Slower H1 recurring revenue: stronger H2 outlook

Operating performance overview

- No material changes to the financial information or guidance contained in the announcement made on 13 April 2018, with the exception of cash conversion, which has improved to 99%;
- Organic[1] revenue growth of 6.3% (H1 17: 7.4%), reflecting recurring revenue growth of 6.4% (H1 17: 11.1%), underpinned by software subscription growth of 25.3% (H1 17: 30.6%) and software subscription penetration of 44% (H1 17: 37%). SSRS revenue growth of 7.1% (H1 17: decline of 7.3%) and processing revenue growth of 2.1% (H1 17: 11.3%).
- Continuing momentum in Sage Business Cloud, with annualised recurring revenue (ARR) of £336m, growing at 57%;
- Organic operating profit margin[2] of 24.5% consistent with front-loading investment in H1 and reduction in G&A expense to 13.8% (H1 17: 15.2[3]%);
- Strong cash conversion of 99%, with free cash flow of 17% of revenue, and interim dividend of 5.65p (8.2% increase), reinforcing business model fundamentals;
- As announced on 13 April 2018, FY18 guidance revised to around 7% organic revenue growth from around 8% organic revenue growth and unchanged organic operating profit margin of around 27.5%, with clear plans in place to meet FY18 guidance.

FINANCIAL SUMMARY	H1 18	H1 17	Change
Organic revenue[4]	**£908m**	**£854m**	**6.3%**
- Recurring revenue	£707m	£665m	6.4%
- Processing revenue	£43m	£42m	2.1%
- SSRS revenue	£158m	£147m	7.1%
Underlying operating profit[5]	£222m	£224m	**(0.7%)**
Underlying operating profit margin	24.5%	25.3%	**(80bps)**
Underlying basic EPS	14.25p	14.12p	**0.9%**
Underlying adjusted EPS[6]	14.25p	12.33p	**15.5%**
Underlying cash conversion	99%	104%	**(500bps)**
Ordinary dividend per share	5.65p	5.22p	**8.2%**

STATUTORY SUMMARY	H1 18	H1 17	Change
Revenue	£899m	£840m	**7.1%**
Operating profit	£186m	£180m	**3.1%**
Profit before tax	£171m	£180m	**(5.0%)**
Basic EPS (total operations)	12.50p	13.54p	**(7.6%)**

[1] Adjustments are made to the comparative period to present acquired businesses as if these had been part of the Group throughout the period. See a full definition of organic revenue and underlying revenue in appendix II.
[2] Organic operating profit margin is presented for the current period only to allow comparability to current period underlying operating profit margin.
[3] The H1 17 comparative is stated on a continuing basis.
[4] All revenue numbers throughout this document are organic unless otherwise stated.
[5] In FY18, there is no difference between organic and underlying operating profit margin.
[6] Underlying adjusted EPS neutralises the impact of significant acquisitions and disposals by excluding current period acquisitions and current and prior period disposals and by including prior year acquisitions in the comparable period based on the margin achieved by the acquired business in the prior year for the post-acquisition period.

NB: As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.

Progress in the year to date

- Revenue growth in H1 18 was impacted by inconsistent operational execution in driving recurring revenue growth, particularly in the UK, and some contract licence slippage in the Enterprise segment in Africa Middle East and USA;
- The root causes of execution issues have been identified and management has already made changes, in order to drive subscription-based revenue acceleration in H2 18 and beyond, and improve visibility in the Enterprise segment;
- Operational execution for the majority of geographies remains robust, with particular success in North America, delivering double digit growth, reflecting continuing progress across USA, Canada and Sage Intacct, balanced by slippage in Enterprise Management (formerly Sage X3) contracts in the USA;
- Strong momentum in acquired businesses of Sage Intacct and Sage People reflects the carefully sequenced integration of these businesses;
- The market opportunity for Sage, as outlined at Capital Markets Day 2018 (CMD), remains unchanged.

Outlook

On 13 April 2018, Sage announced that Group guidance for FY18 was being revised to around 7% organic revenue[7] growth from around 8% organic revenue growth. There has been no change to organic operating profit margin guidance at around 27.5% for FY18.

The rolling mid-term guidance remains that organic revenue growth will reach 10% on a sustainable basis and organic operating profit margins will be at least 27%. Further cost savings of 500bps will be delivered over this period and either reinvested for growth or realised as an increase to operating profit margin. Over the long-term, Sage has an aim of achieving organic operating profit margins of at least 30%.

Stephen Kelly, Chief Executive Officer said**:**

"The significant market opportunity, as outlined at Capital Markets Day, is compelling and unchanged. Sage Business Cloud remains the most comprehensive cloud platform in the market to capitalise on this opportunity. Organic revenue growth in H1 18 was around £5m below our expectations, due to slower and more inconsistent sales execution than we had planned for. We have already started the implementation of robust plans to address these execution issues and to accelerate our growth through high-quality recurring revenue throughout the rest of FY18 and beyond. The revised revenue guidance for FY18 reflects the H1 18 performance, but also our absolute commitment to ensuring we focus on driving high-quality subscription revenue, aligned with the strategy."

About Sage

Sage is the global market leader for technology that helps businesses of all sizes manage everything from money to people – whether they're a start-up, scale-up or enterprise. We do this through Sage Business Cloud - the one and only business management solution that customers will ever need, comprising Accounting, Financials, Enterprise Management, People & Payroll and Payments & Banking.

[7] The revised organic definition for FY18 is included in appendix II.

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An analyst presentation will be held at 8.30am today at London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on www.sage.com/investors, dial-in number +44 (0) 330 336 9105, pin code: 1759100#. A replay of the call will also be available for one week after the event: Tel: +44 (0) 808 101 1153, pin code:1759100#

Chief Executive Officer's review

Operating Performance

Group organic revenue increased by 6.3% (H1 17: 7.4%) for the first six months of the year, reflecting mixed performance. Some areas of the business executed well against the strategy to deliver high quality subscription growth. In other areas, there was inconsistent operational execution and corrective action has started to implement recovery plans.

Recurring revenue growth of 6% (H1 17: 11%), underpinned by software subscription growth of 25% (H1 17: 31%), was impacted in particular by Northern Europe, although at a Group level the increasing penetration of software subscription revenue to 44% of total revenue (H1 17: 37%) and recurring revenue of 78% of total revenue represents continuing progress in the strategy. Contract renewal rates (by volume) remain strong at 86% and there is a continuing focus on improving these further.

Growth in SSRS of 7% (H1 17: decline of 7%) was driven by strong performance in services and training (14% growth), with growth in Enterprise Management licences at 12%, with some isolated contract slippage, of which much is expected to be recovered in H2 18. Other non-Enterprise Management licences declined 6% as expected. Processing revenue growth of 2% (H1 17: 11%), was driven mainly by Northern Europe and North America.

Whilst overall revenue growth in H1 18 was below management's expectations by around £5m, this was largely due to execution issues in the UK on cloud connected solutions and bundled service offerings which increased services revenue at the expense of recurring revenue. These service bundles have been discontinued. There was also slippage of opportunities in the Enterprise segment in Africa Middle East and USA which are expected to be largely recovered in H2.

Growth in other regions was in line with, or exceeded, expectations. North America delivered double digit growth, reflecting continuing progress made by management across the USA, Canada and Sage Intacct, with particular success in driving growth through cloud connected solutions, balanced as previously mentioned, by slippage in Enterprise Management contract licences. Central Europe and Australia have also performed well, both recording double-digit growth. France, Iberia and Latin America's performance is in line with expectations, with France, as planned, returning to growth in Q2 18, driven by new leadership in the region.

Sage Business Cloud revenue showed further momentum with cloud ARR of £336m in H1 18[8], growing at 57%, representing £131m of ARR in cloud native solutions (driving new customer acquisition), growing at 37% and £205m of ARR in cloud connected solutions (customer for life), growing at 72%.

[8] Sage Business Cloud organic revenue recognised in H1 18 was £164m.

Sage Business Cloud products continued to receive positive market reaction in H1 18, winning multiple awards. Sage Accounting (formerly Sage One) also delivered 42% ARR growth with good progress in UK and South Africa.

Within cloud native products, the acquired businesses of Sage Intacct and Sage People (formerly Fairsail) showed strong continuing momentum, with ARR growing at 31% and 62% respectively, as management continues the carefully sequenced integration of these businesses.

Group organic operating profit margin of 24.5% is in line with the plans to front load investment in H1, as well as absorbing, as anticipated, the losses from cloud product acquisitions completed in FY17, equivalent to 200bps of extra investment. EBITDA[9] margin for H1 18 is 26.9% (H1 17: 27.5%).

Areas of focus for immediate improvement

The H1 18 performance reflects execution issues as opposed to any impact from external competitive dynamics or market conditions. The root cause analysis is complete and corrective actions are underway to address these issues to drive acceleration in H2 18 on a monthly basis and into FY19.

There are three areas of focus that are central to achieving immediate improvement in the business:

- Focus on Subscription;
- Consistency in Enterprise; and
- Leadership.

In each of these categories there are already regions and products showing significant success in the business: the focus now is to use these successes as a consistent blueprint across Sage.

Focus on subscription

With strong cloud products, Sage will continue to embrace a SaaS sales culture, focusing on customer obsession and a daily sales cadence to accelerate recurring revenue in order to address the market opportunity.

How we have addressed the issue

- Across Sage, Managing Director (MD) incentives have been selectively re-aligned to further prioritise subscription revenue growth during H2 18;
- In Northern Europe:
    - A new sales leader was appointed, with focus on implementing the US playbook to accelerate migration to Sage 50cloud;
    - Nearly 100,000 Sage 50 off-plan customers, who represent the strongest reactivation opportunities and potentially significant revenue upside, have been identified and are being targeted to upgrade to cloud connected solutions;
    - Bundled service offerings that enhance SSRS revenue at the expense of recurring revenue have been discontinued.

Where subscription is already working

- Sage Intacct and Sage People provide the blueprint of a successful SaaS business that can be embedded throughout Sage over time;

[9] EBITDA is based on the underlying operating profit, adjusted for underlying amortisation, depreciation and share based payment charges.

- Sage Business Cloud ARR of £336m shows the momentum of subscription, and if an independent company, would place Sage Business Cloud in the top 15 of SaaS cloud companies in the world by ARR.

Enterprise Management

A successful Enterprise business involves building a solid and predictable pipeline with consistent execution, supported by strong leadership with clear accountability.

Where we have addressed the issue

- In Africa Middle East and USA, the appropriate leadership changes in this segment have been made;
- A global CRM system for Enterprise Management has been implemented to track all opportunities consistently and accurately. The priority now is to ensure all salespeople are using the CRM with disciplined sales methodology;
- Of the contract licence opportunities that slipped from H1 18, almost £1m of the opportunities closed in April.

Where Enterprise Management is already working

Whilst there have been pockets of inconsistency, it is important to note that the Enterprise Management business remains robust, with Enterprise Management revenue in H1 18 growing by 17% (licence growth of 12%). In France, which represents almost half of the Enterprise Management business, revenue grew by 29%, with further success in Northern Europe, Germany and Portugal.

Leadership

It is imperative that Sage has the right leaders who have clear accountability, act with pace and provide alignment between functions and regions in order to execute flawlessly against the strategy.

How we have addressed the issue

Since 13 April around 30 senior executives have left the business in order to simplify the organisation, speeding up decision making and improving accountability.

Where leadership is already working

There is successful leadership across the organisation, but a solid example is in North America. The MD was appointed in this region 18 months ago and in that time has embedded clear leadership and consistent direction throughout the North American business, which is emulated by the regional leadership team. This includes the successful execution of the migration to Sage 50cloud and Sage 200cloud customers. The region is now growing at over 10% (8% excluding Sage Intacct), compared to 4%, 18 months ago.

Implementing the above plans will provide not just the underpin for achieving FY18 guidance but also the momentum into FY19 that will further accelerate subscription growth.

Strategy – the market opportunity

At CMD 2018, we outlined our vision to emerge as the acknowledged market leader. The market opportunity remains significant: Sage's total addressable market has a value of $28bn, with 82m businesses. Competition is fragmented and localised and there is no consistent global competitor. Typically, in technology markets, a global category leader eventually emerges and catalysts of change such as the shift to the cloud, artificial intelligence and other technology disruption are now accelerating growth and consolidation in the market. The market is anticipated to grow at 7% in FY 18, under-pinned by growth in cloud software of 13%.

This market opportunity is unchanged and Sage remains well placed to capitalise on this growth and consolidation. Sage has a global reach in 23 countries, with a market leadership position in many of these countries and a diverse management team. Sage also has the widest breadth of cloud products under Sage Business Cloud in the market, which can take a business from start-up to enterprise across Accounting, Financial Management, People & Payroll and Payments & Banking. The renewed focus on growth through subscription and recurring revenue will allow Sage to accelerate to address the significant market opportunity.

Strategy – addressing the market opportunity

Over the next three years, management expects recurring revenue to increase from 78% of total revenue to between 85% - 90% of total revenue, driven by subscription, with the remainder comprised of services and processing revenue. Sage has also guided that over the next three years, Sage plans for organic revenue growth to reach 10% on a sustainable basis, under-pinned by Sage Business Cloud as it is rolled out into all regions.

Progress in strategy

Customers for Life (C4L) – Driving growth through the installed base

As highlighted at CMD 2018, the profile and growth opportunity through the installed base is categorised as follows:

- Re-activating and migrating the off-plan base of customers from desktop software to the latest cloud connected product;
- Migrating on-plan customers to subscription and the cloud;
- Migrating on-premise subscription customers to the cloud;
- Focusing on customer obsession to further increase retention rates and provide further value to customers on a cloud solution.

Progress made in H1 18 reflects:

- 72% increase in ARR on cloud connected solutions in H1 18, now representing over £200m;
- Particular success in North America where cloud connected ARR grew by 53%, representing £129m of ARR;
- Contract renewal rates by volume remain strong at 86% and there is focus on improving these further;
- Software subscription revenue now represents 44% of total revenue (H1 17: 37%).

Focus in H2 18 reflects continuing the momentum in the already successful geographies, as well as driving growth throughout other geographies as Sage continues the roll-out of these solutions.

Winning in the Market – driving new customer acquisition(NCA)

New customer acquisition has been driven through Sage Business Cloud solutions of Sage Accounting (formerly Sage One), Sage Financials (formerly Sage Live), the cloud version of Enterprise Management (formerly Sage X3), Sage Intacct and Sage People (Fairsail). Sage Business Cloud also includes cloud connected solutions, discussed above. In addition, NCA from on-premise solutions continues to be driven through Enterprise Management.

Progress in H1 18 reflects:

- Total Sage Business Cloud ARR of £336m, growing at 57%;
- Enterprise Management revenue growth of 17%;
- Continuing momentum in acquired businesses:
  - Sage Intacct delivered ARR growth of 31% in H1 18, driven by the experienced management team, and has been voted the best place to work in the San Francisco Bay area by several independent sources. Sage Intacct is also leveraging the wider Sage family: 14 existing Sage partners are now exclusive sellers of Sage Intacct as their cloud solution;
  - Sage People delivered ARR growth of 62% in H1 18, with four deals signed over £100k ACV in the half, with success in migrating existing Sage customers in the USA from legacy products to the cloud-based Sage People platform. Sage People has also been launched in Germany, Canada and Australia in H1 18, which will drive further momentum.

The focus for H2 18 is to accelerate growth in subscription through Sage Business Cloud.

Revolutionise Business – Sage Business Cloud

In October 2017, the Group launched Sage Business Cloud – the one and only business management platform that customers will ever need from start-up to enterprise. Sage Business Cloud offers a powerful set of cloud services, across Accounting, Financial Management, People & Payroll and Payments & Banking cloud products, supported by an ecosystem of ISV partners, a Sage developer platform for APIs, artificial intelligence and the Pegg bot framework. No other competitor can offer this breadth of cloud solutions and is equally compelling for new and existing customers, allowing them to join the platform and grow at any stage of their business journey.

Progress in H1 18 reflects:

- Sage Business Cloud launches in Northern Europe, USA and Canada in October 2017 with further roll-outs in Europe throughout H1 18.
- Continued improvements to both Sage Business Cloud products and the platform;
  - Under the new Stripe agreement, customers can set up to receive mobile and web payments in a matter of minutes, rather than days;
  - The integration of Go Cardless into Sage 50 significantly increases automation, saving customers one day a month in admin and halving debtor days;
  - Sage payroll customers can now access cloud connected services, enabling customers to manage, store and share information with their colleagues in line with GDPR, as well as automating payroll processes and driving efficiencies across their business.

Capacity for growth – driving superior margins

Management continues to invest in areas of the business that will yield a strong return on investment, with a focus on variable spend as opposed to fixed cost to allow agility of investment decision-making.

Progress in H1 18 reflects:

- Around 200bps invested in acquired businesses of Sage Intacct and Sage People which continue to show momentum, with ARR growth of 31% and 62% respectively;
- In H1 18, G&A expense has reduced to 13.8%, down from 15.2% in H1 17, reflecting continued savings, with an acceleration of cost savings expected in H2 18.

In H2 18 the aim is to drive further cost savings through financial and operational discipline across the whole business. Since 13 April 2018, we have exited 30 senior executives to simplify decision making and accelerate execution.

Capital allocation

As part of the strategy, management executed on M&A and disposals during FY17. The transformation included portfolio rationalisation, with the disposal of North American Payments, and the acquisitions of Compass, Fairsail (Sage People) and Intacct. Going forward, Sage will look to continue to invest and accelerate the execution of the strategy, with a relentless focus on organic growth, driven by recurring revenue, with bolt-on acquisitions of complementary technology and partnerships that enhance or complement Sage Business Cloud, with one small acquisition completed in the first half of the year.

Sage remains committed to maintaining rigorous financial discipline and delivering shareholder returns with net debt : EBITDA leverage of 1.4x, close to the mid-point of the 1-2x corridor and trending towards 1x at the end of H1 18.

Summary

The strategy as outlined at CMD is strong and the market opportunity exists for Sage to accelerate quality subscription growth to become the acknowledged market leader. H1 18 growth of 6.3% was due to slower and less consistent execution than anticipated. There have been no changes in the external market conditions or competitiveness of Sage products. Sage has established clear, robust plans to address the identified execution issues and to accelerate through subscription growth and drive recurring revenue throughout the rest of FY18 and beyond.

Looking ahead, Sage will continue to make progress in line with the strategy, reinforcing the investment case of high quality recurring revenue, superior operating profit margins, strong free cash generation and a progressive dividend.

Chief Financial Officer’s review

Group performance

Sage achieved organic revenue growth of 6.3% (H1 17: 7.4%) and an organic operating profit margin of 24.5%. Recurring revenue growth of 6.4% in H1 18 (H1 17: 11.1%), includes software subscription growth of 25.3% (H1 17: 30.6%).

The organic definition neutralises the impact of foreign currency fluctuations and includes the contributions of acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments have been made to the comparative period to present acquired businesses as if these had been part of the Group throughout the entire period. Contributions from acquired businesses are excluded in the year of acquisition. The underlying definition neutralises the impact of foreign currency fluctuations but includes the contribution from current and prior period acquisitions, discontinued operations, disposals and assets held for sale. A reconciliation of underlying operating profit to statutory operating profit is shown on page 14.

Statutory figures below are based on continuing operations including the impacts of acquisitions and disposals but excluding discontinued operations.

Revenue

	STATUTORY			ORGANIC		
	H1 18	**H1 17**	**Change**	**H1 18**	**H1 17**	**Change**
Northern Europe	£190m	£180m	**6%**	£191m	£183m	**4%**
Central & Southern Europe	£302m	£282m	**7%**	£302m	£288m	**5%**
North America	£274m	£241m	**13%**	£282m	£255m	**10%**
International	£133m	£137m	**(2%)**	£133m	£128m	**4%**
Group	**£899m**	**£840m**	**7%**	**£908m**	**£854m**	**6%**

Operating profit

	STATUTORY			UNDERLYING		
	H1 18	**H1 17**	**Change**	**H1 18**	**H1 17**	**Change**
Group	£186m	£180m	**3.1%**	£222m	£224m	**(0.7%)**
Margin	20.7%	21.4%	**(70bps)**	24.5%	25.3%	**(80bps)**

Statutory operating profit is stated after non-recurring costs incurred relating to business transformation in FY17 and recurring costs relating to amortisation of acquisition related intangible assets and other M&A activity related charges.

Revenue mix

Segmental reporting

	RECURRING REVENUE			PROCESSING REVENUE			SSRS REVENUE		
ORGANIC	**H1 18**	**H1 17**	**Change**	**H1 18**	**H1 17**	**Change**	**H1 18**	**H1 17**	**Change**
Northern Europe	£145m	£145m	**(1%)**	£19m	£19m	**2%**	£27m	£19m	**46%**
Central & Southern Europe	£232m	£223m	**4%**	-	£1m	**(100%)**	£70m	£64m	**8%**
Total Europe	£377m	£368m	**2%**	£19m	£20m	**(3%)**	£97m	£83m	**17%**
North America	£230m	£203m	**13%**	£16m	£15m	**3%**	£36m	£37m	**(2%)**
International	£100m	£94m	**8%**	£8m	£7m	**16%**	£25m	£27m	**(10%)**
Group	£707m	£665m	**6%**	£43m	£42m	**2%**	£158m	£147m	**7%**
% of total organic revenue	**78%**	**78%**		**5%**	**5%**		**17%**	**17%**	

Recurring revenue

Sage delivered recurring revenue growth of 6% (H1 17: 11%), driven by the increase in software subscription revenue of 25% (H1 17: 31%), in line with the transition to a subscription model. Contract renewal rates remain strong at 86% (H1 17: 86%) with recurring revenue representing 78% of organic revenue (H1 17: 78%). Software subscription penetration is now 44% of total revenue (H1 17: 37%).

Processing revenue

Processing revenue growth of 2% (H1 17: 11%) is largely driven by progress in Northern Europe and North America.

SSRS revenue

SSRS revenue grew by 7% (H1 17: decline of 7%) due to strong performance in professional services and training and growth in Enterprise Management.

Performance – European regions

ORGANIC REVENUE GROWTH	H1 18	H1 17
Northern Europe	**+4%**	**+8%**
Central Europe	+11%	+8%
France	+1%	+1%
Iberia	+7%	+8%
Central & Southern Europe	**+5%**	**+5%**
Total Europe	***+5%***	***+6%***

Revenue in the European regions grew by 5% overall in H1 18 (H1 17: 6%). Within Europe, growth in Northern Europe was impacted by inconsistent sales execution in driving recurring revenue growth. Central Europe performed well whilst Iberia's and France's performance was solid, with France showing a return to growth in Q2 18.

Recurring revenue in Europe grew by 2%, of which software subscription revenue grew by 18% (H1 17: 21%). Recurring revenue was flat in both France and Northern Europe, with reacceleration expected in H2 18. Software subscription revenue now represents 40% of total revenue in Europe (H1 17: 36%).

Processing revenue declined in Europe by 3% (H1 17: growth of 11%), reflecting growth in Northern Europe, offset by slowing growth elsewhere.

SSRS revenue grew by 17% (H1 17: decline of 10%) reflecting strong performance in professional services and training.

Northern Europe

UK & Ireland – increased focus on recurring revenue required

UK & Ireland revenue grew by 4% (H1 17: 8%) in the year, reflecting flat performance in recurring revenue, although software subscription grew by 28% (H1 17: 27%). Software subscription revenue now represents 45% of total revenue in UK & Ireland (H1 17: 36%). Recurring revenue growth in UK & Ireland was adversely impacted by bundled service offerings. These service bundles have been discontinued.

SSRS growth of 46% in the UK & Ireland reflects strong growth in professional services and training, combined with strong Enterprise growth due to a number of high value licence sales made in H1 18.

Sage Accounting revenue grew by 54% in the UK & Ireland, driven by a 40% increase in average ACV, as the region continues to promote Sage's premium brand, attracting higher quality customers. Sage People showed strong momentum in the region, with revenue growing at 83% (ARR growth 70%). Enterprise Management growth in H1 18 was 23%.

Processing growth of 2% was driven by increased volume in chip and pin transactions using the Sage Pay gateway.

Focus for H2 18 in Northern Europe is on driving subscription-based recurring revenue growth through Sage Business Cloud and, in particular, the continued migration from the on-premise versions to Sage 50cloud and Sage 200cloud.

Central and Southern Europe

France – recovery underway

France revenue grew by 1% (H1 17: 1%), with the country returning to growth in Q2 18. The impact of first-year premiums charged in prior years has been a drag on growth since Q1 17, although this impact is expected to unwind and have less of an impact throughout H2 18.

In France, growth has been driven through Enterprise Management, which increased by 29% in H1 18. Growth of other major products in France has been impacted by first-year premiums, but there are signs of success in cloud connected solutions in the Sage 50 and Sage 200 families, with Sage 200cloud driving strong momentum in Q2, strongly endorsed by a recovering partner channel.

France has high software subscription penetration of 57% and in H2 18 management will continue to focus on increasing growth through software subscription and recurring revenue, selling cloud connected solutions and driving further improvements in the recovering partner channel.

Iberia – cloud connected solutions gaining momentum

Organic revenue growth of 7% (H1 17: 8%) was underpinned by recurring revenue growth of 5% and SSRS revenue growth of 14%.

The region's largest contributor, Sage 50 Accounts continued to perform strongly with growth of 9%. Growth in the Sage 200 family of 13% was mainly driven by the value uplift provided by the cloud connected version launched in FY17.

The focus for Iberia in H2 is to drive acceleration in recurring revenue through cloud connected solutions.

Central Europe – strong performance with accelerating, double digit growth

Central Europe delivered strong revenue growth of 11% (H1 17: 8%), a significant acceleration on the prior year, growing both recurring and SSRS revenue at 12% and 8% respectively.

In Germany, both organic revenue and recurring revenue grew by 13%. Germany's largest product, Sage 200, grew by 24%, driven by a strong partner channel. SSRS growth has been driven by success in professional services associated with Sage 200.

In the smaller Central European countries, Poland grew at 11% due to strong growth from the Sage 50 family, whilst Switzerland growth was flat, despite recurring revenue growth of 7%.

The focus for Central Europe in H2 is to continue to drive the high levels of recurring revenue growth through NCA and migration of the installed-base to subscription and the cloud.

Performance – North American region

ORGANIC REVENUE GROWTH	H1 18	H1 17
USA	+7%	+4%
Sage Intacct	+26%	+32%
Canada	+13%	+9%
North America	**+10%**	**+8%**

Strong growth of 10% (H1 17: 8%) in North America, including Sage Intacct, was driven by 13% growth in recurring revenue (H1 17: 11%), underpinned by software subscription growth of 51% (H1 17: 70%): software subscription revenue is now 42% of total revenue (H1 17: 31%).

Processing revenue growth of 3% (H1 17: 4%) remains in line with expectations, whilst SSRS revenue declined by 2% (H1 17: 6% decline), reflecting deal slippage in Enterprise Management.

USA (excluding Sage Intacct) – cloud connected migrations driving strong growth

Strong performance in the USA was driven by the successful migration of customers from Sage 50 and Sage 200 to the cloud connected versions of these products, with cloud connected revenue growth of 89%, driving software subscription growth of 74% in the country.

SSRS revenue has been flat, reflecting growth in Enterprise Management and professional services and training, offset by a decline in other licences.

Sage Intacct – showing continuing momentum

Sage Intacct has continued to grow strongly, with organic revenue growth of 26% in H1 18, underpinned by recurring revenue growth of 28% and ARR of 31% as management continues the carefully sequenced integration of this acquisition. Win rates continue to be strong and the Sage Intacct management team are having a very positive impact within Sage.

Canada – double digit organic and recurring revenue growth

In Canada, both organic and recurring revenue delivered double digit growth of 13% and 17% respectively, driven by Sage 200 cloud, which showed strong momentum in H1 18.

In North America, the focus in H2 18 is continuing the momentum and value uplift through the Sage 50 and Sage 200 migrations to cloud connected solutions and to recover the deal slippage from Enterprise Management.

Performance – International region

ORGANIC REVENUE GROWTH	H1 18	H1 17
Africa and Middle East	+5%	+13%
Latin America	-1%	+22%
Australia & Asia	+9%	+4%
International	**+4%**	**+13%**

Organic revenue in the International region grew by 4% in H1 18 (H1 17: 13%), with recurring revenue growth of 8% (H1 17: 16%), processing revenue growth of 16% (H1 17: 35%) and SSRS decline of 10% (H1 17: flat). Software subscription revenue in International is now 60% of total revenue (H1 17: 56%).

Performance in the region has been mixed with strong growth in Australia balanced by weaker performance from Latin America and Asia, whilst growth in Africa and Middle East was below management expectations.

Africa and Middle East – Enterprise deal slippage

Growth in Africa Middle East of 5% (H1 17: 13%) was below management expectations, largely due to deal slippage in Enterprise Management. New leadership in the region has implemented a significant reorganisation of the management team in H1 18.

Recurring revenue growth in Africa Middle East was 11%. Sage Accounting continued to show strong momentum Africa, with growth of 59% in H1 18.

Focus for the region in H2 18 is to recover Enterprise Management contract slippage and rebuild the Enterprise pipeline, as well as starting to drive growth through the new management team.

Latin America – turbulent economic condition

Revenue in Latin America showed a slight decline 1% (H1 17: growth of 22%), offset by recurring revenue growth of 2%, in line with management expectations. Due to the turbulent economic conditions in the region, since the end of FY17 management has been focused on driving growth through high quality customers, where debt collection is less of a risk. Underlying performance in the region remains robust with Sage Accounting growth of 23% in H1 18.

Australia and Asia

In Australia, strong revenue growth of 12% (H1 17: 8%) is underpinned by recurring revenue growth of 10% (H1 17: 11%), with momentum driven by new leadership in the geography.

Asia revenue (accounting for 1% of total revenue) declined by 2% in the year due to local macroeconomic challenges in this region.

The focus for H2 18 is to maintain momentum created by new leadership and to return Asia to growth.

Financial review

	H1 18			H1 17		
ORGANIC TO STATUTORY RECONCILIATIONS	**Revenue**	**Operating profit**	**Margin**	**Revenue**	**Operating profit**	**Margin**
Organic	£908m	£222m	24.5%	£854m		
Organic adjustments[10]	-	-		(£35m)		
Underlying – Continuing	£908m	£222m	24.5%	£819m	£207m	25.3%
Discontinued operations	-	-		£66m	£17m	
Underlying	£908m	£222m	24.5%	£885m	£224m	25.3%
Discontinued operations	-	-		(£66m)	(£17m)	
Impact of foreign exchange[11]	-	-		£21m	£4m	
Underlying (as reported) - Continuing	£908m	£222m	24.5%	£840m	£211m	25.1%
Recurring items[12]	(£9m)	(£35m)			(£12m)	
Non-recurring items[13]		(£1m)			(£19m)	
Statutory	**£899m**	**£186m**	**20.7%**	**£840m**	**£180m**	**21.4%**

Revenue

Statutory revenue grew by 7% to £899m (H1 17: £840m), reflecting organic growth, foreign exchange movements experienced throughout the year and the impact of recurring items. The impact of foreign exchange of £21m in H1 17 reflects a currency headwind during the period.

Operating profit

Underlying (continuing) operating profit increased to £222m in line with organic revenue. Statutory operating profit increased by £6m, with the operating profit rising by 3.1% due to the impact of foreign exchange, combined with recurring and non-recurring items.

Adjustments between underlying and statutory operating profit

Non-recurring items relate to the £1m loss on disposal of a small non-core asset. Recurring items are £35m combined, of which £16m relate to amortisation of acquisition related intangible assets and £10m M&A activity-related charges. A further £9m relates to an adjustment applied to acquired deferred income. Both recurring and non-recurring items, £36m combined, have been excluded from the underlying operating profit of £222m.

Net finance cost

The statutory net finance cost for the period was £15m (H1 17: £11m) and the underlying net finance cost was £14m (H1 17: £11m). The difference between underlying and statutory net finance costs for the period relate to the £1m foreign currency gain on movements on intercompany balances (H1 17: nil) offset by the £2m (H1 17: £1m) fair value adjustment charge in relation to a debt instrument. In H1 FY17, this was offset by a credit of £1m relating to a fair value adjustment of a financial asset.

10 Organic adjustments are as per note 2 of the financial statements

11 Impact of retranslating H1 17 results at H1 18 average rates

12 Recurring items comprise amortisation of acquired intangible assets, M&A activity-related items (including adjustments to acquired deferred income) and fair value adjustments

13 Non-recurring items comprise items that management judge to be one-off or non-operational including business transformation costs in FY17

Taxation

The statutory income tax expense for H1 18 was £36m (H1 17: £44m). The effective tax rate on statutory profit before tax was 21% (H1 17: 25%), whilst the underlying tax rate on continuing operations was 26% (H1 17: 27%).

The difference between the statutory effective tax rate and the underlying tax rate relates to a non-recurring credit of £13m on the rebasing of deferred tax balances in the USA as a result of the US Tax Reform and adjusting items in countries with tax rates that are higher than the UK.

Earnings per share

Underlying basic earnings per share increased by 1% to 14.25p (H1 17: 14.12p) and statutory basic earnings per share decreased to 12.50p (H1 17: 13.54p) due to increased operating profit offset by increased recurring charges following the acquisitions of Sage Intacct and Sage People in FY17. Adjusted for transactions underlying earnings per share increased by 16% reflecting a 7% impact from normalisation of the operating profit for the pre-acquisition period of the acquired businesses based on the FY17 operating profit margin achieved during the post-acquisition period and an 8% impact from the disposal of the North America Payments business.

Cash flow and net debt

CASH FLOW	H1 FY18	H1 FY17
Underlying operating profit	**£222m**	**£224m**
Exchange rate translation movements	-	£5m
Underlying operating profit (as reported)	**£222m**	**£229m**
Depreciation/amortisation/impairment/profit on disposal	£17m	£17m
Share-based payments	£5m	£5m
Net changes in working capital	(£5m)	£2m
Net capital expenditure	(£18m)	(£15m)
Underlying cash flow from operations	**£221m**	**£238m**
Non-recurring items	(£21m)	(£23m)
Net interest paid	(£12m)	(£10m)
Income tax paid	(£29m)	(£39m)
Exchange movements	(£2m)	-
Free cash flow	**£157m**	**£166m**

CASH FLOW	H1 FY18	H1 FY17
Statutory cash flow from operating activities	**£215m**	**£230m**
Recurring and Non-recurring items	£22m	£23m
Net capital expenditure	(£18m)	(£15m)
Eliminate exchange rate translation movements	£2m	-
Underlying cash flow from operating activities	**£221m**	**£238m**
Underlying cash conversion	**99%**	**104%**

The Group remains highly cash generative with underlying cash flows from operating activities of £221m, which represents underlying cash conversion of 99%, down slightly from H1 17, reflecting an increase in working capital and capex of £3m as the Group invests for growth, combined with strong Enterprise Management performance which attracts longer payment terms.

A total of £110m was returned to shareholders through ordinary dividends paid. Net debt stood at £744m at 31 March 2018 (31 March 2017: £434m) with the increase reflecting an increase in cash spent on acquisitions.

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. The Group's syndicated bank multi-currency Revolving Credit Facility (RCF), was renewed in February 2018 and now expires in February 2023 with facility levels of £648m (US$719m and £135m tranches). At 31 March 2018, £336m (H1 17: £92m) of the RCF was drawn. Current year RCF drawings were used principally to fund the acquisitions completed in FY17. A term loan arranged in July 2017 to partially fund the Intacct acquisition has drawings of £107m ($150m) at 31 March 2018 (H1 17: nil). The term loan matures in July 2018, with an unconditional option to extend for a further 12 months.

Total USPP loan notes at 31 March 2018 were £502m (US$600m and EUR€85m), (H1 17: £551m (US$600m and €85m)). Approximately £36m (US$50m) of USPP notes are due for repayment in May 2018, these will be repaid using committed bank facilities.

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 underlying and organic figures are as follows:

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	H1 18	H1 17	Change
Euro (€)	1.13	1.16	(2%)
US Dollar ($)	1.36	1.24	10%
South African Rand (ZAR)	17.37	16.82	3%
Australian Dollar (A$)	1.75	1.65	6%
Brazilian Real (R$)	4.42	3.99	11%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic policy remains an acceleration of growth, primarily organically, supported by targeted bolt-on acquisitions. The growth underpins the Board's sustainable, progressive dividend policy. Consistent with this policy, the Board is proposing an 8% increase in the total ordinary dividend per share for the year to 5.65p per share (H1 17: 5.22p per share).

Appendix I – Key Performance Indicators ("KPIs") and other measures

STRATEGIC KPIs	KPI DESCRIPTION	H1 18	FY17	H1 17
Customers for life: Contract renewal rate	As we focus on providing exceptional customer experiences, we track the response of our customers by measuring the number of contracts successfully renewed for the last twelve months as a percentage of those that were due for renewal.	86%	86%	86%
Winning in the market: Adoption of Sage Accounting	The number of paying subscriptions for our portfolio of Sage Accounting products.	431,000	405,000	382,000
Winning in the market: Adoption of Sage Accounting	The Annual recurring revenue (ARR) for our portfolio of Sage Accounting products.	£33m	£31m	£23m
Winning in the market: Adoption of Sage Enterprise Management	The percentage increase in underlying revenue derived from Sage Enterprise Management.	17%	21%	16%
Revolutionise business: Annualised software subscription base ("ASB")	Our latest technologies are delivered to customers via software subscription relationships which drives growth in the ASB, calculated as the amount of organic software subscription revenue recorded in the last month of the period multiplied by 12.	£820m	£744m	£633m
Capacity for growth: G&A%	Investing for growth is enabled by releasing efficiencies in General and Administrative ("G&A") expenses. We track progress by expressing G&A as a percentage of revenue (both on an organic basis).	13.8%	13.8%	15.2%
One Sage: Foundation Days	Doing business the right way is important at Sage. Giving back to the community through Sage Foundation allows our colleagues to volunteer to work with charitable causes.	10,000	23,000	10,000

FINANCIAL DRIVERS	KPI DESCRIPTION	H1 18	FY17	H1 17
Organic revenue growth	Organic revenue neutralises the impact of foreign exchange in prior period figures and excludes the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period. Adjustments are made to the comparative period to present acquired businesses as if these had been part of the Group throughout the period following the year of acquisition. Revenue from acquired businesses is excluded in the year of acquisition.	6.3%	7.6%	7.4%
Underlying operating profit margin	Underlying operating profit excludes: – Recurring items including amortisation of acquired intangible assets, purchase price adjustments made to reduce deferred income arising on acquisitions, acquisition-related items and fair value adjustments; and – Non-recurring items that management judge to be one-off or non-operational; The impact of foreign exchange is neutralised in prior period figures. No adjustments are made for acquisitions, disposals, discontinued operations and assets held for sale of standalone businesses.	24.5%	27.2%	25.3%
Organic operating profit margin	Organic operating profit margin is presented for the current period only to allow comparability to current period underlying operating profit margin and excludes the impact of current period acquisitions, disposals, discontinued operations and assets held for sale of standalone businesses.	24.5%	N/A	N/A
Underlying basic EPS growth	Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the period, 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, purchase price adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, fair value adjustments and imputed interest; and – 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 period figures.	0.9%	3.5%	2.0%
Underlying cash conversion	Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates, non-recurring working capital movements and non-recurring cash items.	99%	95%	104%

Net debt leverage	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.	1.4:1	1.6:1	0.9:1

Interest cover	Statutory operating profit for the last twelve months 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.	23.8x	27.3x	21.8x
Dividend cover	Underlying earnings per share (as reported) divided by the full year dividend per share.	2.0x	2.1x	2.1x

Appendix II – Non-GAAP measures

MEASURE	DESCRIPTION	WHY WE USE IT
Underlying	Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying operating profit excludes: - Recurring items: · Amortisation of acquired intangible assets and purchase price adjustments made to reduce deferred income arising on acquisitions; · M&A activity-related items; · Fair value adjustments on non-debt-related financial instruments and foreign currency movements on intercompany debt balances; and – Non-recurring items that management judge are one-off or non-operational. Underlying profit before tax excludes: – All the items above; – Imputed interest; and – Fair value adjustments on debt-related financial instruments. Underlying profit after tax and earnings per share excludes: – All the items above net of tax and non-recurring tax items that management judge are one-off or non-operational.	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. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period and include acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments are made to the comparative period to present acquired businesses as if these had been part of the Group throughout the period. Contributions from acquired businesses are excluded in the year of acquisition. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Organic operating profit margin is presented for the current period only to allow comparability to current period underlying operating profit margin.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying cash conversion	Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates, and non-recurring cash items.	Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
Underlying (as reported)	Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).	This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.
Underlying adjusted EPS	The underlying adjusted EPS neutralises the impact of significant acquisitions and disposals by excluding current period acquisitions and current and prior period disposals and by including prior year acquisitions in the comparable period based on the margin achieved by the acquired business in the prior year for the post-acquisition period.	The underlying adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from significant acquisitions and disposals.

Revenue Type	DESCRIPTION
Recurring revenue	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Recurring revenue includes both software subscription revenue and maintenance and service revenue.
Software subscription revenue	Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play').
Software and software related services ("SSRS")	SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.
Processing revenue	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.
Annual contract value	Annual contact value (ACV) is the value of bookings that will be generated over the ensuing year under a given contract or contracts.
Annual recurring revenue	Annual recurring revenue (ARR) is the value of all components of recurring revenue, annualised for the ensuing year.

Consolidated income statement
For the six months ended 31 March 2018

	Note	**Six months ended 31 March 2018 (Unaudited) Underlying**	**Six months ended 31 March 2018 (Unaudited) Adjustments***	**Six months ended 31 March 2018 (Unaudited) Statutory**	Six months ended 31 March 2017 (Unaudited) Underlying as reported	Six months ended 31 March 2017 (Unaudited) Adjustments*	Six months ended 31 March 2017 (Unaudited) Statutory	Year ended 30 September 2017 (Audited) Statutory
		£m	**£m**	**£m**	£m	£m	£m	£m
Revenue	2	**908**	**(9)**	**899**	840	–	840	1,715
Cost of sales		**(62)**	**–**	**(62)**	(54)	–	(54)	(114)
Gross profit		**846**	**(9)**	**837**	786	–	786	1,601
Selling and administrative expenses		**(624)**	**(27)**	**(651)**	(575)	(31)	(606)	(1,253)
Operating profit	2	**222**	**(36)**	**186**	211	(31)	180	348
Share of loss of an associate		**–**	**–**	**–**	(1)	(1)	(2)	(1)
Gain on remeasurement of existing investment in an associate		**–**	**–**	**–**	–	13	13	13
Finance income		**2**	**1**	**3**	1	1	2	10
Finance costs		**(16)**	**(2)**	**(18)**	(12)	(1)	(13)	(28)
Profit before income tax		**208**	**(37)**	**171**	199	(19)	180	342
Income tax expense	4	**(54)**	**18**	**(36)**	(54)	10	(44)	(85)
Profit for the period – continuing operations		**154**	**(19)**	**135**	145	(9)	136	257
Profit on discontinued operations	11	–	–	–	11	(1)	10	43
Profit for the period		**154**	**(19)**	**135**	156	(10)	146	300

* Adjustments are detailed in note 3 to the accounts.

Earnings per share attributable to the owners of the parent (pence)								
From continuing operations								
Basic	6	**14.25p**		**12.50p**	13.46p		12.57p	23.86p
Diluted	6	**14.22p**		**12.48p**	13.40p		12.52p	23.78p
From continuing and discontinued operations								
Basic	6	**14.25p**		**12.50p**	14.45p		13.54p	27.80p
Diluted	6	**14.22p**		**12.48p**	14.39p		13.48p	27.71p

Consolidated statement of comprehensive income
For the six months ended 31 March 2018

	Six months ended 31 March 2018 (Unaudited) £m	Six months ended 31 March 2017 (Unaudited) £m	Year ended 30 September 2017 (Audited) £m
Profit for the period	**135**	146	300
Other comprehensive (expenses)/income for the period			
Items that will not be reclassified to profit or loss			
Actuarial gain on post-employment benefit obligations	**–**	1	4
Deferred tax charge on actuarial gain on post-employment benefit obligations	**–**	–	(1)
	–	1	3
Items that may be reclassified to profit or loss			
Deferred tax credit on foreign currency movements	**–**	–	2
Exchange differences on translating foreign operations	**(25)**	15	(26)
Exchange differences recycled through income statement on sale of foreign operations	**–**	–	(32)
	(25)	15	(56)
Other comprehensive (expenses)/income for the period, net of tax	**(25)**	16	(53)
Total comprehensive income for the period	**110**	162	247

The notes on pages 26 to 41 form an integral part of this condensed consolidated half-yearly report.

Consolidated balance sheet
As at 31 March 2018

	Note	**31 March 2018 (Unaudited) £m**	31 March 2017 (Unaudited) £m	30 September 2017 (Audited) £m
Non-current assets				
Goodwill	7	**1,975**	1,589	2,023
Other intangible assets	7	**253**	102	274
Property, plant and equipment	7	**129**	121	133
Fixed asset investment		**14**	–	15
Other financial assets		**1**	2	2
Deferred income tax assets		**65**	58	61
		2,437	1,872	2,508
Current assets				
Inventories		**2**	3	3
Trade and other receivables		**475**	445	466
Current income tax asset		**4**	5	14
Cash and cash equivalents (excluding bank overdrafts)	10	**296**	309	231
Assets classified as held for sale	11	**–**	265	1
		777	1,027	715
Total assets		**3,214**	2,899	3,223
Current liabilities				
Trade and other payables		**(290)**	(322)	(337)
Current income tax liabilities		**(33)**	(23)	(18)
Borrowings		**(46)**	(5)	(55)
Provisions		**(21)**	(34)	(37)
Deferred income		**(652)**	(624)	(585)
Liabilities classified as held for sale	11	**–**	(51)	(1)
		(1,042)	(1,059)	(1,033)
Non-current liabilities				
Borrowings		**(906)**	(642)	(914)
Post-employment benefits		**(22)**	(24)	(22)
Deferred income tax liabilities		**(31)**	(19)	(46)
Provisions		**(26)**	(26)	(31)
Trade and other payables		**(5)**	(5)	(5)
Deferred income		**(4)**	(5)	(4)
		(994)	(721)	(1,022)
Total liabilities		**(2,036)**	(1,780)	(2,055)
Net assets		**1,178**	1,119	1,168
Equity attributable to owners of the parent				
Ordinary shares	9	**12**	12	12
Share premium	9	**548**	545	548
Other reserves		**106**	202	131
Retained earnings		**512**	360	477
Total equity		**1,178**	1,119	1,168

Consolidated statement of changes in equity
For the six months ended 31 March 2018

	Attributable to owners of the parent				
	Ordinary shares £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total equity £m**
At 1 October 2017 (Audited)	**12**	**548**	**131**	**477**	**1,168**
Profit for the period	**–**	**–**	**–**	**135**	**135**
Other comprehensive expenses					
Exchange differences on translating foreign operations	**–**	**–**	**(25)**	**–**	**(25)**
Actuarial loss on post-employment benefit obligations	**–**	**–**	**–**	**–**	**–**
Deferred tax credit on actuarial loss on post-employment obligations	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period ended 31 March 2018 (Unaudited)	**–**	**–**	**(25)**	**135**	**110**
Transactions with owners					
Employee share option scheme:					
- Proceeds from shares issued	**–**	**–**	**–**	**–**	**–**
- Value of employee services, net of deferred tax	**–**	**–**	**–**	**10**	**10**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(110)**	**(110)**
Total transactions with owners for the period ended 31 March 2018 (Unaudited)	**–**	**–**	**–**	**(100)**	**(100)**
At 31 March 2018 (Unaudited)	**12**	**548**	**106**	**512**	**1,178**

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2016 (Audited)	12	544	187	310	1,053
Profit for the period	–	–	–	146	146
Other comprehensive income					
Exchange differences on translating foreign operations	–	–	15	–	15
Actuarial loss on post-employment benefit obligations	–	–	–	1	1
Total comprehensive income for the period ended 31 March 2017 (Unaudited)	–	–	15	147	162
Transactions with owners					
Employee share option scheme:					
- Proceeds from shares issued	–	1	–	–	1
- Value of employee services, net of deferred tax	–	–	–	4	4
Dividends paid to owners of the parent	–	–	–	(101)	(101)
Total transactions with owners for the period ended 31 March 2017 (Unaudited)	–	1	–	(97)	(96)
At 31 March 2017 (Unaudited)	12	545	202	360	1,119

Consolidated statement of cash flows
For the six months ended 31 March 2018

	Notes	**Six months ended 31 March 2018 (Unaudited) £m**	Six months ended 31 March 2017 (Unaudited) £m	Year ended 30 September 2017 (Audited) £m
Cash flows from operating activities				
Cash generated from continuing operations		**215**	217	403
Interest paid		**(14)**	(12)	(24)
Income tax paid		**(29)**	(39)	(102)
Operating cash flows generated from discontinued operations		**–**	13	25
Net cash generated from operating activities		**172**	179	302
Cash flows from investing activities				
Acquisitions of subsidiaries, net of cash acquired	11	**(8)**	(79)	(693)
Proceeds on settlement of debt investment		**–**	–	7
Purchases of intangible assets	7	**(10)**	(7)	(22)
Purchases of property, plant and equipment	7	**(10)**	(8)	(30)
Proceeds from sale of property, plant and equipment		**2**	–	–
Interest received		**2**	2	2
Disposal of discontinued operations		**–**	–	158
Net cash used in investing activities		**(24)**	(92)	(578)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	9	**–**	1	4
Purchase of treasury shares		**–**	–	(9)
Proceeds from borrowings		**117**	133	662
Repayments of borrowings		**(88)**	(80)	(275)
Movements in cash held on behalf of customers		**14**	22	5
Borrowing costs		**(2)**	(1)	(1)
Dividends paid to owners of the parent	5	**(110)**	(101)	(157)
Financing cash flows generated from discontinued operations		**–**	7	4
Net cash (used in)/generated from financing activities		**(69)**	(19)	233
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (before exchange rate movement and reclassification as held for sale)	10	**79**	68	(43)
Effects of exchange rate movement	10	**(6)**	4	(4)
Reclassification as held for sale	10	–	(28)	–
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**73**	44	(47)
Cash, cash equivalents and bank overdrafts at 1 October	10	**213**	260	260
Cash, cash equivalents and bank overdrafts at period end	10	**286**	304	213

Notes to the financial information
For the six months ended 31 March 2018

1 Group accounting policies

General information
The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is a leading global supplier of business management software to Small & Medium Businesses.

This condensed consolidated half-yearly financial report was approved for issue by the board of directors on 1 May 2018.

The financial information set out above does not constitute the Company's Statutory Accounts. Statutory Accounts for the year ended 30 September 2017 have been delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2017.

This condensed consolidated half-yearly financial report has been reviewed, not audited.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is North Park, Newcastle upon Tyne, NE13 9AA. The Company is listed on the London Stock Exchange.

Basis of preparation
The financial information for the six months ended 31 March 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union, ("EU"). The condensed consolidated half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2017, which have been prepared in accordance with IFRSs as adopted by the EU.

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 information has been prepared on a going concern basis.

Accounting policies
The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2017 as described in those annual financial statements.

Adoption of new and revised IFRSs
The following new accounting standards may have a material impact on the Group. They are currently issued but not effective for the Group for the six-month period ended 31 March 2018:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRS 16 "Leases"

The Group will adopt these standards in line with their effective dates. IFRSs 9 and 15 will be adopted for the financial year commencing 1 October 2018, and IFRS 16 for the financial year commencing 1 October 2019. Explanations of the changes introduced by the standards, and the status of the IFRS 15 implementation project, were included in the annual report for the year ended 30 September 2017. An update on the Group's approach to implementing the standards is provided below.

IFRS 9

The Group is currently in the process of evaluating the impact of IFRS 9, which is expected to be largely restricted to the measurement of financial assets, and the earlier recognition of impairment provisions and costs relating to future credit losses, including for trade receivables. The Group does not currently hold complex financial instruments or undertake significant hedging activities. The evaluation is not yet sufficiently advanced to enable a reliable quantification of the impact to be estimated. Decisions on accounting policy choices, including transition options, are to be finalised during the second half of the current year.

IFRS 15

The Group's approach to the assessment of the impact and implementation of IFRS 15, which is ongoing, has not changed during the period. The Group continues to assess all the impacts that the application of IFRS 15 will have on its financial statements in the period of initial application, which will also significantly depend on its choice of transition, business and go-to-market strategy in the financial year ending 30 September 2019 and beyond. For additional details, please refer to pages 126 and 127 of the Annual Report & Accounts for 2017.

The impacts, if material, will be disclosed no later than the publication of the Group's trading update for the quarter ending 31 December 2018. This includes statements on whether and how the Group plans to apply any of the practical expedients available in the standard.

IFRS 16

The Group has commenced its evaluation of the impact of the standard, and the implementation project will be completed during the year ending 30 September 2019.

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

Approximately 40% of the company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. An additional area of judgement is the recognition and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract.

The full revenue recognition policy is disclosed in the 30 September 2017 financial statements.

Goodwill impairment

The judgements in relation to goodwill impairment testing relate to two key areas. The first is the ongoing appropriateness of the cash-generating units (“CGUs”) for the purpose of impairment testing. The second relates to the assumptions applied in calculating the value in use of the CGUs being tested for impairment.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2017 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 finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £24m as at 31 March 2018 (30 September 2017: £25m).

The carrying amount is sensitive to the resolution of issues which is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can take many years to resolve and assumptions on the likely outcome have therefore been made by management.

The nature of the assumptions made by management when calculating the carrying amounts relates to the estimated tax which could be payable as a result of decisions with tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In making the estimates, management’s judgement was based on various factors, including:

- the status of recent and current tax audits and enquiries;
- the results of previous claims; and
- any changes to the relevant tax environments.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations elsewhere to confirm these provisions. These judgements also take into consideration specialist tax advice provided by third party advisors on specific items.

Business combinations

When the Group completes a business combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net asset acquired is recognised as goodwill. The application of accounting policies to business combinations involves judgement and the use of estimates. The Group engages external experts when necessary to support assessments of identifiable assets and liabilities to recognise.

The fair values of the prior year business combinations are disclosed in the 30 September 2017 financial statements. There have been no material acquisitions during the six month period ended 31 March 2018.

Website

This condensed consolidated half-yearly financial report for the six month ended 31 March 2018 can also be found on our website: www.sage.com/investors/investor-downloads

2 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Quarterly Business Reviews chaired by the President and Chief Financial Officer. The Executive Committee uses 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 has been organised into nine key operating segments: Northern Europe, Central Europe, France, Iberia, North America (excluding Intacct), North America Intacct, Africa and the Middle East, Asia (including Australia) and Latin America. With effect from 1 October 2017, the previous operating segment of Southern Europe was split into two key operating segments, France and Iberia, as part of the continued focus to get closer to customers. For reporting under IFRS 8 for the six months ended 31 March 2018, the Group is divided into three reportable segments. These segments and their main operating territories are as follows:

- Northern Europe (UK & Ireland)
- Central and Southern Europe (Germany, Austria, Switzerland, Poland, France, Spain and Portugal)
- North America (the US, Canada and North America Intacct)

The remaining operating segments of Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for presentation as separate reportable segments under IFRS 8, and so are presented together and described as International. They include the Group's operations in South Africa, UAE, Australia, Singapore, Malaysia and Brazil.

The reportable segments reflect the aggregation of the operating segments for Central Europe, France and Iberia, and also of those for North America (excluding Intacct) and North America Intacct. In each case, the aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area. North America (excluding Intacct) and North America Intacct share the same North American geographical market.

The revenue analysis in the table below is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located.

Revenue by segment (Unaudited)

	Six months ended 31 March 2018							
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment								
Northern Europe	**144**	**1**	**145**	**–**	**145**	0.7%	1.2%	(0.5%)
Central and Southern Europe	**232**	**–**	**232**	**–**	**232**	6.3%	4.0%	4.4%
North America	**222**	**8**	**230**	**–**	**230**	18.4%	33.4%	13.1%
International	**100**	**–**	**100**	**–**	**100**	0.8%	7.1%	7.6%
Recurring revenue	**698**	**9**	**707**	**–**	**707**	7.7%	11.8%	6.4%
Software and software related services ("SSRS") revenue by segment								
Northern Europe	**27**	**–**	**27**	**–**	**27**	53.8%	53.3%	46.0%
Central and Southern Europe	**70**	**–**	**70**	**–**	**70**	10.1%	7.8%	8.3%
North America	**36**	**–**	**36**	**–**	**36**	(3.0%)	5.5%	(2.2%)
International	**25**	**–**	**25**	**–**	**25**	(16.2%)	(11.4%)	(9.7%)
SSRS revenue	**158**	**–**	**158**	**–**	**158**	6.7%	9.1%	7.1%
Processing revenue by segment								
Northern Europe	**19**	**–**	**19**	**–**	**19**	2.3%	2.0%	2.0%
Central and Southern Europe	**–**	**–**	**–**	**–**	**–**	(100.0%)	(100.0%)	(100.0%)
North America	**16**	**–**	**16**	**–**	**16**	(5.6%)	3.3%	3.3%
International	**8**	**–**	**8**	**–**	**8**	11.6%	15.8%	15.8%
Processing revenue	**43**	**–**	**43**	**–**	**43**	(1.7%)	2.1%	2.1%
Total revenue by segment								
Northern Europe	**190**	**1**	**191**	**–**	**191**	6.1%	6.5%	4.5%
Central and Southern Europe	**302**	**–**	**302**	**–**	**302**	6.8%	4.5%	4.9%
North America	**274**	**8**	**282**	**–**	**282**	13.4%	27.0%	10.3%
International	**133**	**–**	**133**	**–**	**133**	(2.4%)	3.5%	4.2%
Total revenue	**899**	**9**	**908**	**–**	**908**	7.1%	10.9%	6.3%

	Six months ended 31 March 2017				
	Statutory and underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment					
Northern Europe	143	–	143	2	145
Central and Southern Europe	218	5	223	–	223
North America	187	(14)	173	30	203
International	100	(5)	95	(1)	94
Recurring revenue	648	(14)	634	31	665
Software and software related services (“SSRS”) revenue by segment					
Northern Europe	18	–	18	1	19
Central and Southern Europe	63	1	64	–	64
North America	37	(3)	34	3	37
International	30	(3)	27	–	27
SSRS revenue	148	(5)	143	4	147
Processing revenue by segment					
Northern Europe	19	–	19	–	19
Central and Southern Europe	1	–	1	–	1
North America	17	(2)	15	–	15
International	7	–	7	–	7
Processing revenue	44	(2)	42	–	42
Total revenue by segment					
Northern Europe	180	–	180	3	183
Central and Southern Europe	282	6	288	–	288
North America	241	(19)	222	33	255
International	137	(8)	129	(1)	128
Total revenue	840	(21)	819	35	854

Operating profit by segment (Unaudited)

	Six months ended 31 March 2018					Change	
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory %	Underlying %
Operating profit by segment							
Northern Europe	**62**	**3**	**65**	**–**	**65**	(9%)	(9%)
Central and Southern Europe	**78**	**2**	**80**	**–**	**80**	16%	5%
North America	**37**	**30**	**67**	**–**	**67**	0%	63%
International	**9**	**1**	**10**	**–**	**10**	13%	(45%)
Total operating profit	**186**	**36**	**222**	**–**	**222**	3%	7%

	Six months ended 31 March 2017				
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m
Operating profit by segment					
Northern Europe	68	4	72	–	72
Central and Southern Europe	67	8	75	1	76
North America	37	8	45	(4)	41
International	8	11	19	(1)	18
Total operating profit	180	31	211	(4)	207

Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2018 (Unaudited) £m	Six months ended 31 March 2017 (Unaudited) £m
Northern Europe	**65**	72
Central and Southern Europe	**80**	76
North America	**67**	41
Total reportable segments	**212**	189
International	**10**	18
Underlying operating profit	**222**	207
Impact of movement in foreign currency exchange rates	**–**	4
Underlying operating profit (as reported)	**222**	211
Amortisation of acquired intangible assets	**(16)**	(9)
Other M&A activity-related items	**(10)**	(3)
Adjustment to acquired deferred income	**(9)**	–
Non-recurring items	**(1)**	(19)
Statutory operating profit	**186**	180

3 Adjustments between underlying profit and statutory profit (Unaudited)

	Six months ended 31 March 2018 Recurring £m	**Six months ended 31 March 2018 Non-recurring £m**	**Six months ended 31 March 2018 Total £m**	Six months ended 31 March 2017 Recurring £m	Six months ended 31 March 2017 Non-recurring £m	Six months ended 31 March 2017 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**(16)**	**–**	**(16)**	(9)	–	(9)
Loss on disposal of subsidiary	**–**	**(1)**	**(1)**	–	–	–
Adjustment to acquired deferred income	**(9)**	**–**	**(9)**	–	–	–
Other M&A activity-related items	**(10)**	**–**	**(10)**	(3)	–	(3)
Other items						
Business transformation	**–**	**–**	**–**	–	(19)	(19)
Total adjustments made to operating profit	**(35)**	**(1)**	**(36)**	(12)	(19)	(31)
Fair value adjustments	**(2)**	**–**	**(2)**	–	–	–
Amortisation of acquired intangibles	**–**	**–**	**–**	(1)	–	(1)
Gain on remeasurement of existing investment in an associate	**–**	**–**	**–**	–	13	13
Foreign currency movements on intercompany balances	**1**	**–**	**1**	–	–	–
Total adjustments made to profit before income tax	**(36)**	**(1)**	**(37)**	(13)	(6)	(19)

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.

The adjustment to acquired deferred income represents the additional revenue that would have been recorded in the year had deferred income not been reduced as part of the purchase price allocation adjustment made for business combinations.

M&A activity-related items comprise the cost of carrying out M&A activities including business combinations in the period as well as acquisition-related remuneration and directly attributable integration costs arising on business combinations completed in the prior year.

The fair value adjustment comprises a charge of £2m (H1 FY17: charge of £1m) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt. In H1 FY17, this was offset by a credit of £1m relating to a fair value adjustment of a financial asset.

Foreign currency movements on intercompany balances of £1m (H1 FY17: nil) occurs due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future.

Non-recurring items

Charges of £nil (H1 FY17: £19m) have been incurred as a result of the implementation of the business transformation strategy, which completed by 30 September 2017. The prior year charge comprised people reorganisation charges of £9m, net property exit costs of £3m and other directly attributable costs, mainly relating to consultancy and contractors of £7m. These charges were one-off in nature and directly linked to the business transformation that is under way.

Total cash paid in relation to the business transformation related accruals and provisions held at 30 September 2017 totalled £21m (H1 FY17: £23m) in the period.

Details of loss on disposal of subsidiary can be found in note 11.

The prior year gain on remeasurement of existing investment in an associate relates to the acquisition of Sage People (formerly Fairsail).

4 Income tax expense

The effective tax rate on statutory profit before tax was 21% (six months ended 31 March 2017: 25%) whilst the effective tax rate on underlying profit before tax for continuing operations was 26% (six months ended 31 March 2017: 27%). The effective income tax rate represents the best estimate of the average annual effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 31 March 2018.

US Reform

On 22 December 2017, the US President signed the Tax Cuts and Jobs Act, which provides for significant and wide-ranging changes to the taxation of corporations. The reforms are complex and Regulations are required to prescribe their application. Whilst the headline change is a reduction in the federal income tax rate from 35% to 21%, a significant number of additional measures have been incorporated into the US law which increase taxes payable. The most material tax adjustment included within these financial statements, as a result of the reduction in the Federal tax rate, is the recognition of a tax benefit of £13m due to a re-measurement of US deferred tax assets and liabilities at the new lower 21% federal tax rate. This benefit is excluded from underlying earnings as a non-recurring credit. The provisions and the regulations will continue to be monitored and evaluated as and when they are issued.

EU State Aid

The Group is monitoring developments in relation to EU State Aid investigations including the EU Commission's announcement on 26 October 2017 that it will be opening a State Aid investigation into the UK's Controlled Foreign Company regime. The Group does not currently consider any provision is required in relation to EU State Aid. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

5 Dividends

	Six months ended 31 March 2018 (Unaudited) £m	Six months ended 31 March 2017 (Unaudited) £m	Year ended 30 September 2017 (Audited) £m
Final dividend paid for the year ended 30 September 2016 of 9.35p per share	**–**	101	101
Interim dividend paid for the year ended 30 September 2017 of 5.22p per share	**–**	–	56
Final dividend paid for the year ended 30 September 2017 of 10.20p per share	**110**	–	–
	110	101	157

The interim dividend of 5.65p per share will be paid on 1 June 2018 to shareholders on the register at the close of business on 11 May 2018.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period, 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 dilutive potential ordinary shares consisting of share options granted to employees, where the exercise price is less than the average market price of the Company's ordinary shares during the period.

	Underlying Six months ended 31 March 2018 (Unaudited)	Underlying as reported Six months ended 31 March 2017 (Unaudited)	Underlying Six months ended 31 March 2017 (Unaudited)	**Statutory Six months ended 31 March 2018 (Unaudited)**	Statutory Six months ended 31 March 2017 (Unaudited)
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the period	**154**	145	142	**135**	136
Number of shares (millions)					
Weighted average number of shares	**1,082**	1,079	1,079	**1,082**	1,079
Dilutive effects of shares	**2**	5	5	**2**	5
	1,084	1,084	1,084	**1,084**	1,084
Earnings per share attributable to owners of the parent – Continuing operations (pence)					
Basic earnings per share	**14.25**	13.46	13.19	**12.50**	12.57
Diluted earnings per share	**14.22**	13.40	13.14	**12.48**	12.52

	Underlying Six months ended 31 March 2018 (Unaudited)	Underlying as reported Six months ended 31 March 2017 (Unaudited)	Underlying Six months ended 31 March 2017 (Unaudited)	**Statutory Six months ended 31 March 2018 (Unaudited)**	Statutory Six months ended 31 March 2017 (Unaudited)
Earnings attributable to owners of the parent – Continuing and discontinued operations (£m)					
Profit for the period	**154**	156	152	**135**	146
Number of shares (millions)					
Weighted average number of shares	**1,082**	1,079	1,079	**1,082**	1,079
Dilutive effects of shares	**2**	5	5	**2**	5
	1,084	1,084	1,084	**1,084**	1,084
Earnings per share attributable to owners of the parent – Continuing and discontinued operations (pence)					
Basic earnings per share	**14.25**	14.45	14.12	**12.50**	13.54
Diluted earnings per share	**14.22**	14.39	14.06	**12.48**	13.48

Reconciliation of earnings – Continuing operations	Six months ended 31 March 2018 (Unaudited) £m	Six months ended 31 March 2017 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**154**	142
Impact of movement in foreign currency exchange rates	–	3
Underlying earnings attributable to owners of the parent (as reported)	**154**	145
Transformation costs	**–**	(19)
Amortisation of acquired intangible assets and adjustment to acquired deferred income	**(25)**	(10)
Gain on remeasurement of existing investment in an associate	**–**	13
Fair value adjustments to debt-related financial instruments	**(2)**	–
Foreign currency movements on intercompany balances	**1**	–
Other M&A related items	**(10)**	(3)
Loss on disposal of subsidiary	**(1)**	–
Taxation on adjustments	**5**	10
Income tax adjustments (note 4)	**13**	–
Net adjustments	**(19)**	(9)
Earnings statutory profit for period	**135**	136

Reconciliation of earnings – Continuing and discontinued operations	Six months ended 31 March 2018 (Unaudited) £m	Six months ended 31 March 2017 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**154**	152
Impact of movement in foreign currency exchange rates	**–**	4
Underlying earnings attributable to owners of the parent (as reported)	**154**	156
Net adjustments – Continuing operations	**(19)**	(9)
Amortisation of acquired intangible assets – discontinued operations	**–**	(1)
Net adjustments	**(19)**	(10)
Earnings statutory profit for period	**135**	146

7 Non-current assets

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2017	**2,023**	**274**	**133**	**2,430**
Additions	**–**	**10**	**10**	**20**
Acquisition	**8**	**–**	**–**	**8**
Depreciation, amortisation and other movements	**–**	**(23)**	**(13)**	**(36)**
Exchange movement	**(56)**	**(8)**	**(1)**	**(65)**
Closing net book amount at 31 March 2018	**1,975**	**253**	**129**	**2,357**

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2016	1,659	109	123	1,891
Additions	–	7	8	15
Acquisition	103	–	–	103
Transfer to held for sale	(199)	(1)	(1)	(201)
Depreciation, amortisation and other movements	–	(15)	(12)	(27)
Exchange movement	26	2	3	31
Closing net book amount at 31 March 2017	1,589	102	121	1,812

Goodwill is not subject to amortisation, but is tested for impairment annually and whenever there is any indication of impairment. At 31 March 2018, there were no indicators of impairment to goodwill. Details of the 2017 goodwill impairment review are provided in the 2017 financial statements. Details of the current period acquisition has been provided in note 11.

8 Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US senior loan notes due to these bearing interest at fixed rates. The fair value of 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 with the respective book and fair values included in the table below.

	At 31 March 2018		At 31 March 2017	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long term-borrowing	**466**	**463**	551	557
Short term-borrowing	**36**	**36**	–	–

The Group has a fixed asset investment in an unquoted equity instrument which is classified as an available-for-sale financial asset and carried at its fair value of £14m (31 March 2017: £nil; 30 September 2017: £15m). The fair value of the instrument is considered to be equivalent to its nominal value as it currently pays a market rate of interest. This is a level 3 fair value as defined within IFRS 13.

9 Ordinary shares and share premium

	Number of shares (Unaudited)	**Ordinary Shares (Unaudited) £m**	**Share premium (Unaudited) £m**	**Total (Unaudited) £m**
At 1 October 2017	**1,120,638,121**	**12**	**548**	**560**
Shares issued/proceeds	**142,068**	**–**	**–**	**–**
At 31 March 2018	**1,120,780,189**	**12**	**548**	**560**

	Number of Shares (Unaudited)	Ordinary Shares (Unaudited) £m	Share Premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2016	1,119,480,363	12	544	556
Shares issued/proceeds	315,053	–	1	1
At 31 March 2017	1,119,795,416	12	545	557

In the current period, the Group transferred 1,790,815 (H1 FY17: 1,019,166) of treasury shares to the Employee Benefit Trust in order to satisfy vested PSP awards.

10 Cash flow and net debt

	Six months ended 31 March 2018 (Unaudited) £m	Six months ended 31 March 2017 (Unaudited) £m
Statutory operating profit – continuing operations	**186**	180
Recurring and non-recurring items	**36**	31
Underlying operating profit – continuing operations	**222**	211
Underlying operating profit – discontinued operations	**–**	18
Underlying operating profit (as reported)	**222**	229
Depreciation/amortisation/impairment/profit on disposal of non-current assets	**17**	17
Share-based payments	**5**	5
Net changes in working capital	**(5)**	2
Net capital expenditure	**(18)**	(15)
Underlying cash flow from operating activities	**221**	238
Net interest paid	**(12)**	(10)
Income tax paid	**(29)**	(39)
Non-recurring items	**(21)**	(23)
Exchange movement	**(2)**	–
Free cash flow	**157**	166
Net debt at 1 October	**(813)**	(397)
Acquisitions and disposals of subsidiaries, net of cash	**(8)**	(79)
Acquisitions and disposal related items	**(1)**	–
Reclassification as held for sale	**–**	(8)
Dividends paid to owners of the parent	**(110)**	(101)
Exchange movement	**31**	(15)
Net debt at 31 March	**(744)**	(434)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2017 (Audited) £m	Cash flow £m	Non-cash movements £m	Exchange movement £m	At 31 March 2018 (Unaudited) £m
Cash and cash equivalents	231	**71**	**–**	**(6)**	**296**
Bank overdrafts	(18)	**8**	**–**	**–**	**(10)**
Cash, cash equivalents and bank overdrafts	213	**79**	**–**	**(6)**	**286**
Liabilities arising from financing activities					
Loans due within one year	(37)	**–**	**–**	**1**	**(36)**
Loans due after more than one year	(914)	**(27)**	**–**	**35**	**(906)**
Cash held on behalf of customers	(75)	**(14)**	**–**	**1**	**(88)**
	(1,026)	**(41)**	**–**	**37**	**(1,030)**
Total	(813)	**38**	**–**	**31**	**(744)**

Included in cash above is £88m (31 March 2017: £96m, 30 September 2017: £75m) relating to cash held on behalf of customers. This arises as a consequence of providing payment transaction processing and electronic fund transfer services. The balance represents cash in transit from third parties to Sage customers. Accordingly, a liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt.

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group's current syndicated bank multi-currency revolving credit facility expires in February 2023 (with an option to extend for a further two years) following the renewal in H1 FY18 with facility levels of £648m (US$719m and £135m tranches). At 31 March 2018, £336m (H1 2017: £92m) of the multi-currency revolving debt facility was drawn, with the increase due to funding of the acquisition of Intacct in the prior year net of repayments funded from free cash flows.

Total US private placement ("USPP") loan notes at 31 March 2018 were £502m (US$600 m and EUR€85m) (H1 2017: £551m, US$600m and EUR€85m).

At 31 March 2018, the balance outstanding of the Group's term loan drawn to partially fund the Intacct acquisition was £107m (US$150m) (H1 2017: £nil).

11 Acquisitions and disposals

Measurement adjustments to business combinations reported using provisional amounts

In the financial statements for the year ended 30 September 2017, the acquisition of Intacct Corporation was accounted for using provisional fair values as the initial accounting for acquired intangible assets and goodwill was incomplete due to the short period between the acquisition date and the approval of the Annual Report. To date, no new information has been obtained that would have affected the measurement of these provisional amounts, and therefore no measurement adjustments have been recognised. The accounting for these amounts will be finalised during the second half of the year ending 30 September 2018.

Acquisitions made during the period

On 28 March 2018, the Group acquired 100% of the equity capital of a provider of a budgeting and forecasting solution for cash consideration of £8m. The value of net assets acquired was £nil. Provisional values have been used as it has not been practical to complete the initial accounting for acquired intangible assets and goodwill due to the short period between the acquisition date and the approval of the half-yearly report. Pending completion of the accounting, the residual excess of consideration over the net assets acquired has been recognised entirely as goodwill.

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the six-month period ended 31 March 2018, and had no assets or liabilities held for sale at 31 March 2018.

Discontinued operations in the six-month period ended 31 March 2017 and the year ended 30 September 2017 relate to the subsidiaries that formed the Group's North American Payments business. Assets and liabilities held for sale at 31 March 2017 relate to the subsidiaries that formed the Group's North America Payments business, the Group's subsidiary Syska GmbH and the Group's subsidiary Sage XRT Brasil Ltda. Assets and liabilities held for sale at 30 September 2017 relate to the Group's subsidiary Sage XRT Brasil Ltda. The North America Payments business and Syska GmbH were sold during the second half of the year ended 30 September 2017. Sage XRT Brasil Ltda was sold on 30 November 2017.

At 31 March 2017 assets held for sale comprised goodwill of £199m, cash of £28m, trade and other receivables of £26m and other assets of £12m with liabilities held for sale comprising trade and other payables of £45m and other liabilities of £6m. At 30 September 2017 assets held for sale comprised trade and other receivables of £1m and liabilities held for sale comprised trade and other payables of £1m.

Profit from discontinued operations for the six-month period ended 31 March 2017 and the year ended 30 September 2017 is analysed as follows:

	Six months ended 31 March 2017 (Unaudited) Underlying £m	Six months ended 31 March 2017 (Unaudited) Adjustments* £m	Six months ended 31 March 2017 (Unaudited) Statutory £m	Year ended 30 September 2017 (Audited) Statutory £m
Revenue	72	-	72	119
Cost of sales	(7)	-	(7)	(11)
Gross profit	65	-	65	108
Selling and administrative expenses	(47)	(1)	(48)	(79)
Operating profit	18	(1)	17	29
Finance income	-	-	-	-
Finance costs	-	-	-	-
Profit before income tax	18	(1)	17	29
Income tax expense	(7)	-	(7)	(11)
Profit after income tax	11	(1)	10	18
Gain on disposal of discontinued operations	-	-	-	27
Tax on disposal	-	-	-	(2)
Profit for the period	11	(1)	10	43

*Adjustments comprise amortisation of acquired intangible assets which have previously been recognised as part of business combinations.

Cash flow from discontinued operations for the six-month period ended 31 March 2017 and the year ended 30 September 2017 is analysed as follows:

Cash flows from:	Six months ended 31 March 2017 £m	Year ended 30 September 2017 £m
Operating activities	13	25
Investing activities	–	158
Financing activities	7	4
	20	187

Disposals made during the period

On 30 November 2017, the Group sold its subsidiary Sage XRT Brasil Ltda ("XRT"). Net assets divested were £1m, and the transaction resulted in a loss on disposal of £1m. The assets and liabilities of XRT were presented as held for sale in the Group's financial statements for the year ended 30 September 2017. Prior to disposal, the business formed part of the Group's International reporting segment.

12 Related party transactions

The Group's related parties are its subsidiary undertakings and Executive Committee members. The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings.

Key management compensation	**Six months ended 31 March 2018 (Unaudited) £m**	Six months ended 31 March 2017 (Unaudited) £m
Salaries and short-term employee benefits	**3**	4
Post-employment benefits	**-**	-
Share-based payments	**2**	1
	5	5

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee and are defined in the Group's Annual Report & Accounts 2017. There have been no changes to the Executive Committee since the signing of the Group's Annual Report & Accounts 2017.

13 Events after the balance sheet date

On 30 April 2018, the Group acquired a contact management software application for £9m. The transaction will be accounted for as the purchase of an intangible technology asset, together with the assumption of any associated liabilities. The asset will be amortised over its useful life.

Managing Risk

Risk is inherent within our business activities, and we continue to prioritise and develop our risk management strategy and capability in recognition of this. Timely identification of risks, combined with their appropriate management and escalation, enables us to successfully run our business and deliver strategic change, while ensuring that the likelihood and/or potential impact associated with such risks is understood and managed within our defined risk appetite.

The Board continues to monitor the risk environment, and reviews the appropriateness of the principal risks to the business.

Sage completed its annual review of the principal risks, which considered the business strategy and operational developments. This has resulted in nine refreshed principal risks which are an evolution of our prior principal risks. These risks, which we monitor and report against, are aligned to the successful delivery of our Strategy and mapped against the strategic pillars to which they relate recognising our orientation as a SaaS business. Four risks are externally focused and five risks are enablers. A range of measures are in place to manage and mitigate these risks.

Other risks are analysed and mitigated via the normal embedded risk management process.

Principal Risk	Risk Content	Management and Mitigation
Competitive Advantage Sage does not successfully establish its competitive advantage and then leverage timely and relevant product innovation and development activities and resources to acquire market share. _Strategic alignment:_ ***Winning in the Market*** ***Revolutionise the business***	Sage operates across multiple geographies and has the ability to capture local market opportunity, and use its geographically dispersed development resources to satisfy customer need. Sage seeks to position itself as a cloud first software company, and leverage its geographic footprint to compete head on with a number of emerging cloud only companies, and provide anytime anywhere access. This will require acquisition of new cloud based customers, and migration of existing non-cloud based customers.	• Launch of Sage Business Cloud • Sage Business Cloud is released in United Kingdom and Ireland, North America, France and Spain • A product rename to assist with customer understanding and to allow positioning • Recent acquisitions (Sage Intacct and People) are available in Sage Business Cloud • A licensing model transition strategy is in place • Approved subscription revenue targets are defined, which span multiple years and support successful and balanced delivery of our strategy • Ongoing monitoring and review of the approved targets takes place at country, regional and group levels to proactively manage the licence transition, and revenue targets In progress: • Ongoing migration of existing customers onto Sage Business Cloud • Ongoing deployment of Sage Business Cloud in line with plans

Principal Risk	Risk Content	Management and Mitigation
Approach to Market Sage fails to develop and maintain an appropriate blend of channels to support the successful marketing and sale of its suite of products and services, and enable achievement of growth targets. *Strategic alignment:* ***Customers for Life*** ***Winning in the Market***	Sage provides an extensive range of products and services to customers which support their needs and provide a natural migration path as these needs develop. It is important that all Marketing activities are aligned and that channels to market are both capable and effective in support of Sage's goals.	• A Market and Competitive Intelligence team is established, with Group responsibility for Market Intelligence • Brand health surveys are undertaken in order to understand customer perception of the Sage brand and its products • An approved internal communications plan is delivered, to share market intelligence to build brand awareness • Market data is provided through a Market Data portal, allowing ease of access and improved analysis • Dedicated partner channel managers are in place to support the development of partners, and to help manage the growth of targeted channels In progress: • Ongoing refinement and improvement of market data through feedback from the business • Deployment of the Sage Partner Programme to harmonise management of the indirect channel to market
Customer Success Sage fails to maintain a strong focus on the success of its customers by listening and understanding their needs at every stage of their business lifecycle, and then providing them with top quality products, services and experiences that support these needs. *Strategic alignment:* ***Customers for Life***	To achieve double digit revenue growth, Sage needs to support the success of its customers. Successful customers grow their business, and with that growth, require expanded Sage product and service offerings. By providing software, service and support offerings that allow customers to effortlessly adapt and grow within Sage Business Cloud environment, customer churn can be reduced, and acquisition of new customers migrating from competitors increased.	• A Product Marketing team oversees competitive positioning and product development • A Product Delivery team develops and delivers those products needed by our customers to support their success • Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • Defined 'customer for life' roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends In progress: • A data-driven Customer Success Framework is being piloted in Northern Europe. This framework is designed to enhance the customer experience, and subsequently reduce customer churn rates • The results of this pilot will be used to enhance the Framework as it is rolled out to other major markets

Principal Risk	Risk Content	Management and Mitigation
Innovation Sage fails to develop and adopt new technologies at pace, to deliver products and services which shape the market. *Strategic alignment:* ***Customers for Life*** ***Revolutionise the Business***	As an established technology company, Sage occupies a position where it can lever its customer and sector knowledge to shape the solutions in the markets within which it operates. New technologies, and engineering solutions that exploit these, continue to emerge and through successful adoption and incubation of these Sage can pioneer solutions which support and excite existing customers, and attract customers from our competitors.	• Market intelligence surveys identify market opportunities • A Product Delivery team develops and delivers products • Integration of the Pegg chat bot with Sage Accounting, to enhance the product experience using artificial intelligence In progress: • Prioritised product development based on 'customer for life' roadmaps • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform • Strategic acquisition and collaboration to complement and enable accelerated innovation • Platform Services delivered to Sage Business Cloud to enhance value proposition for Cloud adoption
Ecosystem Sage does not develop, manage and maintain an ecosystem to support the full range of business activities which enables it to grow at pace. *Strategic alignment:* ***Winning in the Market*** ***Capacity for Growth***	The development and management of Sage's third party ecosystem allows it to focus on core competencies, while leveraging specific third party skills to enable both delivery of service and revenue generation, such as through the use of third party APIs. With this extended enterprise come both opportunities to grow and develop the business, while introducing a requirement to understand these organisations and manage their performance.	• Dedicated partner and alliance channel managers are in place to support the development of partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • The Procurement function supports the business with the selection of strategic third party suppliers and negotiation of contracts • Procurement Lifecycle Policy and Procedures are agreed and published. These contain clear roles and responsibilities for colleagues and align with existing processes, including investment approval In progress: • Rationalisation of the third party ecosystem is continuing to focus on value add activities • Managed growth of the API estate, including enhanced product development that enables access by third party API developers • Deployment of the Sage Partner Programme to harmonise management of the indirect channel to market

Principal Risk	Risk Content	Management and Mitigation
Control Environment Sage's systems and processes do not enable effective and secure business operation across multiple geographies and provide timely and reliable data in support of the One Sage operating model, allowing it to operate at pace. Strategic alignment: ***Capacity for Growth***	The application of robust control frameworks across processes, and the rationalisation of key internal systems, enables Sage to deliver in a cloud-based, data-led operating environment. By transitioning to a consolidated set of core internal systems, supported by efficient and reliable controls, Sage can more effectively deliver scalable growth that is less constrained by borders and system-specific limitations.	• Established Global and Regional Risk Committees oversee the risk and internal control environment, and set the tone-from-the-top • Release of a Governance, Risk and Compliance technology to automate activity, and provide a consolidated view of risk and compliance • Shared Service Centres (SSCs) are established in Newcastle, Johannesburg and Atlanta, enabling the creation of consistent and consolidated systems and processes • Policy Approval Committee in place to supervise and approve policies within the Sage-wide policy suite • Customer Business Centres (CBCs) are built around core systems to underpin operational consistency and expansion, including Salesforce CRM and Sage Enterprise for General Ledger activity. As volumes scale, all new customers for CBC supported products are being entered directly into these systems • SSCs in Newcastle and Johannesburg have installed Sage Enterprise General Ledger In progress: • Plans for migration of country General Ledgers into Sage Enterprise is on track with plans • An Excellence in Controls initiative to enhance the supporting control environment is underway • Continuing deployment of a Governance, Risk and Compliance technology solution
Colleagues Sage fails to identify, recruit and retain colleagues with appropriate skills and experience, and to continually develop these colleagues, to enable it to deliver its strategy. Strategic alignment: ***One Sage*** ***Customers for Life***	Sage seeks to establish itself as a cloud technology company, offering anytime, anywhere solutions to its customers, and underpin delivery of these goals through an appropriately skilled workforce. By attracting key experience into the business, and supplementing this through identification and development of internal talent, a stable platform will be provided from which to deliver its strategic direction.	• Roles and vacancies are benchmarked in the market to ensure appropriate remuneration • Job Descriptions provide criteria against which new hires and internal transfers are assessed • The performance management process identifies training and development needs for colleagues In progress: • An Employee Value Proposition is being developed to drive a consistent experience for all prospective colleagues • Deployment of Leading at Sage training for all managers within the business to develop leaders

<table>
<tr><th>Principal Risk</th><th>Risk Content</th><th>Management and Mitigation</th></tr>
<tr><td>Values and Behaviours

Sage does not establish an environment and way of working consistent with its values and behaviours, which rewards behaviour aligned to corporate values, drives delivery, and ensures the customer experience is optimised.

Strategic alignment:
One Sage

Capacity for Growth</td><td>Customers reside at the heart of everything Sage does, and their experience is shaped by the actions of colleagues across the business as they perform their daily roles.

By establishing a culture which places the customer foremost in colleague minds, and reinforcing this behaviour through alignment of objectives and rewards, Sage seeks to optimise the customer experience, drive satisfaction, and reduce churn.</td><td>• Code of Conduct is in place, and communicated to all colleagues
• Alignment of personal Objectives across Sage, with direct cascade from the Executive Committee
• Formal assessment against personal objectives for each colleague as part of established performance management process, which also considers personal application of Sage’s Values and Behaviours
• Whistleblowing and Incident Reporting mechanisms are in place to allow issues to be formally reported, and investigated
• All colleagues are empowered to take 5 paid Foundation days each year, to support charities and provide philanthropic support to the community

In progress:
• Core eLearning modules are being enhanced to include wider role based education and ensure they are relevant and appropriate to colleagues, to drive awareness
• Scheduled activity by Sage Compliance to support and empower colleagues to ‘do the right thing’ and demonstrate the behaviours required to support a 100% compliance culture</td></tr>
<tr><td>Information Management and Protection

Sage fails to adequately understand, manage and protect information, including cyber exposures across the enterprise.

Strategic alignment:
One Sage

Capacity for Growth</td><td>Sage retains and processes large volumes of information which supports internal business operations and wider service offerings. Much of this is subject to legislative or regulatory requirements, which continue to evolve.

Effectively understanding, managing and protecting this information, can allow Sage competitive advantage in the market, and build brand equity as a trusted supplier.</td><td>• Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security
• A network of Information Security Officers supports the business
• Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance
• Secure coding standards are in place for the development of new code
• Structured and ad-hoc IT internal audit activity is undertaken by Sage Assurance against an agreed plan, and reported to management and the Audit and Risk Committee
• A Sage information security policy suite is in place
• An Incident Management framework is in place, including rating of incidents and requirements for escalation

In progress:
• Awareness training for Information Management and protection continues to be deployed
• General Data Protection Regulations (GDPR) project overseeing actions to comply with legislation
• Information Security Risk Management Methodology is being deployed to provide objective risk information</td></tr>
</table>

Statement of Directors' Responsibilities

The condensed consolidated half-yearly financial report for the six months ended 31 March 2018 includes the following responsibility statement.

Each of the Directors confirms that, to the best of their knowledge:

- the Group consolidated condensed financial statements, which have been prepared in accordance with IAS34, "Interim Financial Reporting" as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors also confirm that the Interim Management Report herein includes a fair review of information required by 4.2.8R of the DTR (Disclosure and Transparency Rules).

The Directors of The Sage Group plc are consistent with those listed in the Group's 2017 Annual Report and Accounts with the addition of Blair Crump, who was appointed with effect from 1 January 2018. A list of current directors is maintained on the Group's website: www.sage.com.

On behalf of the Board

S Hare
Chief Financial Officer
1 May 2018

Independent review report to The Sage Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2018 which comprises Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related explanatory notes 1 to 13. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
1 May 2018