1
Repayments of borrowings		**(71.8)**	(256.5)
Movements in cash collected from customers		**15.5**	9.5
Dividends paid to owners of the parent	14.5	**(126.2)**	(320.8)
Net cash used in financing activities		**(151.1)**	(298.1)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)	12.2	**63.6**	31.2
Effects of exchange rate movement		**(2.8)**	(2.7)
Net increase in cash, cash equivalents and bank overdrafts		**60.8**	28.5
Cash, cash equivalents and bank overdrafts at 1 October	12.2	**82.9**	54.4
Cash, cash equivalents and bank overdrafts at 30 September	12.2	**143.7**	82.9

1 Basis of preparation and critical accounting estimates and judgements

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

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 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.

New or amended accounting standards

The following amended standards have been adopted in the financial statements. These have not had a material impact.

Accounting standard	Requirement	Impact on financial statements
IAS 19 (revised 2011), "Employee Benefits"	This introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The effect of this standard is to remove the previous concept of recognising an expected return on plan assets.	The Group operates two small defined benefit schemes (the majority of the Group's employees are members of defined contribution schemes), therefore the impact is minimal. We have made some minor updates to the wording in the disclosure note however no restatement has been made on the grounds of materiality.
IFRS 13, "Fair Value Measurement"	This introduces the requirement for entities to classify fair value measurements into a "fair value hierarchy" based on the nature of the inputs.	The disclosure in note 13.1 has been updated to include the fair value hierarchy.

The following new or amended standards have been adopted in the financial statements but have had no impact on the financial statements.

- Amendment to IAS 1, "Presentation of Financial Statements"
- Amendment to IAS 16, "Property, Plant and Equipment"
- Amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards"
- Amendment to IFRS 7, "Financial Instruments: Disclosures"
- Amendment to IAS 12, "Income taxes on deferred tax"

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 2 to 59.

Having made reasonable enquiries, 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.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated 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.

The assets and liabilities of the Group's subsidiaries outside of the UK are translated into sterling using period end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve.

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".

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

Revenue recognition

The key area of judgement in respect of recognising revenue is the timing of recognition, specifically in relation to recognition and deferral of revenue on licence, support and other contracts where management assumptions and estimates are necessary.

For instance, when products are bundled together for the purpose of sale, the associated revenue, net of any applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis, which determines the pattern of revenue recognition. The Group has a systematic basis for allocating relative fair values in these situations, based upon published list prices. In the limited circumstances in which published list prices are not available, a prudent approach is taken, whereby any discounts are recognised immediately. See note 3.1 for the revenue recognition policy.

Goodwill impairment

The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the operating companies being tested for impairment and the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. The key assumptions applied in the calculation relate to the future performance expectations of the business. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in note 6.1.

Archer Capital litigation

The claim for damages made by Archer Capital in relation to the potential purchase of MYOB continues to be strongly rejected by management. Based on supporting expert legal advice, management do not consider there to be a present obligation and the possibility of an outflow of resources is remote. As such, no provision or contingent liability has been recognised in these financial statements.

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot be finally determined until a resolution has been reached by the relevant tax authority. Management bases estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain.

Future accounting standards

The directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments. The following revised and new accounting standards are currently endorsed but not yet effective for the Group for the year ended 30 September 2014. None are expected to be material to the financial statements.

- Amendment to IAS 27, "Separate Financial Statements"
- Amendment to IAS 28, "Investments in Associates and Joint Ventures"
- Amendment to IAS 32, "Financial Instruments: Presentation"
- Amendment to IAS 36, "Impairment of Assets"
- Amendment to IAS 39, "Financial Instruments: Recognition and Measurement"
- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosure of Interests in Other Entities"
- IFRIC 21, "Levies"
- IFRS 15, "Revenue from contracts with customers" is expected to be effective from 1 January 2017. The directors would not usually look so far ahead at new accounting standards; however, it is expected that this new standard may have a significant impact on revenue recognition for the software industry

2 Segment information

This note shows how Group revenue and Group operating profit are split across the three geographical regions in which we operate, being Europe, Americas and Africa, Australia, Middle East and Asia ("AAMEA").

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and operating profit.

- Statutory results are the IFRS statutory results.
- Underlying is a non-GAAP measure. Adjustments are made to statutory results to arrive at an underlying result which is in line with how the business is managed and measured on a day to day basis. Adjustments are made for items that are individually important in order to understand the financial performance. If included, these items could distort understanding of the performance for the year and the comparability between periods. See note 3.6 for details of these adjustments. In addition, the prior year underlying values are translated at current exchange rates, so that exchange rate impacts do not distort comparisons.
- Organic is a non-GAAP measure. The contributions of current and prior year acquisitions and disposals are removed, so that results can be compared to prior year on a like for like basis.

In addition, the following reconciliations are made in this note.

- Revenue per region reconciled to the profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per region (detailing the adjustments made).

Accounting policy

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 in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance. The Executive Committee use organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

- Europe (France, UK & Ireland, Spain, Germany, Switzerland, Poland, Portugal and Sagepay)
- 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 and UAE.

Segment reporting

The tables below show a segmental analysis of the results for continuing operations.

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.

2.1 Revenue by segment

	Year ended 30 September 2014					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	**Organic adjustments £m**	**Organic £m**	Statutory %	Underlying %	Organic %
Recurring revenue by segment								
Europe	**535.8**	**–**	**535.8**	**(0.3)**	**535.5**	0%	3%	7%
Americas	**334.8**	**–**	**334.8**	**–**	**334.8**	-6%	1%	6%
AAMEA	**81.0**	**–**	**81.0**	**–**	**81.0**	-3%	14%	14%
Recurring revenue	**951.6**	**–**	**951.6**	**(0.3)**	**951.3**	-3%	3%	7%
Software and software related services ("SSRS") revenue by segment								
Europe	**214.6**	**–**	**214.6**	**(0.1)**	**214.5**	-11%	-9%	-4%
Americas	**77.2**	**–**	**77.2**	**–**	**77.2**	-15%	-8%	2%
AAMEA	**63.4**	**–**	**63.4**	**–**	**63.4**	-6%	10%	10%
SSRS revenue	**355.2**	**–**	**355.2**	**(0.1)**	**355.1**	-11%	-6%	-1%
Total revenue by segment								
Europe	**750.4**	**–**	**750.4**	**(0.4)**	**750.0**	-3%	-1%	4%
Americas	**412.0**	**–**	**412.0**	**–**	**412.0**	-8%	0%	5%
AAMEA	**144.4**	**–**	**144.4**	**–**	**144.4**	-4%	12%	12%
Total revenue	**1,306.8**	**–**	**1,306.8**	**(0.4)**	**1,306.4**	-5%	0%	5%

	Year ended 30 September 2013						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment							
Europe	535.2	–	535.2	(12.5)	522.7	(21.8)	500.9
Americas	357.5	–	357.5	(27.2)	330.3	(13.3)	317.0
AAMEA	83.4	–	83.4	(12.1)	71.3	(0.3)	71.0
Recurring revenue	976.1	–	976.1	(51.8)	924.3	(35.4)	888.9
Software and software related services ("SSRS") revenue by segment							
Europe	241.7	–	241.7	(4.6)	237.1	(13.6)	223.5
Americas	90.7	–	90.7	(7.1)	83.6	(7.6)	76.0
AAMEA	67.6	–	67.6	(10.0)	57.6	(0.1)	57.5
SSRS revenue	400.0	–	400.0	(21.7)	378.3	(21.3)	357.0
Total revenue by segment							
Europe	776.9	–	776.9	(17.1)	759.8	(35.4)	724.4
Americas	448.2	–	448.2	(34.3)	413.9	(20.9)	393.0
AAMEA	151.0	–	151.0	(22.1)	128.9	(0.4)	128.5
Total revenue	1,376.1	–	1,376.1	(73.5)	1,302.6	(56.7)	1,245.9

2 Segment information continued

2.2 Operating profit by segment

	Year ended 30 September 2014					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory %	Underlying %	Organic %
Operating profit by segment								
Europe	**206.4**	**8.4**	**214.8**	**–**	**214.8**	33%	0%	6%
Americas	**53.0**	**52.8**	**105.8**	**–**	**105.8**	487%	2%	8%
AAMEA	**39.0**	**0.2**	**39.2**	**–**	**39.2**	1%	10%	11%
Total operating profit	**298.4**	**61.4**	**359.8**	**–**	**359.8**	65%	1%	7%

	Year ended 30 September 2013						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
Europe	155.7	64.5	220.2	(4.9)	215.3	(11.7)	203.6
Americas	(13.7)	128.7	115.0	(10.9)	104.1	(5.9)	98.2
AAMEA	38.5	2.1	40.6	(5.0)	35.6	(0.3)	35.3
Total operating profit	180.5	195.3	375.8	(20.8)	355.0	(17.9)	337.1

The results by segment from continuing operations were as follows:

Year ended 30 September 2014	Note	Europe £m	Americas £m	AAMEA £m	Group £m
Revenue		**750.4**	**412.0**	**144.4**	**1,306.8**
Segment statutory operating profit		**206.4**	**53.0**	**39.0**	**298.4**
Finance income	3.5				**2.1**
Finance costs	3.5				**(23.0)**
Profit before income tax					**277.5**
Income tax expense	4				**(89.8)**
Profit for the year					**187.7**

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

Reconciliation of underlying operating profit to statutory operating profit

	Europe £m	Americas £m	AAMEA £m	Group £m
Underlying operating profit	**214.8**	**105.8**	**39.2**	**359.8**
Amortisation of acquired intangible assets	**(6.9)**	**(7.3)**	**(0.3)**	**(14.5)**
Fair value adjustments and goodwill impairment	**–**	**(44.7)**	**–**	**(44.7)**
Acquisition-related items	**(0.1)**	**(0.8)**	**0.1**	**(0.8)**
Litigation costs	**(1.4)**	**–**	**–**	**(1.4)**
Statutory operating profit	**206.4**	**53.0**	**39.0**	**298.4**

The results by segment from continuing operations were as follows:

Year ended 30 September 2013	Note	Europe £m	Americas £m	AAMEA £m	Group £m
Revenue		776.9	448.2	151.0	1,376.1
Segment statutory operating profit/(loss)		155.7	(13.7)	38.5	180.5
Finance income	3.5				1.4
Finance costs	3.5				(17.8)
Profit before income tax					164.1
Income tax expense	4				(116.6)
Profit for the year					47.5

Year ended 30 September 2013

Reconciliation of underlying operating profit previously reported to statutory operating profit	Europe £m	Americas £m	AAMEA £m	Group £m
Underlying operating profit as previously reported	220.2	115.0	40.6	375.8
Amortisation of acquired intangible assets	(10.0)	(8.4)	(0.7)	(19.1)
Fair value adjustments and goodwill impairment	–	13.5	(1.4)	12.1
Acquisition-related items	–	(0.1)	–	(0.1)
Loss on disposal and litigation costs	(54.5)	(133.7)	–	(188.2)
Statutory operating profit/(loss)	155.7	(13.7)	38.5	180.5

3 Profit before income tax

This note sets out the Group's revenue recognition policy. It also analyses the Group's profit before tax, by looking in more detail at the key operating costs, including a breakdown of the costs incurred as an employer, research and development costs, the cost of the external audit of the Group's financial statements and finance costs.

In addition, this note analyses the future amounts payable under operating lease agreements, which the Group has entered into as at the year-end. These commitments are not included as liabilities on the consolidated balance sheet.

This note also provides a breakdown of any material and non-recurring costs that have been reported separately on the face of the income statement.

3.1 Revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or 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, being;

1. Recurring revenue: including subscription contracts (including pay as you go contracts), maintenance and support, combined software/support service contracts and payment processing services.

Subscription contract revenue and maintenance and support revenue is recognised on a straight-line basis over the term of the contract (including non-specified upgrades when included). Revenue relating to future periods is classified as deferred income on the balance sheet.

Payment processing services revenue is recognised when the outcome of such transactions can be estimated reliably; the associated revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

2. Software and software-related services: including perpetual software licences, upgrades and other software-related services such as business forms, professional services and training.

Perpetual software licences and specified upgrades revenue is recognised when the significant risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is deemed to be when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place.

Other product revenue (which includes business forms and hardware) is recognised as the products are shipped to the customer.

Where software is sold with after-sales service, the consideration is allocated between the different elements on a relative fair value basis.

When products are bundled together before being sold to the customer, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. If discounts on bundles are offered, the discount is applied to the constituent parts of the bundle, based upon fair value.

Other services (which include 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.

3.2 Operating profit

The following items have been included in arriving at operating profit	Note	2014 £m	2013 £m
Staff costs	3.3	**616.8**	621.9
Cost of inventories recognised as an expense (included in cost of sales)	8.1	**12.5**	14.2
Depreciation of property, plant and equipment	7	**18.0**	20.0
Amortisation of intangible assets	6.2	**24.5**	28.5
Fair value adjustments and goodwill impairment	3.6	**44.7**	(12.1)
Loss on disposal of property, plant and equipment	12.1	**0.8**	0.8
Loss on disposal of intangible assets	12.1	**–**	0.1
Other operating lease rentals payable		**28.8**	20.9
Net foreign exchange losses/(gains)		**0.1**	(0.4)
Acquisition-related items	3.6	**0.8**	0.1
Research and development expenditure	6.2	**131.2**	144.6

Services provided by the Group's auditors and network firms

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

	2014 £m	2013 £m
Fees payable to the Group's auditors for the audit of the Plc's companies and the consolidated accounts	**0.3**	0.3
Fees payable to the Group's auditors for the audit of the Company's subsidiaries	**1.7**	1.6
Fees payable to the Group's auditors for audit-related assurance services	**0.1**	0.1
Total audit fees	**2.1**	2.0
Tax compliance services	**0.6**	0.6
Tax advisory services	**0.3**	0.4
Other non-audit services	**0.1**	0.3
Total fees	**3.1**	3.3

The total audit fee for the Group, including the audit of overseas subsidiaries, was £2.1m (2013: £2.0m).

The Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 75.

3 Profit before income tax continued

3.3 Employees and directors

Average monthly number of people employed (including directors)	2014 number	2013 number
By geographical location:		
Europe	7,071	7,620
Americas	3,529	3,497
AAMEA	1,994	2,124
	12,594	13,241

Staff costs (including directors on service contracts)	Note	2014 £m	2013 £m
Wages and salaries		503.4	517.1
Social security costs		94.4	90.5
Post-employment benefits	9	11.0	11.4
Share-based payments	14.2	8.0	2.9
		616.8	621.9

Key management compensation	2014 £m	2013 £m
Salaries and short-term employee benefits	5.9	6.4
Post-employment benefits	0.5	0.5
Share-based payments	1.4	1.3
	7.8	8.2

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee as shown on page 64.

3.4 Operating lease commitments

Accounting policy

Rentals payable under operating leases are charged to the income statement 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.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2014 Property, vehicles, plant and equipment £m	2013 Property, vehicles, plant and equipment £m
Within one year	29.5	33.6
Later than one year and less than five years	77.0	88.1
After five years	29.8	34.1
	136.3	155.8

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.

3.5 Finance income and costs

Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset.

	2014 £m	2013 £m
Finance income: interest income on short-term deposits	**2.1**	1.4
Finance costs:		
Finance costs on bank borrowings	**(4.6)**	(1.4)
Finance costs on US senior loan notes	**(16.4)**	(14.4)
Amortisation of issue costs	**(1.2)**	(0.9)
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	**(0.8)**	(1.1)
Finance costs	**(23.0)**	(17.8)
Finance costs – net	**(20.9)**	(16.4)

3.6 Adjustments between underlying and statutory results

Accounting policy

The business is managed and measured on a day to day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important and which could, if included, distort the understanding of the performance for the year and the comparability between periods.

Management apply judgement in determining which items should be excluded from underlying performance.

Recurring items

These are items which occur each year but which management judge to have a distorting effect on the underlying results of the Group. These items relate specifically to merger & acquisition ("M&A") activity which by its nature is irregular in its impact. Items falling within this category include amortisation, fair value adjustments and acquisition related costs. These do not include operating or integration costs related to the acquisition. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items

These are items which management judge to be of a one-off nature or non-operational, which would distort a reader of the Company's accounts understanding of underlying business performance.

3 Profit before income tax continued

3.6 Adjustments between underlying and statutory results continued

	Recurring 2014 £m	Non-recurring 2014 £m	Total 2014 £m	Recurring 2013 £m	Non-recurring 2013 £m	Total 2013 £m
Acquisition related items						
Amortisation of acquired intangibles	**14.5**	**–**	**14.5**	19.1	–	19.1
Fair value adjustments	**0.4**	**–**	**0.4**	(13.5)	–	(13.5)
Litigation costs	**–**	**1.4**	**1.4**	–	2.3	2.3
Other acquisition-related items	**0.8**	**–**	**0.8**	0.1	–	0.1
Other items						
Goodwill impairment	**–**	**44.3**	**44.3**	–	1.4	1.4
Loss on disposal of non-core products	**–**	**–**	**–**	–	185.9	185.9
Total adjustments made to operating profit	**15.7**	**45.7**	**61.4**	5.7	189.6	195.3
Acquisition related items						
Imputed interest on put and call arrangements to acquire non-controlling interest and deferred consideration	**0.8**	**–**	**0.8**	1.2	–	1.2
Total adjustments made to profit before income tax	**16.5**	**45.7**	**62.2**	6.9	189.6	196.5

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations. These assets are predominantly brands, customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

The fair value adjustment relates to the accounting loss on the settlement of the put and call arrangement to acquire 25% of the share capital of the Brazilian sub-group from the non-controlling interest holder. This transaction occurred in August 2014. Further details can be found in note 13.4.

The adjustment relating to acquisition-related items is made up of the cost of carrying out business combinations in the year (£2.4m, 2013: £0.1m), partly offset by the net release of earn-out liabilities on previous acquisitions (£1.6m). Further details can be found in note 15.3.

The imputed interest adjustment on the put and call arrangement relates to the accounting adjustment made during the year to discount this liability to its present value. This entry was made up until the liability was settled in August 2014. As above, further details can be found in note 13.4.

Non-recurring items

As a result of the annual goodwill impairment review, an impairment of the goodwill held in the Brazilian business has been identified in the year. This impairment is driven by economic conditions in Brazil and a re-measurement of the future performance of Brazil performed by management. Further details can be found in note 6.1.

The adjustment relating to litigation costs relates to the defence of the Archer Capital case, which is strongly rejected by management. We have engaged in a vigorous defence of the case resulting in these non-recurring litigation costs. Based upon legal advice, no provision or contingent liability has been recognised in these financial statements. All other litigation costs which may be incurred through the normal course of business are charged through operational expenses.

The loss on disposals in the prior year was incurred as a result of the disposal of non-core products. There are no such costs in the current year.

See note 4 for the tax impact of these adjustments.

4 Income tax expense

This note analyses the tax charge for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to provide tax that is expected to arise in the future due to differences between accounting and tax bases.

This note outlines the tax accounting policies, the current and deferred tax charges in the year and presents a reconciliation of profit before tax in the income statement to the tax charge.

Accounting policy

The taxation charge for the year represents the sum of the tax currently payable and deferred tax. The charge is recognised in the income statement and statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases.

Analysis of charge in the year	Note	2014 £m	2013 £m
Current tax			
– Current tax on profit for the year		**101.4**	136.6
– Adjustment in respect of prior years		**(4.2)**	(6.3)
Current tax		**97.2**	130.3
Deferred tax			
– Origination and reversal of temporary differences		**(5.3)**	(13.6)
– Adjustment in respect of prior years		**(2.1)**	(0.1)
Deferred tax	10	**(7.4)**	(13.7)
The current year tax charge is split into the following:			
Underlying tax charge		**90.5**	99.2
Tax (credit)/charge on adjustments between the underlying and statutory operating profit		**(0.7)**	17.4
Income tax expense		**89.8**	116.6

The majority of the current tax adjustment in respect of prior years of £4.2m (2013: £6.3m) reflects the resolution of a number of historical tax matters with the tax authorities.

	2014 £m	2013 £m
Tax on items credited to other comprehensive income		
Deferred tax (credit)/charge on actuarial loss on post-employment benefit obligations	**(0.4)**	0.4
Total tax on items (credited)/charged to other comprehensive income/equity	**(0.4)**	0.4

4 Income tax expense continued

The tax for the year is higher (2013: higher) than the standard rate of corporation tax in the UK of 22% (2013: 23.5%) The differences are explained below:	Note	2014 £m	2013 £m
Statutory profit on ordinary activities before income tax		277.5	164.1
Adjustments	3.6	62.2	196.5
Underlying profit on ordinary activities before income tax		339.7	360.6
Underlying profit on ordinary activities multiplied by rate of corporation tax in the UK of 22% (2013: 23.5 %)		74.7	84.7
Tax effects of:			
Adjustments in respect of prior years		(6.3)	(6.4)
Adjustments in respect of foreign tax rates		22.0	24.1
Non-deductible expenses and permanent items net of non-taxable income and other credits		(0.6)	(1.7)
Local business tax		2.8	3.3
Tax credits		(2.1)	(2.4)
Utilisation of unrecognised losses		–	(2.4)
Underlying tax charge		90.5	99.2
Tax (credited)/charged on adjustments between underlying and statutory results		(0.7)	17.4
Total statutory income tax		89.8	116.6

The underlying effective tax rate of 27% (2013: 28%) is higher than the UK's statutory rate of tax due to the geographic profile of the Group. In addition, there is an obligation to account for local business taxes in the corporate tax charge. These additional tax charges are offset by research and development tax credits which are a government incentive in a number of operating territories.

5 Earnings per share

This note shows how earnings per share ("EPS") is calculated. EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at the year-end.

This note also provides a reconciliation between the statutory profit figure, which ties to the primary statements on page 104, and the Group's internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

Accounting policy

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, 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 one class of dilutive potential ordinary shares. They are 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.

Reconciliations of the earnings and weighted average number of shares	Underlying 2014	Underlying 2013	Statutory 2014	Statutory 2013
Earnings (£m)				
Profit for the year	**248.3**	260.3	**186.8**	46.4
Number of shares (millions)				
Weighted average number of shares	**1,094.4**	1,168.8	**1,094.4**	1,168.8
Dilutive effects of shares	**1.7**	2.0	**1.7**	2.0
	1,096.1	1,170.8	**1,096.1**	1,170.8
Earnings per share				
Basic earnings per share (pence)	**22.69**	22.27	**17.07**	3.97
Diluted earnings per share (pence)	**22.65**	22.23	**17.04**	3.96

Reconciliation between statutory and underlying earnings per share	2014 £m	2013 £m
Earnings: Statutory profit for the year	**186.8**	46.4
Adjustments:		
Intangible amortisation excluding amortisation of acquired intangible assets	**14.5**	19.1
Other acquisition-related items	**0.8**	0.1
Goodwill impairment and fair value adjustments	**44.7**	(12.1)
Litigation costs	**1.4**	2.3
Loss on disposal of non-core products	**–**	185.9
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	**0.8**	1.2
Taxation on adjustments	**(0.7)**	17.4
Net adjustments	**61.5**	213.9
Earnings – underlying profit for the year (before exchange movement)	**248.3**	260.3
Exchange movement		(10.6)
Taxation on exchange movement		(4.5)
Net exchange movement		(15.1)
Earnings – underlying profit for the year (after exchange movement)	**248.3**	245.2

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 47 within the financial review.

6 Intangible assets

This note provides details of the non-physical assets used by the Group to generate revenues and profits. These assets include items such as goodwill, and other intangible assets such as brands, customer relationships, computer software, intellectual property and technology which have predominantly been acquired as part of business combinations. These assets are initially measured at fair value, meaning the best estimate of the value for which these assets could be sold in an arm's length transaction.

Goodwill represents the excess between the amount paid to acquire the businesses over the fair value of the net assets at the acquisition date.

This section also explains the accounting policies applied and the specific judgements and estimates made by the directors in arriving at the carrying value of these assets.

6.1 Goodwill

Accounting policy

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 any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

Goodwill previously written-off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates. Gains and losses on disposal of the entity 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).

Goodwill is allocated to cash-generating units ("CGUs") for the purpose 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.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

	Note	2014 £m	2013 £m
Cost at 1 October		**1,516.6**	1,814.4
– Additions	15.1	**7.6**	11.8
– Disposals	15.4	**–**	(319.0)
– Exchange movement		**(47.5)**	9.4
At 30 September		**1,476.7**	1,516.6
Impairment at 1 October		**1.4**	–
– Impairment in the year		**44.3**	1.4
– Exchange movement		**(2.0)**	–
At 30 September		**43.7**	1.4
Net book amount at 30 September		**1,433.0**	1,515.2

Details of acquisitions and disposals in the year are shown in note 15.

Goodwill impairment tests

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU:

	2014 £m	2013 £m
France	**196.7**	212.2
UK & Ireland	**180.6**	180.6
Spain	**112.9**	121.2
Sage Pay Europe	**24.2**	25.1
Germany	**31.4**	26.4
Switzerland	**32.8**	34.7
Poland	**6.2**	6.5
Portugal	**4.9**	4.1
North America		
– Sage Business Solutions Division	**533.6**	533.2
– Sage Payment Solutions Division	**154.1**	156.1
Brazil	**76.8**	130.8
South Africa	**39.7**	40.6
Australia	**20.4**	24.8
Asia	**18.7**	18.9
	1,433.0	1,515.2

The Group conducts annual impairment tests by comparing the carrying value of goodwill in the CGU to the recoverable amount of the CGU. The recoverable amounts of CGUs are determined as the higher of fair value less costs to sell and the value-in-use. In determining value-in-use, estimated future cash flows are discounted to their present value.

In all cases, the approved plans for the five years following the current financial year form the basis for the cash flow projections for a CGU. Beyond the five year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value-in-use calculations are the average medium term revenue growth rate, the long-term operating margin and the long-term growth rate of net operating cash flows.

- The average medium-term revenue growth rate for the first five years is primarily based on past performance. The average revenue growth rate applied to CGU's was in the range of 1% (2013: 2%) to 15% (2013: 14%) reflecting the specific rates for each territory.
- The long-term operating margin assumed for a CGU's operations is primarily based on past performance. The long-term operating margin applied to CGUs was in the range of 26% (2013: 20%) to 62% (2013: 47%), reflecting the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken and were in the range of 1.3% (2013: 1.8%) to 5.1% (2013: 5.8%) reflecting the specific rates for each territory.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU, applying local government yield bonds and tax rates to each CGU on a geographical basis. The discount rate applied to a CGU represents a pre-tax rate that reflects the market assessment of the time value of money at the end of the reporting period and the risks specific to the CGU. The discount rates applied to CGUs were in the range of 6.03% (2013: 4.4%) to 17.05% (2013: 13.65%), reflecting the specific rates for each territory.

Impairment charge

The Group performed its annual test for impairment, in the fourth quarter of 2014. The recoverable amount exceeded the carrying value for all CGUs with the exception of Brazil (Americas segment). An impairment of £44.3m was recognised, driven by economic uncertainty in Brazil which is expected to continue in the future. Management remain confident in the long-term contribution of Brazil to the Group.

Following the impairment, the recoverable amount of the Brazilian CGU is £76.8m. The key assumptions used in the impairment calculation for Brazil were revenue growth of 11% per annum, long term operating margin of 26%, long term growth of 3.8%, and discount rate of 17.05% (2013: 13.65%).

6 Intangible assets continued

Sensitivity analysis

A sensitivity analysis was performed for each of the other CGU's to determine the headroom on the impairment calculation. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any CGU, other than Brazil, to exceed its recoverable amount.

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are initially held at fair value less accumulated amortisation and impairment losses. The main intangible assets recognised are brands, technology and customer relationships.

Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

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

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.

The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Internally generated software development costs qualify for capitalisation if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Management have determined that to date, internally generated software has been available for general release concurrent with the establishment of technological feasibility and, accordingly, development costs have not been capitalised. Costs which are incurred after the general release of internally generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements (see note 3.2).

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2013	**38.6**	**88.2**	**0.4**	**5.6**	**60.3**	**108.6**	**301.7**
– Additions	0.2	0.5	–	–	7.5	0.1	8.3
– Acquisition of subsidiaries	–	–	–	–	–	6.6	6.6
– Disposals	–	–	–	–	(0.8)	(0.2)	(1.0)
– Exchange movement	(2.1)	(5.4)	(0.1)	–	(2.6)	(3.5)	(13.7)
At 30 September 2014	**36.7**	**83.3**	**0.3**	**5.6**	**64.4**	**111.6**	**301.9**
Accumulated amortisation at 1 October 2013	**20.5**	**65.1**	**0.4**	**5.6**	**20.9**	**75.7**	**188.2**
– Charge for the year	2.4	5.9	–	–	10.0	6.2	24.5
– Disposals	–	–	–	–	(0.8)	–	(0.8)
– Exchange movement	(1.0)	(3.4)	(0.1)	–	(1.7)	(1.9)	(8.1)
At 30 September 2014	**21.9**	**67.6**	**0.3**	**5.6**	**28.4**	**80.0**	**203.8**
Net book amount at 30 September 2014	**14.8**	**15.7**	**–**	**–**	**36.0**	**31.6**	**98.1**

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2012	40.5	97.9	0.4	5.6	52.9	121.2	318.5
– Additions	–	–	–	–	9.6	–	9.6
– Disposal of subsidiaries	(2.3)	(10.5)	–	–	(1.8)	(13.0)	(27.6)
– Disposals	–	–	–	–	(0.2)	–	(0.2)
– Exchange movement	0.4	0.8	–	–	(0.2)	0.4	1.4
At 30 September 2013	38.6	88.2	0.4	5.6	60.3	108.6	301.7
Accumulated amortisation at 1 October 2012	18.4	64.3	0.4	5.6	13.9	76.1	178.7
– Charge for the year	2.7	8.6	–	–	9.4	7.8	28.5
– Disposals	–	–	–	–	(0.2)	–	(0.2)
– Disposal of subsidiaries	(0.9)	(9.1)	–	–	(1.6)	(9.0)	(20.6)
– Exchange movement	0.3	1.3	–	–	(0.6)	0.8	1.8
At 30 September 2013	20.5	65.1	0.4	5.6	20.9	75.7	188.2
Net book amount at 30 September 2013	18.1	23.1	–	–	39.4	32.9	113.5

All amortisation charges in the year have been charged through selling and administrative expenses.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their initial purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual wear and tear.

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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.

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

The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

7 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 2013	**94.1**	**141.6**	**54.1**	**289.8**
– Additions	**2.3**	**11.6**	**5.8**	**19.7**
– Disposals	**(2.8)**	**(8.8)**	**(7.2)**	**(18.8)**
– Acquisition of subsidiaries	**–**	**–**	**0.2**	**0.2**
– Exchange movement	**(1.1)**	**(2.7)**	**(3.0)**	**(6.8)**
At 30 September 2014	**92.5**	**141.7**	**49.9**	**284.1**
Accumulated depreciation at 1 October 2013	**15.3**	**106.4**	**39.3**	**161.0**
– Charge for the year	**3.0**	**11.0**	**4.0**	**18.0**
– Disposals	**(2.6)**	**(8.4)**	**(5.9)**	**(16.9)**
– Exchange movement	**(0.5)**	**(2.2)**	**(2.0)**	**(4.7)**
At 30 September 2014	**15.2**	**106.8**	**35.4**	**157.4**
Net book amount at 30 September 2014	**77.3**	**34.9**	**14.5**	**126.7**

Assets held under finance leases with a net book value of £1.5m (2013: £1.9m) are included in the above table.

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2012	99.5	141.9	55.3	296.7
– Additions	1.2	8.9	4.0	14.1
– Disposals	(3.7)	(5.0)	(3.4)	(12.1)
– Acquisition of subsidiaries	–	0.1	0.1	0.2
– Disposal of subsidiaries	(2.8)	(3.9)	(2.5)	(9.2)
– Exchange movement	(0.1)	(0.4)	0.6	0.1
At 30 September 2013	94.1	141.6	54.1	289.8
Accumulated depreciation at 1 October 2012	13.8	102.5	38.2	154.5
– Charge for the year	3.4	11.7	4.9	20.0
– Disposals	(0.9)	(4.3)	(3.0)	(8.2)
– Disposal of subsidiaries	(1.0)	(3.5)	(1.1)	(5.6)
– Exchange movement	–	–	0.3	0.3
At 30 September 2013	15.3	106.4	39.3	161.0
Net book amount at 30 September 2013	78.8	35.2	14.8	128.8

Depreciation expenses of £18.0m (2013: £20.0m) have been charged through selling and administrative expenses (note 3.2).

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8 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of inventories, trade and other receivables and trade and other payables.

Inventories mainly consist of warehouse stock of Sage products, awaiting shipment to business partners or distributors. Trade and other receivables are made up of amounts owed to us by customers and amounts that we pay to our suppliers in advance. Trade receivables are shown net of an allowance for bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which allows readers to better understand any credit risk faced by the Group as a part of everyday trading.

8.1 Inventories

Accounting policy

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.

	2014 £m	2013 £m
Materials	0.7	0.5
Finished goods	1.3	1.7
	2.0	2.2

The Group consumed £12.5m (2013: £14.2m) of inventories, included in cost of sales, during the year. There was no material write down of inventories during the current or prior year.

8.2 Trade and other receivables

Accounting policy

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.

8 Working capital continued

8.2 Trade and other receivables continued

Amounts falling due within one year:	2014 £m	2013 £m
Trade receivables	**311.0**	302.3
Less: provision for impairment of receivables	**(25.5)**	(27.7)
Trade receivables – net	**285.5**	274.6
Other receivables	**20.8**	22.8
Prepayments and accrued income	**15.2**	13.8
	321.5	311.2

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 (excluding prepayments and accrued income) by geographical location:	2014 £m	2013 £m
Europe	**212.8**	203.7
Americas	**70.2**	72.8
AAMEA	**23.3**	20.9
	306.3	297.4

Movements on the Group provision for impairment of trade receivables were as follows:	2014 £m	2013 £m
At 1 October	**27.7**	30.3
Disposal of subsidiaries	**–**	(2.3)
Increase in provision for receivables impairment	**6.4**	10.0
Receivables written-off during the year as uncollectible	**(4.5)**	(6.0)
Unused amounts reversed	**(2.7)**	(3.5)
Exchange movement	**(1.4)**	(0.8)
At 30 September	**25.5**	27.7

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 provision for impairment of receivables.

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

At 30 September 2014, trade receivables of £29.8m (2013: £33.4m) were either partially or fully impaired.

The ageing of these receivables was as follows:	2014 £m	2013 £m
Not due	4.7	3.1
Less than six months past due	7.1	7.3
More than six months past due	18.0	23.0
	29.8	33.4

Trade receivables which were past their due date but not impaired at 30 September 2014 were £33.7m (2013: £46.3m).

The ageing of these receivables was as follows:	2014 £m	2013 £m
Less than six months past due	31.3	41.1
More than six months past due	2.4	5.2
	33.7	46.3

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.

8.3 Trade and other payables

Accounting policy

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables can be analysed as follows:	2014 £m	2013 £m
Trade payables	41.5	46.4
Other tax and social security payable	52.9	63.8
Other payables	71.1	46.5
Accruals	131.8	130.9
	297.3	287.6

9 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes; additionally the Group does operate two small defined benefit schemes in France and Switzerland.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included in the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

Accounting policy

Obligations under defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Group also operates a small defined benefit pension scheme in Switzerland and other post-employment benefit schemes in France. 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. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment.

The 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 should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the net defined benefit liability and the imputed interest on pension plan liabilities comprise the pension element of the net finance cost/income in the income statement.

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 Group adopted IAS 19 (revised), "Employee benefits", in the year. The impact of this is not material to the Group so restated results have not been prepared.

Pension costs included in the Consolidated income statement	Note	2014 £m	2013 £m
Defined contribution schemes		**9.0**	9.2
Defined benefit plans		**2.0**	2.2
	3.3	**11.0**	11.4

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by Ernst & Young in October 2014.

Weighted average principal assumptions made by the actuaries	2014 %	2013 %
Rate of increase in pensionable salaries	2.13	2.90
Rate of increase in pensions in payment and deferred pensions	0.00	0.00
Discount rate	1.70	2.55
Inflation assumption	2.00	1.55

Mortality rate assumptions made by the actuaries	2014 years	2013 years
Average life expectancy for 65-year-old male	22.2	20.8
Average life expectancy for 65-year-old female	24.5	25.0
Average life expectancy for 45-year-old male	42.4	32.9
Average life expectancy for 45-year-old female	45.0	39.2

Amounts recognised in the balance sheet	2014 £m	2013 £m
Present value of funded obligations	(30.8)	(30.3)
Fair value of plan assets	17.2	17.4
Net liability recognised in the balance sheet	(13.6)	(12.9)

Major categories of plan assets as a percentage of total plan assets	2014 £m	2014 %	2013 £m	2013 %
Bonds	9.3	54.1	9.2	52.9
Equities	4.6	26.7	4.8	27.6
Property	–	–	–	–
Other	3.3	19.2	3.4	19.5
	17.2	100.0	17.4	100.0

Expected contributions to post-employment benefit plans for the year ending 30 September 2015 are £1.1m (2013: expected contributions year ending 30 September 2014 £1.6m).

Amounts recognised in the income statement	2014 £m	2013 £m
Net interest costs on obligation	(0.4)	(0.4)
Current service cost	(1.6)	(1.8)
Total included within staff costs	(2.0)	(2.2)

The entire cost is included within selling and administrative expenses.

9 Post-employment benefits continued

Changes in the present value of the defined benefit obligation	2014 £m	2013 £m
At 1 October	(30.3)	(30.8)
Exchange movement	1.8	(1.8)
Disposal	–	2.3
Service cost	(1.6)	(1.8)
Plan participant contributions	(0.6)	(0.7)
Interest cost	(0.8)	(0.8)
Benefits paid	1.3	2.2
Curtailments	–	0.4
Actuarial (loss)/gain on benefit obligation	(0.6)	0.7
At 30 September	**(30.8)**	(30.3)

Changes in the fair value of plan assets	2014 £m	2013 £m
At 1 October	17.4	16.5
Exchange movement	(1.0)	0.5
Interest income	0.4	0.4
Employer's contributions	0.9	0.9
Plan participant contributions	0.6	0.7
Disposal	–	(2.0)
Benefits paid	(1.3)	–
Actuarial gain on plan assets	0.2	0.4
At 30 September	**17.2**	17.4

Analysis of the movement in the balance sheet liability	2014 £m	2013 £m
At 1 October	(12.9)	(14.3)
Exchange movement	0.8	(1.3)
Disposal	–	0.3
Total expense as recognised in the income statement	(2.0)	(2.2)
Benefits paid/curtailments	–	2.6
Contributions paid	0.9	0.9
Actuarial (loss)/gain	(0.4)	1.1
At 30 September	**(13.6)**	(12.9)

History of experience gains and losses	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of defined benefit obligation	**(30.8)**	(30.3)	(30.8)	(29.5)	(26.2)
Fair value of plan assets	**17.2**	17.4	16.5	17.8	14.9
Deficit	**(13.6)**	(12.9)	(14.3)	(11.7)	(11.3)
Experience adjustments on plan liabilities	**(0.6)**	0.7	0.5	(1.5)	0.1
Experience adjustments on plan assets	**0.2**	0.4	2.1	0.5	0.2

Cumulative actuarial gains and losses recognised outside profit or loss	2014 £m	2013 £m
At 1 October	**(0.2)**	(1.3)
Actuarial (loss)/gain recognised in the year (before tax)	**(0.4)**	1.1
At 30 September	**(0.6)**	(0.2)

10 Deferred income tax

Deferred income tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in accounting and tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year-end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Accounting policy

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

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

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.

Tax assets and liabilities are offset when there is a legally enforceable right.

Deferred income tax has been calculated at 20% (2013: 21.0%) 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 2013, which was substantively enacted on 17 July 2013, includes legislation reducing the main rate of UK corporation tax to 21% from 1 April 2014 and a further reduction to 20% from 1 April 2015, both of which were substantively enacted during the year, and therefore have been reflected in the tax balances below.

10 Deferred income tax continued

The movement on the deferred tax account is as shown below:	2014 £m	2013 £m
At 1 October	(4.4)	(19.5)
Income statement credit	7.4	13.7
Disposal/acquisition of subsidiaries	0.3	4.8
Exchange movement	(0.9)	(2.0)
Other comprehensive income/equity movement in deferred tax	0.4	(1.4)
Transfer from current income tax liabilities	–	–
At 30 September	**2.8**	(4.4)

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 2013	(9.0)	27.7	18.7
Income statement credit	(0.2)	1.4	1.2
Disposal/acquisition of subsidiaries	–	0.3	0.3
Reclassification to deferred tax liability	–	2.9	2.9
Change in tax rate	–	0.5	0.5
Other comprehensive income/equity movement in deferred tax	–	0.4	0.4
Exchange movement	0.6	(2.7)	(2.1)
At 30 September 2014	**(8.6)**	**30.5**	**21.9**
Liabilities			
At 1 October 2013	(12.3)	(10.8)	(23.1)
Income statement credit	3.0	3.2	6.2
Reclassification from deferred tax asset	–	(2.9)	(2.9)
Change in tax rate	–	(0.5)	(0.5)
Exchange movement	1.0	0.2	1.2
Reclassification to other deferred tax	4.6	(4.6)	–
At 30 September 2014	**(3.7)**	**(15.4)**	**(19.1)**
Net deferred tax (liability)/asset at 30 September 2014	**(12.3)**	**15.1**	**2.8**

Assets	Intangible assets £m	Other £m	Total £m
At 1 October 2012	(1.2)	11.2	10.0
Income statement credit	3.2	1.5	4.7
Disposal of subsidiaries	–	4.4	4.4
Reclassification to deferred tax liability	(11.2)	14.0	2.8
Reclassification to other deferred tax	0.2	(0.2)	–
Other comprehensive income/equity movement in deferred tax	–	(1.3)	(1.3)
Exchange movement	–	(1.9)	(1.9)
At 30 September 2013	(9.0)	27.7	18.7
Liabilities			
At 1 October 2012	(19.9)	(9.6)	(29.5)
Income statement credit	3.0	6.0	9.0
Disposal of subsidiaries	0.4	–	0.4
Reclassification from deferred tax asset	11.2	(14.0)	(2.8)
Reclassification to other deferred tax	(7.8)	7.8	–
Exchange movement	0.8	(0.9)	(0.1)
Other comprehensive income/equity movement in deferred tax	–	(0.1)	(0.1)
At 30 September 2013	(12.3)	(10.8)	(23.1)
Net deferred tax (liability)/asset at 30 September 2013	(21.3)	16.9	(4.4)

11 Contingent liabilities

In this note we give details of any contingent liabilities that exist at the year-end. The use of the word 'contingent' means that the future obligation to make a payment is in question or the amount which would have to be paid is uncertain, to the extent that it could not be reliably estimated.

Accounting policy

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

The Group had no contingent liabilities at 30 September 2014 (2013: none). At any given time, in the normal course of business, events may arise, including litigation, which may require the Group to consider the recognition criteria for contingent liabilities. Having considered all current facts and circumstances, the Group considers the likelihood of a material outflow of resources to be remote and therefore no amounts are provided or disclosed in these financial statements.

12 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year-end.

Cash generated from operations is the starting point of our cash flow statement on page 109. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of physical cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts and finance lease payments due.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

12.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2014 £m	2013 £m
Profit for the year	187.7	47.5
Adjustments for:		
Income tax	89.8	116.6
Finance income	(2.1)	(1.4)
Finance expenses	23.0	17.8
Amortisation of intangible assets	24.5	28.5
Depreciation of property, plant and equipment	18.0	20.0
Loss on disposal of non-core products	–	184.6
Loss on disposal of property, plant and equipment	0.8	0.8
Loss on disposal of intangible assets	–	0.1
Equity-settled share-based transactions	8.0	2.9
Fair value adjustments and goodwill impairment	44.7	(8.1)
Exchange movement	(11.0)	(3.3)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Decrease in inventories	0.1	0.2
– Increase in trade and other receivables	(20.5)	(18.7)
– Increase in trade and other payables	8.8	20.9
– Increase in deferred income	10.6	9.0
Cash generated from continuing operations	382.4	417.4

12.2 Net debt

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)	2014 £m	2013 £m
Increase in cash in the year (pre-exchange movements)	63.6	31.2
Cash outflow from movement in loans, finance leases and cash collected from customers	(112.8)	(266.0)
Change in net debt resulting from cash flows	(49.2)	(234.8)
Acquisitions	–	(0.2)
Non-cash movements	(0.9)	(0.8)
Exchange movement	(2.8)	13.0
Movement in net debt in the year	(52.9)	(222.8)
Net debt at 1 October	(384.3)	(161.5)
Net debt at 30 September	(437.2)	(384.3)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2013 £m	Cash flow £m	Non-cash movements £m	Exchange movement £m	At 30 September 2014 £m
Cash and cash equivalents	100.8	**46.7**	**–**	**(2.9)**	**144.6**
Bank overdrafts	(17.9)	**16.9**	**–**	**0.1**	**(0.9)**
Cash, cash equivalents and bank overdrafts	82.9	**63.6**	**–**	**(2.8)**	**143.7**
Finance leases due within one year	(1.1)	**1.1**	**(1.1)**	**–**	**(1.1)**
Loans due within one year	(2.1)	**2.1**	**(120.5)**	**(2.9)**	**(123.4)**
Loans due after more than one year	(439.9)	**(99.7)**	**119.6**	**4.6**	**(415.4)**
Finance leases due after more than one year	(0.7)	**(0.8)**	**1.1**	**–**	**(0.4)**
Cash collected from customers	(23.4)	**(15.5)**	**–**	**(1.7)**	**(40.6)**
Total	(384.3)	**(49.2)**	**(0.9)**	**(2.8)**	**(437.2)**

Included in cash above is £40.6m (2013: £23.4m) 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.

12.3 Cash and cash equivalents (excluding bank overdrafts)

Accounting policy

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.

	2014 £m	2013 £m
Cash at bank and in hand	**103.6**	76.2
Cash held on behalf of customers	**40.6**	23.4
Short-term bank deposits	**0.4**	1.2
	144.6	100.8

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

Accounting policy

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.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

12 Cash flow and net debt continued

12.4 Borrowings continued

Current	2014 £m	2013 £m
Bank overdrafts	**0.9**	17.9
Finance lease obligations	**1.1**	1.0
Unsecured loans	**123.4**	2.1
	125.4	21.0

Non-current	2014 £m	2013 £m
US senior loan notes – unsecured	**307.4**	430.3
Bank loans – unsecured	**108.0**	9.6
Finance lease obligations	**0.4**	0.7
	415.8	440.6

Included in loans above is £538.8m (2013: £442.0m) of unsecured loans (after unamortised issue costs). These borrowings were utilised for acquisitions and managing the Group's minimum leverage target of 1x net debt to EBITDA via its share buyback programme.

The Group has US$300.0m (£185.0m, 2013: £185.3m) of US senior loan notes, which were issued into the US private placement market in 2010. These notes mature US$200.0m (£123.4m, 2013: £123.5m) in 2015, US$50.0m (£30.8m, 2013: £30.9m) in 2016 and US$50.0m (£30.8m, 2013: £30.9m) in 2017 and carry fixed interest coupons of 4.39%, 4.78% and 5.15% respectively.

A further US$400.0m (£246.8m, 2013: £247.0m) of US senior loan notes were issued into the US private placement market during 2013. These notes mature US$50.0m (£30.8m, 2013: £30.9m) in 2018, US$150.0m (£92.6m, 2013: £92.6m) in 2020, US$150.0m (£92.6m, 2013: £92.6m) in 2023 and US$50.0m (£30.8m, 2013: £30.9m) in 2025 and carry fixed interest coupons of 2.60%, 3.08%, 3.71% and 3.86% respectively.

There were £110.5m drawings (2013: £9.6m) under the multi-currency revolving credit facility of £509.8m (2013: £346.2m) expiring on 26 June 2019, which consists both of US$551.0m (£339.9m, 2013: £167.3m) and of €218.0m (£169.9m, 2013: £178.9m) tranches.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £3.5m (2013: £2.0m). The Group has in the year incurred total issue costs amounting to £2.6m (2013: £1.3m) in respect of the refinancing of its revolving credit facility renewal. These issue costs were paid during the year ended 30 September 2014. These costs are allocated to the income statement over the term of the facility using the effective interest method.

13 Financial instruments

This note shows details of the fair value and carrying value of short and long term borrowings, trade and other payables, trade and other receivables, short-term bank deposits, cash at bank and in hand and other financial liabilities. These items are all classified as "financial instruments" under accounting standards. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also shows the ageing of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates.

Accounting policy

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provision of the instrument.

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.

The fair value of the long-term borrowings is determined by reference to interest rate movements on the US $ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

	Note	2014 Book value £m	2014 Fair value £m	2013 Book value £m	2013 Fair value £m
Long-term borrowings	12.4	**(415.8)**	**(418.0)**	(440.6)	(435.2)
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	**(125.4)**	**(125.4)**	(21.0)	(21.0)
Trade and other payables excluding other tax and social security	8.3	**(244.4)**	**(244.4)**	(223.8)	(223.8)
Trade and other receivables excluding prepayments and accrued income	8.2	**306.3**	**306.3**	297.4	297.4
Short-term bank deposits	12.3	**0.4**	**0.4**	1.2	1.2
Cash at bank and in hand	12.3	**144.2**	**144.2**	99.6	99.6
Other financial liabilities	13.4	**(60.1)**	**(60.1)**	(84.2)	(84.2)

13.2 Maturity of financial liabilities

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

2014	Borrowings £m	Trade and other payables £m	Other financial liabilities £m	Total £m
In less than one year	**125.4**	**297.3**	**60.1**	**482.8**
In more than one year but not more than two years	**30.8**	**–**	**–**	**30.8**
In more than two years but not more than five years	**172.4**	**–**	**–**	**172.4**
In more than five years	**216.1**	**–**	**–**	**216.1**
	544.7	**297.3**	**60.1**	**902.1**

2013	Borrowings £m	Trade and other payables £m	Other financial liabilities £m	Total £m
In less than one year	21.0	287.6	30.0	338.6
In more than one year but not more than two years	133.8	–	–	133.8
In more than two years but not more than five years	92.6	–	54.2	146.8
In more than five years	216.2	–	–	216.2
	463.6	287.6	84.2	835.4

13 Financial instruments continued

13.3 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:

	2014 £m	2013 £m
Expiring in more than two years but not more than five years	**399.3**	336.6

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.

13.4 Other financial liabilities

Accounting policy

The Group 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.

Where put and call agreements are in place in respect of shares held by a non-controlling interest, the put element is accounted for as a financial liability. The amount that may become payable under the option on exercise is initially recognised at present value with a corresponding charge directly to equity. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the income statement.

	2014 £m	2013 £m
Current liabilities : Close period share buyback programme	**(60.1)**	(30.0)
Non-current liabilities: Put and call arrangement to acquire non-controlling interest	**–**	(54.2)
Total other financial liabilities	**(60.1)**	(84.2)

The fair value of the close period share buyback programme has been calculated based on the value of the contractual legal agreement with Citigroup Global Markets Limited, which is also equal to the book value.

The put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic in Brazil was settled during 2014 for consideration of £50.4m, increasing the Group's ownership of the Brazilian sub-Group to 100%. In the prior year, the liability was estimated at £55.4m, which was £54.2m after discounting to the present value of the estimated redemption amount. The redemption amount was calculated based on a multiple of expected EBITDA for the year ending 31 December 2014. Movements on charging the discount of £0.8m (2012: £1.2m) have been recognised within finance costs.

	2014 £m	2013 £m
Opening fair value at 1 October	**54.2**	68.3
Consideration paid	**(50.4)**	–
Imputed interest recognised in the Consolidated income statement within finance costs	**0.8**	1.2
Loss/(gain) on fair value adjustments	**0.4**	(13.5)
Exchange movement	**(5.0)**	(1.8)
Closing fair value at 30 September	**–**	54.2

13.5 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.

	2014 Income (losses)/gains £m	2014 Equity (losses)/gains £m	2013 Income (losses)/gains £m	2013 Equity (losses)/gains £m
1% increase in market interest rates	**(2.5)**	**(2.5)**	(3.6)	(3.6)
1% decrease in market interest rates	**2.5**	**2.5**	3.6	3.6
10% strengthening of sterling versus the US Dollar	**(3.9)**	**(17.4)**	11.7	(9.3)
10% strengthening of sterling versus the Euro	**(5.9)**	**(28.0)**	(3.1)	(23.8)
10% weakening of sterling versus the US Dollar	**4.3**	**19.2**	(12.9)	10.2
10% weakening of sterling versus the Euro	**6.5**	**30.8**	3.4	26.1

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

	2014 £m	2013 £m
In less than one year	**1.1**	1.1
In more than one year but not more than five years	**0.4**	0.7
	1.5	1.8
Future finance charges on finance leases	**–**	(0.1)
Present value of finance lease liabilities	**1.5**	1.7

13.7 Hedge accounting

Accounting policy

The Group 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 is determined to be an effective hedge and 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 recycled to the income statement from equity.

14 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. We incur a cost in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post year-end. Dividends are paid as an amount per ordinary share held.

Accounting policy

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.

14 Equity continued

14.1 Ordinary shares

Issued and fully paid	2014 shares	2014 £m	2013 shares	2013 £m
At 1 October	**1,114,135,420**	**11.7**	1,329,517,570	13.3
Proceeds from shares issued	**1,756,627**	**–**	3,792,153	–
Shares cancelled	**–**	**–**	(159,525,800)	(1.6)
Share consolidation	**–**	**–**	(59,648,503)	–
At 30 September	**1,115,892,047**	**11.7**	1,114,135,420	11.7

There was a share consolidation on 10 June 2013 following approval by shareholders. The share consolidation replaced every 81 existing ordinary shares of 1 pence each with 77 new ordinary shares of $1^{4}/_{77}$ pence each.

Potential issues of ordinary shares

Executive Share Option Scheme

Certain senior executives hold a total of 2,338,990 (2013: 3,492,263) options to subscribe for shares in the Company at prices ranging from 171.0p to 270.0p under the share option schemes approved by shareholders.

Under the above scheme, 1,247,775 $1^{4}/_{77}$ p ordinary shares were issued during the year for aggregate proceeds of £2.7m.

Performance Share Plan

Under the Group's Performance Share Plan 5,519,987 (2013: 6,265,091) awards were made during the year.

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 1,151,427 (2013: nil) awards were made.

Savings-related Share Option Scheme

In addition, 1,532,520 (2013: 757,980) options were granted under the terms of the Savings-related Share Option Scheme.

Under the above scheme, 508,852 $1^{4}/_{77}$ p ordinary shares were issued during the year for aggregate proceeds of £1m.

14.2 Share-based payments

Accounting policy

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.

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 total charge for the year relating to employee share-based payment plan was £8.0m (2013: £2.9m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £7.8m (2013: £3.0m). 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.

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

	2014 Number '000s	2014 Weighted average exercise price £	2013 Number '000s	2013 Weighted average exercise price £
Outstanding at 1 October	3,492	2.33	6,818	2.21
Forfeited	(63)	2.29	(132)	2.08
Exercised	(1,090)	2.20	(3,194)	2.08
Outstanding at 30 September	2,339	2.41	3,492	2.33
Exercisable at 30 September	2,339	2.41	3,492	2.33

	2014				2013			
	Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years		Weighted average exercise price £	Number of shares '000s	Weighted average remaining life years	
Range of exercise prices £			Expected	Contractual			Expected	Contractual
1.71 – 2.70	2.41	2,339	–	1.4	2.33	3,492	–	2.1

The weighted average share price during the period for options exercised over the year was 387.8p (2013: 344.6p).

The Sage Group Performance Share Plan

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.

Awards prior to 2013

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 total shareholder return (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 from 2013 onwards

The performance shares are subject to both performance conditions and a TSR target. Performance conditions are weighted one third on the achievement of an EPS target, and one third on the achievement of an organic revenue growth target. The remaining one third is based on a TSR target.

The EPS vesting percentage is based on compound EPS growth. Where compound EPS growth is between 6% and 12%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where compound EPS growth is between 12% and 15%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%.

14 Equity continued

14.2 Share-based payments continued

The organic revenue growth target is based on the Company's compound annual organic revenue growth. Where growth is between 4% and 8% the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where the Company's compound organic revenue growth is between 8% and 10%, the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. In order for the organic revenue growth target proportion to vest, the EBITA margin in the financial year ending 30 September 2016 must not be less than that of the EBITA margin for the financial year ending 30 September 2013.

The final third of the award is the performance target relating to TSR which measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. The TSR vesting percentage may only exceed 26.7% ("Stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "Stretch" level.

The comparator group for awards in 2014 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

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

Grant date	**January 2014**	**March 2014**	**March 2014**	**August 2014**	**August 2014**	**September 2014**	**September 2014**
Share price at grant date	**£4.12**	**£4.20**	**£4.20**	**£3.67**	**£3.67**	**£3.70**	**£3.70**
Exercise price	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**
Number of employees	**1**	**118**	**145**	**2**	**1**	**1**	**1**
Shares under award	**116,873**	**4,654,084**	**690,670**	**30,600**	**6,352**	**15,570**	**5,838**
Vesting period (years)	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Expected volatility	**22%**	**22%**	**22%**	**21%**	**21%**	**20%**	**20%**
Award life (years)	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Expected life (years)	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Risk free rate	**1.10%**	**1.10%**	**1.10%**	**1.19%**	**1.19%**	**0.92%**	**0.92%**
Expected dividends expressed as a dividend yield	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Fair value per award	**£3.491**	**£3.623**	**£4.194**	**£2.970**	**£3.670**	**£2.993**	**£3.698**

Grant date	March 2013	March 2013	June 2013	August 2013	August 2013
Share price at grant date	£3.46	£3.46	£3.34	£3.52	£3.52
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00
Number of employees	101	147	1	1	1
Shares under award	5,248,868	801,480	186,400	23,619	4,724
Vesting period (years)	3	3	3	3	3
Expected volatility	23%	23%	23%	22%	22%
Award life (years)	3	3	3	3	3
Expected life (years)	3	3	3	3	3
Risk free rate	0.26%	0.26%	0.59%	0.66%	0.66%
Expected dividends expressed as a dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Fair value per award	£2.753	£3.460	£2.637	£2.737	£3.520

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:

	2014 Number '000s	2014 Weighted average exercise price £	2013 Number '000s	2013 Weighted average exercise price £
Outstanding at 1 October	16,739	–	19,128	–
Awarded	5,520	–	6,265	–
Forfeited	(8,347)	–	(8,654)	–
Exercised	(21)	–	–	–
Outstanding at 30 September	13,891		16,739	–
Exercisable at 30 September	–	–	–	–

	2014				2013			
			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	–	13,891	1.6	1.6	–	16,739	1.4	1.4

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 2013	January 2014
Share price at grant date	£3.72	£4.12
Exercise price	£0.00	£0.00
Number of employees	7	13
Shares under award	800,881	350,546
Vesting period (years)	2	3
Expected volatility	20%	22%
Award life (years)	2	3
Expected life (years)	2	3
Risk free rate	0.60%	1.10%
Expected dividends expressed as a dividend yield	–	–
Fair value per award	£3.721	£4.107

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.

14 Equity continued

14.2 Share-based payments continued

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

	2014 Number '000s	2014 Weighted average exercise price £	2013 Number '000s	2013 Weighted average exercise price £
Outstanding at 1 October	**720**	**–**	720	–
Awarded	**1,151**	**–**	–	–
Forfeited	**(420)**	**–**	–	–
Outstanding at 30 September	**1,451**	**–**	720	–
Exercisable at 30 September	**–**	**–**	–	–

	2014				2013			
	Weighted average exercise price	Number of shares	Weighted average remaining life years		Weighted average exercise price	Number of shares	Weighted average remaining life years	
Range of exercise prices	£	'000s	Expected	Contractual	£	'000s	Expected	Contractual
N/A	**–**	**1,451**	**1.9**	**1.9**	–	720	0.4	0.4

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

The Group operates an approved savings-related share option scheme for UK employees. The 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.

14.3 Other reserves

	Translation reserve £m	Merger reserve £m	Other reserve £m	Total other reserves £m
At 1 October 2012	83.4	61.1	(68.0)	76.5
Exchange differences on translating foreign operations	28.4	–	–	28.4
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	(44.5)	–	–	(44.5)
At 30 September 2013	**67.3**	**61.1**	**(68.0)**	**60.4**
Exchange differences on translating foreign operations	**(39.6)**	**–**	**–**	**(39.6)**
Purchase of non-controlling interest	**–**	**–**	**68.0**	**68.0**
At 30 September 2014	**27.7**	**61.1**	**–**	**88.8**

Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

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. This was acquired in 2014. See note 13.4.

14.4 Retained earnings

The actuarial loss of £0.4m (2013: gain of £1.1m) is made up of a loss of £0.6m (2013: gain of £0.7m) on post-employment benefits (note 9) and a gain of £0.2m (2013: gain of £0.4m) on other long-term employee benefits (note 9).

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 24,206,805 shares (2013: 77,254,057) at a cost of £89.5m (2013: £251.0m) representing 2% of issued share capital. Shares were repurchased at a weighted average price of 369.8p per share; the highest and lowest prices paid for these shares were 399.0p per share and 312.3p per share respectively.

Close period share buyback programme

The close period buyback programme for £60.1m (2013: £30.0m) relates to the purchase of the Company's own shares. Citigroup Global Markets Limited has been appointed to manage the irrevocable buyback programme during the close period which commenced on 1 October 2014 and will run up until 3 December 2014.

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 5,407,155 ordinary shares in the Company (2013: 5,428,407) at a cost of £0.9m (2013: £0.9m) and a nominal value of £56,880 (2013: £54,284).

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 January 2013 the Company gifted 5,000,000 shares from purchased treasury shares to the Trust.

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 2014 was £19.8m (2013: £17.9m).

14.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2014 £m	2013 £m
Final dividend paid for the year ended 30 September 2013 of 7.44p per share	**81.2**	–
(2013: final dividend paid for the year ended 30 September 2012 of 6.67p per share)		79.3
Interim dividend paid for the year ended 30 September 2014 of 4.12p per share	**45.0**	–
(2013: interim dividend paid for the year ended 30 September 2013 of 3.69p per share)		42.8
Special dividend paid of 17.1p per share	**–**	198.7
	126.2	320.8

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2014 of 8.00p per share which will absorb an estimated £86.1m of shareholders' funds. It will be paid on 6 March 2015 to shareholders who are on the register of members on 13 February 2015. These financial statements do not reflect this dividend payable.

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.

	2014 £m	2013 £m
At 1 October	**(1.0)**	(2.1)
Non-controlling interest's share of profit of the year	**0.9**	1.1
Purchase of non-controlling interest	**0.1**	–
At 30 September	**–**	(1.0)

15 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed in detail and the effects on the results of the Group are highlighted.

Accounting policy

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 total 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 such as legal or professional fees are expensed to the income statement as incurred.

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 shares 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.

15.1 Acquisitions made during the year

Acquisition of Exact

On 15 September 2014 the Group acquired 100% of the share capital of Exact Software Deutschland GmbH ("Exact"), a provider of payroll services and software, for a cash consideration of £12.8m. As a result of the acquisition the Group expects to become one of the leading providers of payroll software solutions in Germany.

Other

On 14 August 2014 the Group acquired 100% of the share capital of Sytax Systemas S.A in Brazil for consideration of £0.6m.

Details of net assets acquired and goodwill are as follows:

Summary of acquisitions	£m
Purchase consideration	
Cash	**13.4**
Deferred/contingent consideration	**–**
Total purchase consideration	**13.4**
Fair value of net identifiable assets	**(5.8)**
Goodwill	**7.6**

Fair value of acquisitions	Exact £m	Other £m	Total £m
Intangible assets	6.6	–	6.6
Property, plant and equipment	0.2	–	0.2
Trade and other receivables	0.5	–	0.5
Cash and cash equivalents	2.7	–	2.7
Trade and other payables	(1.5)	–	(1.5)
Deferred revenue	(2.7)	–	(2.7)
Total net identifiable assets acquired	5.8	–	5.8
Goodwill	7.0	0.6	7.6
Consideration satisfied by:			
Cash	12.8	0.6	13.4
Deferred/contingent consideration	–	–	–
Total purchase consideration	12.8	0.6	13.4

The outflow of cash and cash equivalents on the acquisitions is calculated as follows:			
Cash consideration	12.8	0.6	13.4
Cash and cash equivalents acquired	(2.7)	–	(2.7)
Deferred consideration, paid on prior period acquisitions	–	3.4	3.4
Net cash outflow in respect of acquisitions	10.1	4.0	14.1

In addition, the remaining non-controlling interest 25% share in Folhamatic in Brazil was settled during 2014. See note 13.4 for more details.

15.2 Contribution of acquisitions

From the dates of the acquisitions to 30 September 2014, the acquisitions contributed £0.4m to revenue and £0.0m to profit before income tax. Had these acquisitions occurred at the beginning of the financial year, contribution to Group revenue would have been £9.6m and Group profit before income tax would have increased by £0.4m.

15.3 Costs relating to business combinations in the year

Costs relating to business combinations in the year of £2.4m (2013: £0.1m) 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 services.

15.4 Disposals made during the year

On 11 March 2014, Sage Software India Pvt Ltd ("Sage India") sold trading assets with a value of less than £0.1m to Greytrix Consulting Private Limited ("Greytrix") for consideration of less than £0.1m. As part of this transaction Greytrix became the distributor of Sage products in India. No further disclosures are presented within these financial statements.

15.5 Acquisitions made after the year-end but before sign off of Annual Report

Acquisition of PayChoice.

On 16 October 2014 the Group acquired PAI Group, Inc. ("PayChoice"), a provider of payroll and HR services to small and medium sized businesses in North America, for a cash consideration of £75.2m. The acquisition strengthens Sage's position in the large and growing US payroll market.

The net identifiable assets were recognised at their provisional fair values. The allocation of the consideration is subject to a full purchase price allocation exercise, which due to the timing of the acquisition has not yet been completed. The residual excess over the net assets acquired has been provisionally recognised as goodwill. Paychoice's product portfolio provides easy to use online payroll solutions to small and medium sized businesses, and strengthens the Sage value proposition to customers with a more robust and comprehensive offering. The combined portfolio provides attractive growth opportunities, particularly through new customer acquisitions and cross-sell to the combined customer base.

15 Acquisitions and disposals continued

15.5 Acquisitions made after the year-end but before sign off of Annual Report continued

Details of net assets acquired and goodwill are as follows:

Summary of acquisitions	£m
Purchase consideration	
Cash	75.2
Deferred/contingent consideration	–
Total purchase consideration	75.2
Fair value of net identifiable liabilities	22.5
Goodwill	**97.7**

Provisional fair value of acquisitions	£m
Property, plant and equipment	1.0
Other non-current assets	0.7
Trade and other receivables	1.6
Cash and cash equivalents	0.9
Trade and other payables	(3.9)
Current borrowings	(2.6)
Non-current borrowings	(19.6)
Provisions	(0.6)
Total net identifiable liabilities acquired	**(22.5)**
Goodwill	97.7
Consideration satisfied by:	
Cash	75.2
Deferred/contingent consideration	–
Total purchase consideration	**75.2**

The outflow of cash and cash equivalents on the acquisitions is calculated as follows:	
Cash consideration	75.2
Cash and cash equivalents acquired	(0.9)
Borrowings acquired	22.2
Deferred consideration, paid on prior period acquisitions	–
Net cash outflow in respect of acquisitions	**96.5**

16 Related party transactions

This note discloses any transaction by the Group with related parties, which are classified as companies or individuals who have an interest in the Group, including joint ventures, associated undertakings, investments and key management personnel.

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 3.3.

Supplier transactions occurred during the year between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies, and Ivan Epstein, Chief Executive Officer, AAMEA. These transactions relate to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the year £3.2m (2013: £1.1m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2014 (2013: £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 £1.1m (2013: £0.2m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2014 (2013: £nil).

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

17 Events after the reporting period

Where the Group receives information in the period between 30 September 2014 and the date of the issue of this report about conditions related to certain events that existed at the year-end, our disclosures are updated in light of the new information.

17.1 Share buyback

On 30 September 2014 the Group appointed Citigroup Global Markets Limited to manage an irrevocable buyback programme during the close period which commenced on 1 October 2014 and will run up to 3 December 2014. From 1 October 2014 to 27 November 2014, the latest practical date prior to publication of the Annual Report & Accounts, 3,457,020 ordinary shares of $1\frac{4}{77}$p each were repurchased through Citigroup Global Markets Limited at a weighted average price of 363.8p per share. The highest and lowest prices paid for these shares were 390.7p per share and 347.0p 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 27 November 2014 is 1,076,443,965.

17.2 Acquisitions made after the year but before sign off of annual report

See note 15.5.

17.3 Appointment of CEO

Guy Berruyer retired as CEO and Stephen Kelly was appointed as CEO on 5 November 2014.

18 Principal subsidiaries

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group. We have a large number of subsidiaries and so for practical reasons in this section only the principal subsidiaries are listed in full.

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. 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	Direct or indirect holding
Sage (UK) Ltd	UK	Indirect
Sage Pay Europe Limited	UK	Indirect
Sage Hibernia Limited	Ireland	Indirect
Sage Pay Ireland Limited	Ireland	Indirect
Sage SAS	France	Indirect
Sage Holding France SAS	France	Indirect
Sage Management and Services GmbH	Germany	Indirect
Sage Bäurer GmbH	Germany	Indirect
Sage Schweiz AG	Switzerland	Indirect
Sage SP, S.L.	Spain	Indirect
Sage Logic Control, S.L.	Spain	Indirect
Sage sp. z.o.o.	Poland	Indirect
Sage Portugal – Software S.A.	Portugal	Indirect
Sage Software, Inc.	US	Indirect
Sage Payment Solutions, Inc.	US	Indirect
IOB Informações Objetivas Publicações Jurídicas Ltda.	Brazil	Indirect
Sage Brasil Software S.A.	Brazil	Indirect
Sage Software Canada Ltd	Canada	Indirect
Sage South Africa (Pty) Ltd	South Africa	Direct
Micropay Pty Ltd	Australia	Indirect
Handisoft Software Pty Ltd	Australia	Indirect
Sage Business Solutions Pty Ltd	Australia	Indirect
Sage Software Asia Pte Ltd	Singapore	Indirect
Sage Software Sdn Bhd	Malaysia	Indirect

Contents
Company financial statements

Report on the parent company financial statements

Our opinion

In our opinion, The Sage Group plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 30 September 2014;
- 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.

What we have audited

The Sage Group plc's financial statements comprise:

- the company balance sheet as at 30 September 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 96, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of The Sage Group plc for the year ended 30 September 2014.

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

3 December 2014

(a) 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.

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

Company balance sheet

At 30 September 2014

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

	Note	2014 £m	2013 £m
Fixed assets: investments	2	**3,088.2**	3,082.6
Current assets			
Cash at bank and in hand	3	**0.9**	4.5
Debtors	4	**506.2**	43.0
		507.1	47.5
Creditors: amounts falling due within one year			
Trade and other payables	5	**(654.3)**	(354.4)
Net current liabilities		**(147.2)**	(306.9)
Total assets less current liabilities		**2,941.0**	2,775.7
Creditors: amounts falling due after more than one year	8	**(61.6)**	(194.0)
Net assets		**2,879.4**	2,581.7
Capital and reserves			
Called up share capital	9.1	**11.7**	11.7
Share premium account	9.2	**535.9**	532.2
Other reserves	9.2	**(87.2)**	2.2
Profit and loss account	9.2	**2,419.0**	2,035.6
Total shareholders' funds		**2,879.4**	2,581.7

The financial statements on pages 158 to 164 were approved by the Board of Directors on 3 December 2014 and are signed on their behalf by:

S Hare,
Chief Financial Officer

Company accounting policies

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, 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.

Foreign currencies

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.

Investments

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

Parent Company profit and loss account

The amount of profit for the financial year before dividends within the accounts of the parent Company is £538.0m (2013: £2,170.7m). 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.

Auditors' remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £27,000 (2013: £26,000).

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.

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

1 Dividends

	2014 £m	2013 £m
Final dividend paid for the year ended 30 September 2013 of 7.44p per share	**81.2**	
(2013: final dividend paid for the year ended 30 September 2012 of 6.67p per share)		79.3
Interim dividend paid for the year ended 30 September 2014 of 4.12p per share	**45.0**	
(2013: interim dividend paid for the year ended 30 September 2013 of 3.69p per share)		42.8
Special dividend paid of 17.1p per share		198.7
	126.2	320.8

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2014 of 8.00p per share which will absorb an estimated £86.1m of shareholders' funds. It will be paid on 6 March 2015 to shareholders who are on the register of members on 13 February 2015. These financial statements do not reflect this dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2013	3,218.4
Increase in year	5.6
Disposals	–
At 30 September 2014	**3,224.0**
Provision for diminution in value	
At 1 October 2013	135.8
Provision in year	–
At 30 September 2014	**135.8**
Net book value	
At 30 September 2014	**3,088.2**
At 30 September 2013	3,082.6

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 2014, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly owned. 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.

All operating subsidiaries' results are included in the consolidated financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference of 31 December due to Brazilian statutory requirements.

3 Cash at bank and in hand

	2014 £m	2013 £m
Cash at bank and in hand	**0.9**	4.5

4 Debtors

	2014 £m	2013 £m
Amounts owed by Group undertakings	**505.9**	43.0
Other debtors	**0.3**	–
	506.2	43.0

5 Creditors: amounts falling due within one year

	2014 £m	2013 £m
Bank loans and overdrafts	**0.9**	0.4
Amounts owed to Group undertakings	**465.2**	317.4
Other creditors	**60.1**	30.0
Accruals and deferred income	**4.7**	6.6
US senior bank loans -unsecured	**123.4**	–
	654.3	354.4

Other creditors relate to outstanding liabilities of £60.1m (2013: £30.0m) arising under an irrevocable close period buyback agreement for the purchase of the Company's own shares.

6 Operating lease commitments

The Company had no operating lease commitments during the year (2013: £nil).

7 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 September 2014 (2013: none).

8 Creditors: amounts falling due in more than one year

	2014 £m	2013 £m
In more than two years but not more than five years		
US senior loan notes – unsecured	**61.6**	184.4
Bank loans – unsecured	**–**	9.6
	61.6	194.0

Included in loans above is £185.0m (2013: £184.4m) of unsecured loans (after unamortised issue costs).

The Company has US$300.0m (£185.1m, 2013: £185.3m) of US senior loan notes, which were issued into the US private placement market in 2010. These notes mature US$200.0m (£123.4m, 2013: £123.5m) in 2015, US$50.0m (£30.8m, 2013: £30.9m) in 2016 and US$50.0m (£30.8m, 2013: £30.9m) in 2017 and carry interest coupons of 4.39%, 4.78% and 5.15% respectively.

In 2013 there were £9.6m drawings under the multi-currency revolving credit facility of £346.2m expiring on 31 August 2015. In 2014 the multi-currency revolving credit facility was refinanced in a subsidiary of the parent company (Sage Treasury Company Limited).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £0.1m (2013: £0.9m). The Company has in the year written off remaining issue costs amounting to £0.5m in respect of the refinancing of its revolving credit facility in a subsidiary of the parent company.

9 Equity

9.1 Called up share capital

Issued and fully paid	2014 shares	2014 £m	2013 shares	2013 £m
At 1 October	**1,114,135,420**	**11.7**	1,329,517,570	13.3
Proceeds from shares issued	**1,756,627**	**–**	3,792,153	–
Share consolidation	**–**	**–**	(59,648,503)	–
Shares cancelled	**–**	**–**	(159,525,800)	(1.6)
At 30 September	**1,115,892,047**	**11.7**	1,114,135,420	11.7

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".

9.2 Reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 October 2013	(60.5)	61.1	1.6	2.2	532.2	2,035.6	2,570.0
New shares issued	**–**	**–**	**–**	**–**	**3.7**	**–**	**3.7**
Utilisation of treasury shares	**0.1**	**–**	**–**	**0.1**	**–**	**(0.1)**	**–**
Purchase of treasury shares	**(89.5)**	**–**	**–**	**(89.5)**	**–**	**–**	**(89.5)**
Expenses related to purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Close period share buyback programme	**–**	**–**	**–**	**–**	**–**	**(30.1)**	**(30.1)**
Profit for the financial year	**–**	**–**	**–**	**–**	**–**	**538.0**	**538.0**
Dividends paid to owners of the Company	**–**	**–**	**–**	**–**	**–**	**(126.2)**	**(126.2)**
Equity-settled transactions	**–**	**–**	**–**	**–**	**–**	**2.0**	**2.0**
At 30 September 2014	**(149.9)**	**61.1**	**1.6**	**(87.2)**	**535.9**	**2,419.0**	**2,867.7**

Treasury shares

Purchase of treasury shares

During the year the Company purchased 24,206,805 shares (2013: 77,254,057) at a cost of £89.5m (2013: £251.0m). Shares were repurchased at a weighted average price of 369.8p per share; the highest and lowest prices paid for these shares were 399.0p per share and 312.3p per share respectively. Shares purchased under the Group's buyback programme are retained in issue until cancelled and represent a deduction from equity attributable to owners of the parent. During the year no treasury shares were cancelled. At 30 September 2014, 36,065,411 shares were held as treasury shares, representing 3.2% of issued share capital.

Close period share buyback programme

The close period buyback programme for £60.1m (2013: £30.0m) relates to the purchase of the Company's own shares. Citigroup Global Markets Limited has been appointed to manage the irrevocable buyback programme during the close period which commenced on 1 October 2014 and will run up until 3 December 2014.

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 5,407,155 ordinary shares in the Company (2013: 5,428,407) at a cost of £0.9m (2013: £0.9m) and a nominal value of £56,880 (2013: £54,284).

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 January 2013 the Company gifted 5,000,000 shares from purchased treasury shares to the Trust.

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 2014 was £19.8m (2013: £17.9m).

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.

11 Post-balance sheet events

For details refer to note 17 in the Group financial statements.

Shareholder information

Financial calendar

Annual General Meeting	3 March 2015
Dividend payments	
Final payable – year ended 30 September 2014	6 March 2015
Interim payable – period ending 31 March 2015	5 June 2015
Results announcements	
Interim results – period ending 31 March 2015	6 May 2015
Final results – year ending 30 September 2015	2 December 2015

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, where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11 character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

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

Advisers

Corporate brokers and financial advisers

Citigroup Global Markets, 33 Canada Square, Canary Wharf, London, E14 5LB

Solicitors

Allen & Overy LLP, 1 Bishops Square, London, E1 6AD

Principal Bankers

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Independent auditors

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

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Calls to this number cost 8p per minute plus network extras. 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.sage.com/investors.

Investor enquiries

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

Murdo Montgomery

Director of Investor Relations

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The Sage Group plc

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Company number 2231246

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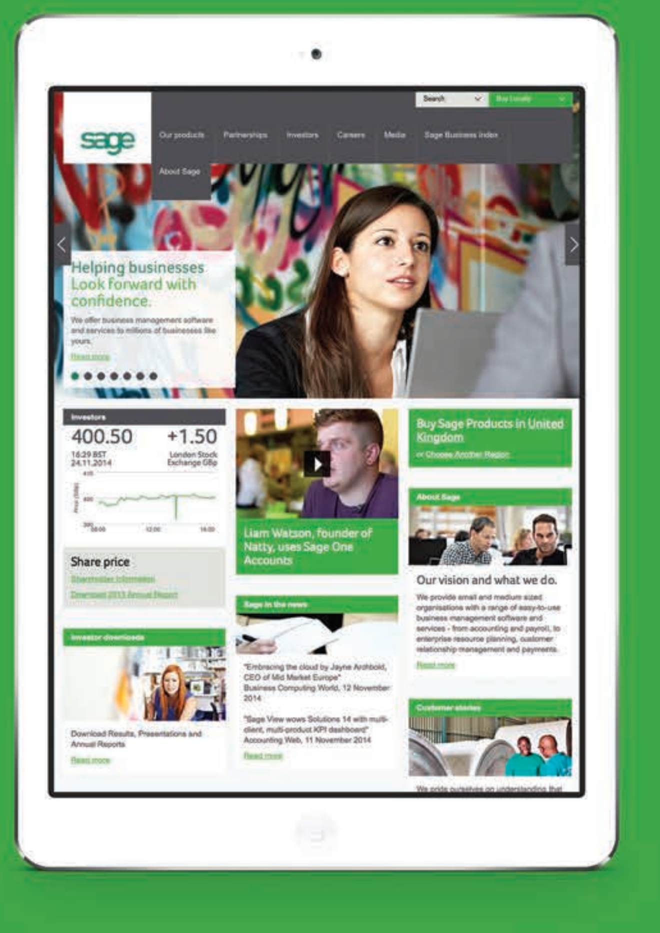

sage

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