

Strong first half performance driven by strategic progress

- Continued strong growth in high quality organic recurring revenue of 10.3%
- Organic operating margin of 22.8%, reflecting ongoing investment to accelerate strategic execution
- Strong underlying cash conversion of 127%
- Resilient balance sheet, with c. £1.3bn of cash and available liquidity; net debt to EBITDA ratio of 0.5x
- We remain focused on the longer-term opportunity as we transition customers to subscription and Sage Business Cloud, with the FY20 outlook reflecting the current global economic uncertainties

Alternative Performance Measures (APMs) ¹	H1 20	H1 19 ²	Change
Organic Financial APMs			
Organic Total Revenue	£935m	£885m	+5.7%
Organic Recurring Revenue	£826m	£749m	+10.3%
Organic Operating Profit	£213m	£207m	+3.0%
% Organic Operating Profit Margin	22.8%	23.4%	-0.6% pts
Underlying Financial APMs			
Underlying Operating Profit	£218m	£216m	+0.9%
% Underlying Profit Margin	22.4%	22.9%	-0.5% pts
Underlying Basic EPS	13.75p	13.78p	-0.2%
Underlying Cash Conversion	127%	151%	-24% pts
KPIs			
Annualised Recurring Revenue (ARR)	£1,693m	£1,541m	+9.8%
Renewal Rate by Value	101%	100%	+1% pt
% Subscription Penetration	62%	52%	+10% pts
% Sage Business Cloud Penetration	56%	44%	+12% pts
Statutory Measures			
Revenue	£975m	£957m	+1.9%
Operating Profit	£289m	£210m	+37.9%
% Operating Profit Margin	29.7%	21.9%	7.8% pts
Basic EPS (p)	20.56p	14.19p	+44.9%
Dividend Per Share (p)	5.93p	5.79p	2.5%

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

H1 20 Financial Performance

- Organic total revenue increased by 5.7% to £935m, reflecting growth in recurring revenue of 10.3% to £826m, underpinned by software subscription revenue growth of 25.6% to £582m. This was offset by a 19.6% decrease in other revenue (SSRS and processing) to £109m.
- Growth in recurring revenue of 10.3% reflects the continued focus on attracting new customers and migrating existing customers to subscription and Sage Business Cloud, with particular strength in Northern Europe and North America.
- Decrease in other revenue (SSRS and processing) of 19.6% reflects the managed decline in licence sales and de-prioritisation of professional services revenue as the business continues to focus on subscription, together with the additional impact of COVID-19 towards the end of March.

¹ Please see Appendix 1 for guidance of the usage and definitions of the Alternative Performance Measures.

² Organic revenue and operating profit for H1 19 is restated to aid comparability with H1 20. The definition of organic measures can be found in Appendix 1 with a full reconciliation of organic, underlying and statutory measures on page 9. Unless otherwise specified, all references to revenue, profit and margins are on an organic basis.

- Organic operating profit of £213m, representing a margin of 22.8% (H1 19: 23.4%), reflects continued investment to accelerate strategic execution, and includes a £13m increased bad debt provision in connection with COVID-19.
- Non-recurring gain of £92m (H1 19: £13m) includes a £141m net gain on business disposals (Sage Pay and the Brazilian business), offset by office relocation and property restructuring charges of £30m (H1 19: £14m) and a £19m charge for the impairment of goodwill in respect of the Asian business.
- Strong underlying cash conversion of 127% (H1 19: 151%) reflects sustained improvements in working capital and the continued transition to recurring revenue, with free cash flow of £227m (H1 19: £257m).
- Resilient balance sheet, with c. £1.3bn of cash and available liquidity (comprising £912m of cash and cash equivalents, and £413m of undrawn facilities), and a net debt to EBITDA ratio of 0.5x as at 31 March 2020.
- Interim dividend up 2.5% to 5.93p, reflecting strong business performance and cash generation in the first half, and in line with policy of maintaining the dividend in real terms.

Progress in strategic execution

Sage's vision is to become a great SaaS company for customers and colleagues alike. Highlights of our strategic progress in the first half include:

- To drive customer success, we've invested in the end-to-end customer experience, through new ways of working, more efficient processes and improved technology. This has enabled us to respond more effectively to the impact of COVID-19 by providing tailored support and advice to our customers.
- To drive colleague success, we've continued to build a customer-centric culture, embedding our values and further investing in colleague development. Strong colleague engagement has been central to Sage's COVID-19 response, both in the transition to homeworking and in continuing to support customers.
- In innovation, Sage Accounting for Professional Users, our small business solution for cloud-native accounts, has been launched in the UK, while the programme to internationalise Intacct is progressing according to plan. We continue to invest in Sage Business Cloud, creating a single digital environment for all our cloud native and cloud connected products.
- Sage announced the acquisition of CakeHR, a cloud native solution that simplifies and automates HR tasks for small businesses, boosting our cloud offering in the small business segment.
- Sage completed the disposals of Sage Pay and the Brazilian business in March 2020, helping to reshape the Group's product portfolio and increase focus on Sage Business Cloud.

Continued focus on strategic execution has resulted in:

- Strong annualised recurring revenue³ (ARR) growth of 9.8% to £1,693m, reflecting momentum from FY19 and further sequential growth in the first half.
- Recurring revenue now represents 88% of total revenue (H1 19: 85%) with 62% software subscription penetration (H1 19: 52%).
- Future Sage Business Cloud Opportunity (Sage Business Cloud and products with potential to migrate) recurring revenue growth of 12%. Sage Business Cloud penetration⁴ of 56% (H1 19: 44%), reflecting continuing progress in the shift towards cloud connected and cloud native solutions.
- Renewal by value⁵ increased to 101% (H1 19: 100%), demonstrating the strength of the existing customer base.

³ Defined as the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve.

⁴ Defined as organic recurring revenue from the Sage Business Cloud as a proportion of the organic recurring revenue of the Future Sage Business Cloud Opportunity.

⁵ Defined as the closing ARR from customers active at the start of the year, divided by the opening ARR for the year.

COVID-19 update

- With Sage's focus on high quality recurring and subscription-based revenues, and strong liquidity position, the Group has entered the COVID-19 pandemic in a strong operational and financial position.
- Our response to the pandemic has been to ensure the health and wellbeing of our colleagues, to continue serving and supporting our customers and partners, and to remain focused on our SaaS transition strategy.
- We have put in place a range of measures to support our customers and partners, through local online advice hubs and expert customer service, and by working with governments to help our customers directly access the financial support available, facilitating the application process through our software.
- We saw the early impacts of COVID-19 on Other Revenue (SSRS and processing) towards the end of March, as software licence and professional services implementations were affected.
- We have now started to see the broader effects of the sharp economic downturn caused by the pandemic, with some customers deferring purchase decisions, leading to a slowdown in new customer acquisition.
- In April trading, reflecting the above, new customer acquisition was roughly half the level previously expected. We have also seen a slight increase in customer churn.
- In the context of a more challenging growth environment, we are implementing a range of mitigating actions to manage costs and cash in the near-term.
- At this point, Sage does not intend to make any redundancies in response to the economic environment. We also do not intend to furlough any colleagues or make use of government support programmes.
- We will continue to invest for the long term, repositioning the Group strategically and reshaping the portfolio, supported by our resilient balance sheet.
- Despite the near-term uncertainty, we remain confident that we have the right strategy to support our longer-term vision to become a great SaaS company.

Outlook

While the Group has performed well in the first half, it is too early to quantify with confidence the impact of the pandemic on Sage's financial performance for the full year. We continue to expect, as we indicated in our trading update on 6 April, that organic recurring revenue growth will be below the previously guided range of 8% to 9%, and that the decline in other revenue (SSRS and processing) will accelerate significantly in the second half, with an associated impact on margin.

Steve Hare, CEO, said:

"Sage has had a strong first half, sustaining last year's growth momentum as we continue to focus on recurring revenue growth, and making good progress in strategic execution. Our key priority has been the health and wellbeing of our colleagues and our service to customers. I am proud of how colleagues have reacted, and how they have supported each other and our customers. Despite the near-term uncertainties, I believe our continuing investment into Sage Business Cloud, together with our focus on customers, colleagues and innovation, form a strong base for the future performance of Sage."

About Sage

Sage is the global market leader for technology that provides small and medium businesses with the visibility, flexibility and efficiency to manage finances, operations and people. With our partners, Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support. Our years of experience mean that our colleagues and partners understand how to support our customers and communities through the good, and more challenging times. We are here to help, with practical advice, solutions, expertise and insight.

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A presentation for investors and analysts will be made via webcast and conference call at 8.30am UK time. The webcast can be accessed via www.sage.com/investors. Conference call participants may dial in by calling +44 (0) 20 7192 8000 and using pin code 1479749. A replay of the call will also be available for one week after the event, by calling +44 (0) 333 300 9785 and using pin code 1479749.

CEO Review

Sage achieved a strong performance in the first half, delivering high quality recurring revenue growth while continuing to migrate existing customers and attract new customers to subscription and the cloud. COVID-19, which started to impact the Group towards the end of March, is a human crisis that is having a profound effect on people and communities around the world. It presents an unprecedented challenge for our customers – small and medium businesses – and for Sage. We are focused on supporting our colleagues and customers through the pandemic, leveraging our strong service culture and capabilities, and building on our reputation as a trusted advisor. We are also continuing to invest for the long term, ensuring that our short-term actions preserve and enhance our capability and capacity to grow in the future. Our strategy to position the Group for longer-term success remains unchanged, and we continue to focus on our three strategic lenses of customer success, colleague success and innovation, in order to drive further progress towards our vision of becoming a great SaaS company for customers and colleagues alike.

H1 20 Results

In H1 20 the Group delivered recurring revenue growth of 10% to £826m with organic total revenue increasing by 6% to £935m. Strong recurring revenue growth is underpinned by software subscription growth of 26% as the business continues to focus on migrating existing customers and attracting new customers to subscription and the cloud.

Recurring revenue growth was driven principally by North America and Northern Europe (UK & Ireland), with strong momentum from FY19 carried forward into the first half. In North America, recurring revenue grew by 12% to £311m, driven by cloud connected solutions and a good performance from Sage Intacct. Northern Europe continued to grow strongly with recurring revenue growth of 13% to £187m benefitting from strong growth in the second half of FY19 as well as new cloud connected contracts added in H1 20. France achieved recurring revenue growth of 4%, driven by growth in cloud connected solutions.

Other revenue (SSRS and processing) decreased by 20% to £109m, reflecting the managed decline in licence sales and de-prioritisation of professional services revenue as the business continues to focus on subscription, together with the additional impact of COVID-19 towards the end of March.

Portfolio View of Revenue

Revenue by Portfolio ⁶	Recurring			Total		
	H1 20	H1 19	Growth	H1 20	H1 19	Growth
	£m	£m	%	£m	£m	%
Cloud native	£105m	£80m	+31%	£111m	£86m	+29%
Cloud connected ⁷	£307m	£210m	+46%	£315m	£219m	+44%
Sage Business Cloud	£412m	£290m	+42%	£426m	£305m	+40%
Products with potential to migrate	£319m	£362m	-12%	£389m	£455m	-14%
Future Sage Business Cloud Opportunity⁸	£731m	£652m	+12%	£815m	£760m	+7%
Non-Sage Business Cloud ⁹	£95m	£97m	-2%	£120m	£125m	-4%
Organic Total Revenue	£826m	£749m	+10%	£935m	£885m	+6%
Sage Business Cloud Penetration	56%	44%				

⁶ The revenue portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS 8.

⁷ Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is based on an originally on-premise offering for which a substantial part of the customer value proposition is now linked to functionality delivered in, or through the cloud.

⁸ Revenue from customers using products that are currently part of, or that management currently believe have a clear pathway to, Sage Business Cloud.

⁹ Revenue from customers using products for which management does not currently envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration.

Within the portfolio view of revenue, the Future Sage Business Cloud Opportunity represents products in, or with a clear pathway to, Sage Business Cloud. Management's primary operational focus is to migrate desktop customers and attract new customers to Sage Business Cloud, and, by delivering increased value to these customers, grow their lifetime value.

The Future Sage Business Cloud Opportunity continues to show strong performance, with recurring revenue growth of 12% and total revenue growth of 7%. Cloud native solutions have delivered recurring revenue growth of 31%, with Sage Intacct delivering recurring revenue growth of 31%.

The growth in cloud connected revenue of 46% to £307m reflects momentum from the migration of existing customers predominantly in North America, Northern Europe and France, as well as further growth from existing and new customers. The focus on driving revenue to cloud solutions has resulted in Sage Business Cloud penetration of 56%, up from 44% in the prior year.

The revenue in the Non-Sage Business Cloud portfolio comprises products for which management does not envisage a path to Sage Business Cloud, predominantly because the products address segments outside Sage's core focus. The 2% recurring revenue decline and 4% total revenue decline in the Non-Sage Business Cloud portfolio is in line with expectations and reflects the strategy to focus on solutions with a direct pathway to Sage Business Cloud.

In line with this strategy, the Group completed the disposals of Sage Pay and the Brazilian business in H1 20, whose products were largely within the Non-Sage Business Cloud portfolio.

Strategy – implementing our vision to become a great SaaS company

The Group remains confident in its strategy to transition to subscription and the cloud, as we continue to work towards our vision to become a great SaaS company for customers and colleagues alike.

In order to achieve Sage's vision, the business continues to focus on the strategic lenses of customer success, colleague success and innovation.

Customer Success

Customer success is driven by a customer-centric approach to everything the organisation does, to create enduring subscription relationships and deliver better business outcomes for customers. By proactively solving customer pain points, we are able to forge deeper relationships with our customers, maximise retention and, by building reputation and advocacy, attract new customers to Sage.

During the first half, we continued to invest in the end-to-end customer experience, embedding new ways of working and improving processes to address more effectively the needs of small and medium businesses. This supports our customer success model which has been deployed across our largest geographies, with significant improvements in productivity and customer service levels.

We've rolled out our single CRM system to North America, having completed the rollout to Northern Europe last year, improving the level of customer insight and service efficiency. We have also continued to digitise the customer service function, through web chat, online forums and communities, reducing call waiting times and accelerating the resolution of customer problems.

These investments have enabled Sage to focus on providing support and advice tailored to the specific needs of small and medium businesses in the light of COVID-19, and to do this with all of our colleagues working from home. In each of our major markets, we've established online coronavirus hubs as a source of practical information. We also run webinars and other interactive sessions to give advice to all small and medium businesses, whether customers or not, on how to access government funds.

We're working directly with governments to find new and better ways to support small and medium businesses. In the UK, we've developed a special software module which supports customers when they apply for government funds, automating key parts of the process, and improving customers' productivity and efficiency. To further support our customers, we have undertaken external research and are listening to customer feedback to understand how we can provide bespoke help for those who need it most.

Colleague success

Management is committed to building a culture that fosters collaboration, and open and honest dialogue, where colleagues feel connected to Sage's vision and put customers at the heart of everything they do.

We have continued to focus on our leadership and emerging talent development programmes in the first half, in order to ensure our current and future leaders are well-equipped to succeed, and we've embedded our values and behaviours through our performance review approach and through culture workshops. We've also created an employee value proposition, to be communicated both internally and externally, which clearly sets out the attractions of working for Sage, supporting both recruitment and retention.

Sage Foundation is a core part of our values and also serves to attract and retain talent. All colleagues are encouraged to take up to five days, on a fully paid basis, to support charitable initiatives under Sage Foundation. As a result, colleagues have contributed more than 12,000 volunteering days so far this year, including during a recent "virtual volunteering" initiative aimed at continuing the work of Sage Foundation during lockdown.

We've been agile in our response to COVID-19, with all colleagues smoothly transitioning to homeworking while maintaining a high level of support for our customers. This transition has been effectively managed through a range of focused initiatives including daily and weekly leadership communications, networking groups, e-learning and support for mental wellbeing.

The result of investing in colleague engagement is more invigorated, engaged colleagues, who are better able and more motivated to support the success of Sage's customers. We carry out regular pulse surveys to monitor colleague sentiment, with recent surveys indicating that 93% of Sage colleagues are satisfied with Sage's response to the global pandemic.

The business will continue to focus on colleagues and leaders throughout FY20, supported by a review of our colleague experience, capability and alignment of compensation structures to drive our transition to a SaaS business.

Innovation

Innovation at Sage means developing solutions that deliver real customer value and solve customer problems by doing things differently, using incremental, emerging and experimental innovation.

In order to achieve this, management continues to invest in Sage Business Cloud. The vision for Sage Business Cloud is a digital environment of cloud platforms, applications and services across Accounting and Financials, People & Payroll and Payments & Banking for Sage's existing and new, small and medium-sized customers, supported by a thriving partner marketplace. This also includes providing cloud connected customers with increased value, allowing them to access the Sage Business Cloud network and consume cloud services as they require. Through a combination of common tools, services, design principles, and service commitments, Sage Business Cloud delivers the core brand values of trusted experience, innovative technology, and customer success.

Our innovation programme continued at pace during the first half of FY20:

- The internationalisation of Sage Intacct continued, with promising early progress in the UK and Australia following its launch in those countries last year. South Africa is expected to launch in the second half of this year.
- Sage Intacct Construction, a cloud financial management solution designed to meet the unique needs of construction companies, and an important further part of our migration strategy, was launched in the US.
- Sage Business Cloud Accounting for Professional Users has been developed and soft launched in the UK. This solution will be used to attract new customers, both direct and through accountant referrals, and over time, will be used to offer a migration path for Sage 50 customers that choose to move to a cloud native solution.
- AutoEntry, our data entry automation solution which we acquired at the end of September, has been integrated with key products including Sage 50 and Sage Accounting, leading to rapid growth.

- We launched Sage Business Cloud marketplace in the UK, a platform on which all of our independent software vendors (ISVs) can showcase and promote their Sage Business Cloud-integrated solutions to our customers.
- We acquired CakeHR, a cloud native solution that simplifies and automates HR tasks for small businesses, boosting Sage's cloud offering for small businesses.
- We created Sage AI Labs, a focused team driving the development of Artificial Intelligence and Machine Learning to enhance the capability of our products, including AI-powered outlier detection capabilities enabling customers to spot accounting mistakes and irregularities, and time tracking that uses AI to learn from project-based employees.

In the second half, Sage will continue to invest in the development and availability of Sage Business Cloud solutions, as well as continuing to drive adoption of cloud services amongst customers.

Strategic KPIs

Our strategic KPIs reflect the strategic progress we've made through our focus on customer success, colleague success and innovation, with H1 20 progress as follows:

- Strong ARR growth of 10% to £1,693m, reflecting momentum from FY19 and further sequential growth in the first half.
- Software subscription penetration of 62% (H1 19: 52%) as the business continues to transition existing customers and attract new customers to subscription and the cloud.
- Sage Business Cloud penetration of 56% (H1 19: 44%) as the business continues to focus on core solutions which have a direct pathway to Sage Business Cloud.
- Renewal by value increased to 101% (H1 19: 100%) demonstrating the strength of the existing customer base.

Financial Review

This financial review provides a brief summary of Sage's financial results on an organic basis, before moving to the underlying and statutory performance of the business. Organic measures allow management and investors to understand the like-for-like revenue and margin performance of the continuing business.

Organic Financial Results

In H1 20 Sage delivered organic recurring revenue growth of 10% to £826m and organic total revenue growth of 6% to £935m. Recurring revenue growth, underpinned by a 26% increase in software subscription revenue to £582m, was driven principally by North America and Northern Europe, with strong momentum from FY19 carried forward into the first half of FY20.

Other revenue (SSRS and processing) declined by 20% to £109m, reflecting the managed decline in licence sales and de-prioritisation of professional services revenue as the business continues to focus on subscription. The decline in other revenue accelerated towards the end of March as a result of COVID-19 impacting licence sales and professional services implementations.

The Group increased organic operating profit by 3% to £213m, and achieved an organic operating margin of 22.8% (H1 19: 23.4%). This margin reflects continued investment to accelerate strategic execution, and includes a £13m charge to provide for expected credit losses in connection with COVID-19.

The Group also achieved underlying basic EPS of 13.75p, underlying cash conversion of 127% and free cash flow of £227m.

Statutory and Underlying Financial Results

Financial Results	Statutory			Underlying ¹⁰		
	H1 20	H1 19	Change	H1 20	H1 19	Change
North America	£343m	£327m	+5%	£343m	£330m	+4%
Northern Europe	£215m	£197m	+9%	£215m	£197m	+9%
Central & Southern Europe	£297m	£304m	-2%	£297m	£298m	0%
International	£120m	£129m	-7%	£120m	£121m	-1%
Group Total Revenue	£975m	£957m	+2%	£975m	£946m	+3%
Operating Profit	£289m	£210m	+38%	£218m	£216m	+1%
% Operating Profit Margin	29.7%	21.9%	+7.8% pts	22.4%	22.9%	-0.5% pts
Profit Before Tax	£275m	£198m	+40%	£205m	£202m	+2%
Net Profit	£224m	£154m	+46%	£150m	£150m	0%
Basic EPS	20.56p	14.19p	+45%	13.75p	13.78p	0%

The Group achieved statutory total revenue of £975m, a 2% increase on the prior year, with underlying growth in North America and Northern Europe partly offset by foreign exchange headwinds in Central & Southern Europe and International. Underlying total revenue, which normalises the comparative period for foreign currency movements, increased by 3%.

Statutory operating profit increased by 38% to £289m, reflecting the non-recurring net gain on the disposal of subsidiaries (Sage Pay and the Brazilian business), together with the underlying performance of the business and other recurring and non-recurring items. Underlying operating profit, which excludes recurring and non-recurring items, grew by 1% to £218m.

Underlying basic EPS of 13.75p was broadly in line with the prior period.

¹⁰ Revenue and profit measures are defined in Appendix 1.

Underlying & Organic Reconciliations to Statutory

	H1 20			H1 19		
	Revenue	Operating Profit	Operating Margin %	Revenue	Operating Profit	Operating Margin %
Statutory	£975m	£289m	29.7%	£957m	£210m	21.9%
Recurring Items ¹¹	-	£21m	-	-	£21m	-
Non-recurring items:						
- (Gain)/loss on disposal of subsidiaries	-	(£141m)	-	-	(£27m)	-
- Impairment of goodwill	-	£19m	-	-	-	-
- Property restructuring costs	-	£6m	-	-	£14m	-
- Office relocation	-	£24m	-	-	-	-
Impact of FX ¹²	-	-	-	(£11m)	(£2m)	-
Underlying	£975m	£218m	22.4%	£946m	£216m	22.9%
Acquisitions	-	-	-	£2m	(£1m)	-
Disposals	(£40m)	(£5m)	-	(£63m)	(£8m)	-
Organic	£935m	£213m	22.8%	£885m	£207m	23.4%

Revenue

The Group achieved statutory and underlying revenue of £975m in H1 20. Underlying revenue in H1 19 of £946m reflects statutory revenue of £957m retranslated at current year exchange rates, resulting in an FX adjustment of £11m.

Organic revenue of £935m (H1 19: £885m) reflects underlying revenue adjusted for £40m of revenue from assets sold during the period (H1 19: £63m), including £17m of revenue from Sage Pay (H1 19: £20m) and £23m from the Brazilian business (H1 19: £24m). Both disposals completed in March 2020. H1 19 organic revenue also includes a £16m revenue adjustment for the disposal of the US payroll processing business in February 2019, and £3m for the disposal of the South African payments business in July 2019. There is a further £2m revenue adjustment to the prior year relating to the acquisition of AutoEntry in September 2019.

Operating profit

The Group achieved a statutory operating profit of £289m in H1 20 (H1 19: £210m). Underlying operating profit of £218m (H1 19: £216m) reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £21m (H1 19: £21m) comprise £15m amortisation of acquisition-related intangibles (H1 19: £15m) and £6m of M&A related charges (H1 19: £6m).

Non-recurring items include a £141m net gain on disposal of subsidiaries (H1 19: £27m gain), comprising a £193m gain on the disposal of Sage Pay and a £52m loss on disposal of the Brazilian business (of which £44m reflects the non-cash reclassification of foreign exchange losses from other comprehensive income to the income statement)¹³. This is offset by a £19m non-cash charge relating to goodwill impairment in respect of our Asia business, costs relating to our property restructuring programme of £6m (H1 19: £14m), and non-cash accelerated depreciation related to the relocation of our North Park office in Newcastle of £24m. H1 19 operating profit also includes a £2m FX adjustment.

Organic operating profit of £213m (H1 19: £207m) reflects underlying operating profit adjusted for operating profit attributable to businesses sold during the period, including £4m from Sage Pay (H1 19: £8m), and £1m from the Brazilian business. The prior year also includes a further £1m adjustment relating to the acquisition of AutoEntry. There were no material adjustments in respect of the other disposals, which were approximately breakeven at an operating profit level.

¹¹ Recurring and non-recurring items are detailed in the paragraph below and in note 3 of the financial statements.

¹² Impact of retranslating H1 19 results at H1 20 average rates.

¹³ The difference between the actual FX loss reclassification and the estimate given in our announcement of 2 March 2020 reflects a revised calculation and the further devaluation of the Brazilian Real between signing and completion.

Organic Revenue Overview

Organic Revenue Mix	H1 20		H1 19		% Change
	£m	% of Total	£m	% of Total	
Software Subscription Revenue	£582m	62%	£464m	52%	+26%
Other Recurring Revenue	£244m	26%	£285m	33%	-15%
Organic Recurring Revenue	£826m	88%	£749m	85%	+10%
Other Revenue	£109m	12%	£136m	15%	-20%
Organic Total Revenue	£935m	100%	£885m	100%	+6%

Organic total revenue increased by 6% in H1 20 to £935m. Organic recurring revenue grew by 10% to £826m, underpinned by a 26% increase in software subscription revenue to £582m, reflecting the continued focus on attracting new customers and migrating existing customers to subscription and Sage Business Cloud. The decline in other recurring revenue of 15% to £244m reflects the substitution effect as customers migrate to subscription contracts. Other revenue (SSRS and processing) declined by 20% to £109m, reflecting the managed decline in licence sales and de-prioritisation of professional services as the business continues to focus on its transition to subscription revenue, together with the additional impact of COVID-19 towards the end of March.

In the portfolio view of revenue, the Future Sage Business Cloud Opportunity delivered recurring revenue growth of 12% to £731m and total revenue growth of 7% to £815m, driven by transitioning existing customers and attracting new customers to Sage Business Cloud. In the Non-Sage Business Cloud portfolio, recurring revenue decreased by 2% to £95m, and total revenue decreased by 4% to £120m.

North America

Organic Revenue by Category	H1 20	H1 19	% Change
Organic Total Revenue	£343m	£314m	+9%
Organic Recurring Revenue	£311m	£278m	+12%
% Subscription Penetration	59%	55%	+4% pts
% Sage Business Cloud Penetration	70%	64%	+6% pts
Organic Recurring Revenue	H1 20	H1 19	% Change
US (excluding Intacct)	£196m	£183m	+7%
Canada	£46m	£42m	+10%
Intacct	£69m	£53m	+31%

North America delivered recurring revenue growth of 12% to £311m and total revenue growth of 9% to £343m. Subscription penetration is now 59%, up from 55% in the prior year, and Sage Business Cloud penetration is now 70%, up from 64% in the prior year, driven by both cloud connected and cloud native solutions.

The US (excluding Intacct) delivered recurring revenue growth of 7% to £196m, and total revenue growth of 5% to £221m. The US delivered strong growth in the second half of FY19 driven by migrations, and made further progress in the first half of FY20, with three quarters of the Sage 200 base on a cloud connected solution.

Canada has also continued to perform well, growing recurring revenue by 10% to £46m and total revenue by 6% to £49m, with over three-quarters of revenue from the 50 and 200 base now on a cloud connected solution.

Sage Intacct's recurring revenue growth of 31% to £69m reflects continuing strong momentum in North America, driving growth through both existing customers and new customer acquisition.

Northern Europe

Organic Revenue by Category	H1 20	H1 19	% Change
Organic Total Revenue	£198m	£179m	+10%
Organic Recurring Revenue	£187m	£165m	+13%
% Subscription Penetration	84%	63%	+21% pts
% Sage Business Cloud Penetration	80%	59%	+21% pts

Northern Europe (UK & Ireland) delivered recurring revenue growth of 13% to £187m and total revenue growth of 10% to £198m. Subscription penetration is 84%, up from 63% in the prior year, and Sage Business Cloud penetration is now 80%, up from 59% in the prior year.

Strength in recurring revenue continues to reflect success in cloud connected solutions. Revenue on Sage 50 cloud connected has increased significantly, through migrations, new customer acquisition and reactivations, particularly in the second half of FY19. Northern Europe has continued to add Sage 50 cloud connected contracts during the first half of this year. The region now has more than three quarters of its 50 and 200 base on a cloud connected solution.

The early performance of Sage Intacct in the UK since its launch in November 2019 has been encouraging, with better than expected momentum in new contract wins in the first half.

The region saw a decline of 23% in other revenue (SSRS and processing) to £11m, as the business continues to focus on software subscription and the cloud.

Central & Southern Europe

Organic Revenue by Category	H1 20	H1 19	% Change
Organic Total Revenue	£297m	£298m	0%
Organic Recurring Revenue	£250m	£236m	+6%
% Subscription Penetration	52%	43%	+9% pts
% Sage Business Cloud Penetration	35%	21%	+14% pts
Organic Recurring Revenue	H1 20	H1 19	% Change
France	£120m	£116m	+4%
Central Europe	£68m	£63m	+9%
Iberia	£62m	£57m	+8%

Central and Southern Europe delivered recurring revenue growth of 6% to £250m and total revenue in line with last year at £297m. Subscription penetration is now 52%, up from 43% in the prior year and Sage Business Cloud penetration is 35%, up from 21% in the prior year, largely driven by growth in cloud connected solutions.

France delivered recurring revenue growth of 4% to £120m, driven principally by Sage 50 and Sage 200 cloud connected solutions. The region now has well over half of its 50 and 200 revenue base on a cloud connected solution. Total revenue in France decreased by 1% to £135m.

Central Europe delivered recurring revenue growth of 9% to £68m while total revenue decreased by 1% to £87m. Growth in the region is driven by a combination of local products and cloud connected solutions.

Iberia delivered recurring revenue growth of 8% to £62m, and total revenue growth of 1% to £76m. Growth in recurring revenue has been driven mainly by Sage 50 and Sage 200 cloud connected solutions.

Other revenue (SSRS and processing) in Central and Southern Europe decreased by 24% to £47m, as the business continues to focus on software subscription and the cloud.

International

Organic Revenue by Category	H1 20	H1 19	% Change
Organic Total Revenue	£97m	£94m	+3%
Organic Recurring Revenue	£78m	£70m	+11%
% Subscription Penetration	62%	56%	+6% pts
% Sage Business Cloud Penetration	12%	8%	+4% pts
Organic Recurring Revenue	H1 20	H1 19	% Change
Africa & Middle East	£53m	£46m	+15%
Australia & Asia	£25m	£24m	+2%

International delivered recurring revenue growth of 11% to £78m and total revenue growth of 3% to £97m. Subscription penetration is now 62%, up from 56% in the prior year and Sage Business Cloud penetration in the region is 12%, up from 8% in the prior year.

Africa & Middle East, representing around two thirds of the International region's revenue, delivered strong recurring revenue growth of 15% to £53m, driven by local products and cloud native solutions, particularly Sage Accounting. Total revenue in Africa & Middle East grew by 5% to £66m. Sage Intacct is on track to launch in South Africa later this year.

Australia & Asia delivered recurring revenue growth of 2% to £25m and total revenue in line with last year at £31m. Australia delivered recurring revenue growth of 4% to £20m, driven by cloud native solutions. Sage Intacct has made a promising start, having launched in Australia in August 2019.

Operating Profit

The Group achieved organic operating profit of £213m (H1 19: £207m), representing a margin of 22.8% (H1 19: 23.4%). This margin reflects continued investment to accelerate strategic execution, particularly in sales and marketing, and in technology and innovation. It also includes a £13m charge to provide for expected credit losses in connection with COVID-19.

Underlying operating profit was £218m (H1 19: £216m), representing a margin of 22.4% (H1 19: 22.9%). The difference between organic and underlying operating profit reflects the operating profit from assets sold during the first half (Sage Pay and the Brazilian business).

EBITDA was £256m (H1 19: £246m) representing an EBITDA margin of 26.4%. This includes a £12m increase in depreciation due to the adoption of IFRS 16 on 1 October 2019.

	H1 20	H1 19	H1 20 Margin %
Organic Operating Profit	£213m	£207m	22.8%
Impact of disposals	£5m	£8m	
Impact of acquisitions	-	£1m	
Underlying Operating Profit	£218m	£216m	22.4%
Depreciation & amortisation	£29m	£17m	
Share based payments	£9m	£13m	
EBITDA	£256m	£246m	26.4%

Net Finance Cost

The statutory net finance cost for the period was £14m (H1 19: £12m) and the underlying net finance cost was £13m (H1 19: £13m), with minor differences between statutory and underlying net finance costs reflecting FX movements.

Taxation

The underlying tax expense for H1 20 was £55m (H1 19: £53m), resulting in an underlying tax rate of 27% (H1 19: 26%). The statutory income tax expense for H1 20 was £51m (H1 19: £44m), resulting in a statutory tax rate of 19% (H1 19: 22%).

The difference between the underlying and statutory rate in H1 20 primarily reflects a non-taxable accounting net gain on the disposal of subsidiaries (Sage Pay and the Brazilian business), offset by a non-tax-deductible charge relating to the impairment of goodwill in respect of the Asia business and accelerated depreciation relating to the relocation of our North Park office in Newcastle.

Earnings per Share

	H1 20	H1 19	% Change
Statutory Basic EPS	20.56p	14.19p	+44.9%
Recurring Items	1.66p	1.40p	
Non-Recurring Items	(8.47p)	(1.66p)	
Impact of Foreign Exchange	-	(0.15p)	
Underlying Basic EPS	13.75p	13.78p	-0.2%

Underlying basic earnings per share of 13.75p was broadly in line with the prior period (H1 19: 13.78p), reflecting the increase in underlying operating profit, offset by a higher effective tax rate.

Statutory basic earnings per share increased by 45%, primarily due to the change in non-recurring items which principally reflects the £141m net gain on disposal of subsidiaries.

Cash Flow

The Group remains highly cash generative with underlying cash flow from operating activities of £276m (H1 19: £330m), representing an underlying cash conversion of 127% (H1: 151%).

Cash Flow APMs	H1 20	H1 19 (as reported)
Underlying Operating Profit	£218m	£218m
Depreciation, amortisation and non-cash items in profit	£29m	£16m
Share based payments	£9m	£13m
Net changes in working capital	£36m	£106m
Net capital expenditure	(£16m)	(£23m)
Underlying Cash Flow from Operating Activities	£276m	£330m
<i>Underlying cash conversion %</i>	<i>127%</i>	<i>151%</i>
Non-recurring cash items	(£2m)	(£20m)
Net interest paid	(£12m)	(£12m)
Income tax paid	(£39m)	(£41m)
Profit and loss foreign exchange movements	£4m	-
Free Cash Flow	£227m	£257m

Statutory Reconciliation of Cash Flow from Operating Activities	H1 20	H1 19 (as reported)
Statutory Cash Flow from Operating Activities	£292m	£333m
Recurring and non-recurring items	£6m	£21m
Net capital expenditure	(£16m)	(£23m)
Other adjustment including foreign exchange translations	(£6m)	(£1m)
Underlying Cash Flow from Operating Activities	£276m	£330m

The continued strong cash conversion reflects sustained improvements in working capital and the continued transition towards recurring revenue. Underlying cash conversion decreased compared to the prior period due to higher levels of bonus pay-out in H1 20 compared to H1 19, in respect of the strong business performance achieved during the previous financial year. Underlying cash conversion is expected to trend downwards in the second half.

Free cash flow was £227m (H1 19: £257m), largely reflecting continued strong underlying cash conversion, together with a reduction in non-recurring cash items.

Group net debt was £238m at 31 March 2020 (30 September 2019: £393m), comprising cash and cash equivalents of £912m (30 September 2019: £372m) and total debt of £1,150m (30 September 2019: £765m). The decrease in net debt in the period is mostly attributable to strong free cash flow of £227m and proceeds from the disposal of Sage Pay of £229m, offset by £121m paid in respect of the FY19 final dividend, and a £136m increase in net debt as a result of adopting IFRS 16.

Debt facilities

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), a syndicated Term Loan and US private placements ("USPP"). The Term Loan of £200m was put in place in September 2019 and expires in September 2021. The Group's RCF expires in February 2025 (having been extended by one year in February 2020) with facility levels of £715m (split between US\$719m and £135m tranches). At 31 March 2020, £302m (H1 19: £274m) of the multi-currency revolving debt facility was drawn and the Term Loan was fully drawn.

The Group's total USPP loan notes at 31 March 2020 were £519m (US\$550m and EUR85m) (H1 19: £497m, US\$550m and EUR85m). The USPP loan notes have a range of maturities between May 2020 and May 2025.

Maturities within the next 18 months comprise \$150 million (£121 million) of the Group's US private placement loan notes later this month, and the Group's £200 million syndicated Term Loan in September 2021.

Capital allocation

Sage's disciplined approach to capital allocation remains unchanged as a result of COVID-19.

The Group's primary focus remains on organic investment in order to accelerate the execution of the strategy as outlined above.

Sage continues to consider bolt-on acquisitions of complementary technology and partnerships that will further accelerate the strategy and enhance Sage Business Cloud, and has made several small but strategically significant acquisitions in the recent past. In line with focusing on core competences within the business, management continues to evaluate the disposal of certain non-core assets, having completed the disposal of Sage Pay and the Brazilian business in the first half.

Our policy is to maintain the dividend in real terms. In line with our policy, and reflecting the Group's strong business performance and cash generation in the first half, we have increased the interim dividend by 2.5% to 5.93p.

The Group will also consider making additional capital returns to shareholders if appropriate. To support the Group's financial strength in light of the COVID-19 pandemic, Sage announced on 6 April 2020 the cancellation of the previously announced £250m share buy-back programme, after £7m of shares had been purchased.

	H1 20	H1 19 (as reported)
Net Debt	£238m	£448m
EBITDA (Last Twelve Months)	£518m	£549m
Net Debt/EBITDA Ratio	0.5x	0.8x

Group net debt as at 31 March 2020 was £238m and reported EBITDA over the last 12 months was £518m, resulting in a net debt to EBITDA ratio of 0.5x. Group return on capital employed (ROCE) for H1 20 was 20.5% (H1 19 as reported: 20.7%).

The Group adopted IFRS 16 with effect from 1 October 2019, resulting in the recognition on the balance sheet of additional financial liabilities of £136m, which has increased net debt to EBITDA in H1 20 by 0.2x, partially offsetting the year-on-year decrease. The financial results from the prior year have not been restated. The adoption of IFRS 16 has had no material impact on our overall financial result.

Sage plans to operate in a broad range of 1-2x net debt to EBITDA over the medium term, with flexibility to move outside this range as the business needs require. Accordingly, given the current environment, we are comfortable with our current net debt to EBITDA ratio of 0.5x.

Going concern

The Directors have robustly tested the going concern assumption in preparing the financial statements, taking into account the Group's strong liquidity position at 31 March 2020 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in note 1 of the financial statements on page 23.

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 20	H1 19	Change
Euro (€)	1.16	1.14	+2%
US Dollar (\$)	1.28	1.29	-1%
South African Rand (ZAR)	19.27	18.32	+5%
Australian Dollar (A\$)	1.91	1.81	+6%
Brazilian Real (R\$)	5.49	4.90	+12%

Appendix 1 – Alternative Performance Measures

Alternative Performance measures are used by the company to understand and manage performance. These are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance but have been included as management considers them to be important measures, alongside the comparable GAAP financial measures, in assessing the underlying performance. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures. The table below sets out the basis of calculation of the Alternative Performance Measures and the rationale for their use.

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	<p>Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:</p> <ul style="list-style-type: none"> - Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and - Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. <p>All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p>	<p>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off or non-operational items.</p> <p>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.</p>
Organic (revenue and profit) measures	<p>In addition to the adjustments made for Underlying measures, Organic measures:</p> <ul style="list-style-type: none"> - Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and - Exclude the contribution from acquired businesses until the year following the year of acquisition; and - Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. <p>Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.</p>	<p>Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.</p>
Underlying Cash Flow from Operating Activities	<p>Underlying Cash Flow from Operating Activities is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.</p>	<p>To show the cashflow generated by the operating activities and calculate underlying cash conversion.</p>
Underlying Cash Conversion	<p>Underlying Cash Flow from Operating Activities divided by Underlying (as reported) Operating Profit.</p>	<p>Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.</p>
EBITDA	<p>EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.</p>	<p>To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.</p>

Annualised recurring revenue	Annualised recurring revenue (“ARR”) is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Cash Flow from Operating Activities minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: <ul style="list-style-type: none"> - Underlying Operating Profit; minus - Amortisation of acquired intangibles; the result being divided by - The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs and tax assets or liabilities (i.e. capital employed). 	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY19 and FY20 PSP awards.

Consolidated income statement

For the six months ended 31 March 2020

		Six months ended 31 March 2020 (Unaudited) Underlying	Six months ended 31 March 2020 (Unaudited) Adjustments*	Six months ended 31 March 2020 (Unaudited) Statutory	Six months ended 31 March 2019 (Unaudited) Underlying as reported	Six months ended 31 March 2019 (Unaudited) Adjustments*	Six months ended 31 March 2019 (Unaudited) Statutory	Year ended 30 September 2019 (Audited) Statutory
	Note	£m	£m	£m	£m	£m	£m	£m
Revenue	2	975	–	975	957	–	957	1,936
Cost of sales		(64)	–	(64)	(70)	–	(70)	(138)
Gross profit		911	–	911	887	–	887	1,798
Selling and administrative expenses		(693)	71	(622)	(669)	(8)	(677)	(1,416)
Operating profit	2	218	71	289	218	(8)	210	382
Finance income		2	–	2	3	1	4	8
Finance costs		(15)	(1)	(16)	(16)	–	(16)	(29)
Profit before income tax		205	70	275	205	(7)	198	361
Income tax expense	4	(55)	4	(51)	(53)	9	(44)	(95)
Profit for the period		150	74	224	152	2	154	266

* Adjustments are detailed in note 3.

Earnings per share attributable to the owners of the parent (pence)

Basic	6	13.75p		20.56p	13.93p		14.19p	24.49p
Diluted	6	13.66p		20.42p	13.85p		14.12p	24.29p

Consolidated statement of comprehensive income

For the six months ended 31 March 2020

	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m	Year ended 30 September 2019 (Audited) £m
Profit for the period	224	154	266
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Actuarial loss on post-employment benefit obligations	–	–	(1)
	–	–	(1)
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations	(22)	(10)	42
Exchange differences recycled through income statement on sale of foreign operations	43	(6)	(4)
	21	(16)	38
Other comprehensive income/(expense) for the period, net of tax	21	(16)	37
Total comprehensive income for the period	245	138	303

The notes on pages 23 to 43 form an integral part of this condensed consolidated half-yearly report.

Consolidated balance sheet

As at 31 March 2020

	Note	31 March 2020 (Unaudited) £m	31 March 2019 (Unaudited) £m	30 September 2019 (Audited) £m
Non-current assets				
Goodwill	7	2,059	2,002	2,098
Other intangible assets	7	216	238	228
Property, plant and equipment	7	198	131	117
Other financial assets		3	3	4
Trade and other receivables		83	40	73
Deferred income tax assets		26	57	31
		2,585	2,471	2,551
Current assets				
Trade and other receivables		329	402	364
Current income tax asset		15	4	3
Cash and cash equivalents (excluding bank overdrafts)	10	912	351	371
Assets classified as held for sale	11	–	–	63
		1,256	757	801
Total assets		3,841	3,228	3,352
Current liabilities				
Trade and other payables		(242)	(276)	(291)
Current income tax liabilities		(46)	(47)	(32)
Borrowings		(149)	(5)	(122)
Provisions		(9)	(15)	(11)
Deferred income		(691)	(660)	(637)
Liabilities classified as held for sale	11	–	–	(33)
		(1,137)	(1,003)	(1,126)
Non-current liabilities				
Borrowings		(1,001)	(768)	(643)
Post-employment benefits		(26)	(22)	(25)
Deferred income tax liabilities		(27)	(26)	(24)
Provisions		(13)	(12)	(15)
Trade and other payables		(6)	(7)	(7)
Deferred income		(7)	(7)	(8)
		(1,080)	(842)	(722)
Total liabilities		(2,217)	(1,845)	(1,848)
Net assets		1,624	1,383	1,504
Equity attributable to owners of the parent				
Ordinary shares	9	12	12	12
Share premium	9	548	548	548
Other reserves		205	130	184
Retained earnings		859	693	760
Total equity		1,624	1,383	1,504

Consolidated statement of changes in equity

For the six months ended 31 March 2020

	Attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserves £m	Retained earnings £m	Total equity £m
At 1 October 2019 as originally presented (Audited)	12	548	123	61	760	1,504
Adjustment on initial application of IFRS 16 net of tax (see note 12)	-	-	-	-	(7)	(7)
At 1 October 2019 (adjusted)	12	548	123	61	753	1,497
Profit for the period	-	-	-	-	224	224
Other comprehensive expenses						
Exchange differences on translating foreign operations	-	-	(22)	-	-	(22)
Exchange differences recycled through income statement on sale of foreign operations (see note 11)	-	-	43	-	-	43
Total comprehensive income for the period ended 31 March 2020 (Unaudited)	-	-	21	-	224	245
Transactions with owners						
Employee share option scheme - Value of employee services, net of deferred tax	-	-	-	-	10	10
Share buyback programme	-	-	-	-	(7)	(7)
Dividends paid to owners of the parent	-	-	-	-	(121)	(121)
Total transactions with owners for the period ended 31 March 2020 (Unaudited)	-	-	-	-	(118)	(118)
At 31 March 2020 (Unaudited)	12	548	144	61	859	1,624

	Attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 October 2018 as originally presented	12	548	85	61	621	1,327
Adjustment on initial application of IFRS 15 and 9 net of tax	-	-	-	-	19	19
At 1 October 2018 as adjusted	12	548	85	61	640	1,346
Profit for the period	-	-	-	-	154	154
Other comprehensive expenses						
Exchange differences on translating foreign operations	-	-	(10)	-	-	(10)
Exchange differences recycled through income statement on sale of foreign operations	-	-	(6)	-	-	(6)
Total comprehensive income for the period ended 31 March 2019 (Unaudited)	-	-	(16)	-	154	138
Transactions with owners						
Employee share option scheme - Value of employee services, net of deferred tax	-	-	-	-	17	17
Dividends paid to owners of the parent	-	-	-	-	(118)	(118)
Total transactions with owners for the period ended 31 March 2019 (Unaudited)	-	-	-	-	(101)	(101)
At 31 March 2019 (Unaudited)	12	548	69	61	693	1,383

Consolidated statement of cash flows

For the six months ended 31 March 2020

	Notes	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m	Year ended 30 September 2019 (Audited) £m
Cash flows from operating activities				
Cash generated from continuing operations		292	333	586
Interest paid		(14)	(15)	(26)
Income tax paid		(39)	(41)	(88)
Net cash generated from operating activities		239	277	472
Cash flows from investing activities				
Acquisitions of subsidiaries, net of cash acquired		–	–	(41)
Investment in non-current asset		–	–	(3)
Disposal of subsidiaries, net of cash disposed	11	222	67	70
Proceeds on settlement of equity investment		–	17	17
Purchases of intangible assets	7	(10)	(6)	(15)
Purchases of property, plant and equipment	7	(11)	(17)	(27)
Interest received		2	3	6
Net cash generated from investing activities		203	64	7
Cash flows from financing activities				
Proceeds from issuance of treasury shares	9	–	–	3
Proceeds from borrowings		302	118	414
Repayments of borrowings		(45)	(261)	(594)
Capital element of lease payments		(14)	–	–
Movements in cash held on behalf of customers		–	(51)	(78)
Borrowing costs		(1)	(1)	(1)
Share buyback programme	9	(7)	–	–
Dividends paid to owners of the parent	5	(121)	(118)	(181)
Net cash generated from/(used in) financing activities		114	(313)	(437)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)				
		556	28	42
Effects of exchange rate movement	10	(16)	(4)	8
Net increase in cash, cash equivalents and bank overdrafts		540	24	50
Cash, cash equivalents and bank overdrafts at 1 October	10	372	322	322
Cash, cash equivalents and bank overdrafts at period end	10	912	346	372

Notes to the financial information

For the six months ended 31 March 2020

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 13 May 2020.

The financial information set out above does not constitute the Company’s Statutory Accounts. Statutory Accounts for the year ended 30 September 2019 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”) and IFRSs as issued by the International Accounting Standards Board (“IASB”), 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 2019 with the exception of the adoption of IFRS 16 “Leases”, Amendments to IFRS 3 “Business Combinations: Definition of a Business” and additional critical accounting estimates and judgements relating to the impact of COVID-19, the impact of which has been detailed below.

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 2020 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”) and as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2019, which have been prepared in accordance with IFRSs as adopted by the EU and IFRSs as issued by the IASB.

The potential impact of COVID-19 on the Group has been considered in the preparation of the interim financial statements including within our evaluation of critical accounting estimates and judgements which are detailed further below. The Directors have reviewed liquidity and covenant forecasts for the Group, which have been updated for the expected impact of COVID-19 on trading. The Directors have also considered sensitivities in respect of potential downside scenarios and the mitigating actions available in concluding that the Group is able to continue in operation for a period of at least twelve months from the date of approving the interim financial statements. Those sensitivities include a severe but plausible downside scenario for COVID-19 alongside several progressively challenging scenarios considered to be severe but remote, whereby the Group experiences:

- a significant reduction in revenue over the next 6 months of up to 23% versus the same period in the prior year, the result of a material increase in churn combined with a significant fall in new customer acquisition, licence related cross sell and upsell revenue; and
- a further period of depressed activity into the next financial year (FY 21) which reduces revenue by up to 22% versus prior year (FY 19).

In considering the suitability of these scenarios, the Directors have taken into account, among other things, performance in the last recession and the recent trading experience outlined on page 3.

Furthermore, all downside scenarios assume:

- investment reprioritisation only to the extent strategic initiatives are not compromised;
- implementation of mitigating actions to manage costs and cash in the near term which exclude staff reductions or government subsidies; and
- allocation of capital in line with our priorities outlined above.

Throughout all the downside scenarios, the Group continues to have liquidity headroom on existing facilities and against the RCF and USPP note financial covenants during the period under assessment. 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 2019 as described in those annual financial statements with the exception of the adoption of IFRS 16 “Leases” and Amendments to IFRS 3 “Business Combinations: Definition of a Business”. The impact of these is explained below.

IFRS 16

As disclosed in our Annual Report 2019, the Group has adopted IFRS 16 using the modified retrospective approach to transition permitted by the standard. Under this approach, the cumulative impact of the change in accounting policy is recognised in equity on 1 October 2019 and the financial statements for the prior year are not restated. IFRS 16 replaces the previous standard on lease accounting, IAS 17.

Accounting policy under IFRS 16

The adoption of IFRS 16 has changed the accounting policy applied to most of the Group’s significant arrangements in which it is a lessee. These relate mainly to property leases for office buildings. The Group also has some leases for vehicles and other equipment. Prior to 1 October 2019, the Group accounted for all such leases as operating leases under IAS 17, with rentals payable charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments were prepaid or accrued, their balances were reported under prepayments and accruals respectively.

Under IFRS 16, the Group recognises lease assets and lease liabilities on the balance sheet for most of its leases to account for the right to use leased items and the obligation to make future lease payments. Lease liabilities are measured at the present value of future lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the option is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if the option is reasonably certain not to be exercised. Lease payments normally include fixed

payments (including in substance fixed payments), a deduction for any lease incentives receivable and variable lease payments that depend on an index or a rate. In the event that a lease includes an exercise price for a purchase option that is reasonably certain to be exercised, or a termination penalty that is reasonably certain to be incurred, these too are included in lease payments as are any amounts expected to be paid under any residual value guarantees. Variable lease payments that do not depend on an index or a rate are not included in the lease liability, but are recognised as an expense when incurred.

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease. When IFRS 16 is applied for the first time, the standard permits certain departures from these policies as practical expedients. The practical expedients used by the Group on transition to IFRS 16 are explained below.

Right of use assets are presented within property, plant and equipment and depreciated on a straight-line basis over the shorter of their useful life and the lease term. Their carrying amounts are measured at cost less accumulated depreciation and impairment losses. Lease liabilities are presented within current and non-current borrowings. Over the lease term, the carrying amounts of lease liabilities are increased to reflect interest on the liability and reduced by the amount of lease payments made. A lease liability is remeasured if there is a modification, a change in the lease term or a change in lease payments. The costs of these leases are recognised in the income statement split between the depreciation of the lease asset and the interest charge on the lease liability. Depreciation is presented within selling and administrative expenses and interest charges within finance costs.

This policy applies mainly to the Group's leases for properties and vehicles. For short-term leases with a lease term of 12 months or less and leases of low value items, the Group has elected to apply the exemptions available under the standard. The leases to which these exemptions apply are accounted for in the same way as operating leases under IAS 17, as explained above, with no lease assets or liabilities recognised. The low value exemption has been applied to most of the Group's leases of IT and other office equipment.

Accounting for the transition to IFRS 16

On transition to IFRS 16, the Group has measured its lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) applicable to each lease at 1 October 2019. The standard permits a choice on initial adoption of measuring lease assets either as if IFRS 16 had been applied since lease commencement but discounted using the IBR at 1 October 2019, or at an amount equal to the lease liability adjusted for accrued or prepaid lease payments. The assets for the Group's property leases have been measured as if IFRS 16 had always been in place. Assets for other leases, mainly vehicles, have been measured at an amount equal to the lease liability.

The Group has made use of the following practical expedients available when the modified retrospective approach is applied to accounting for the transition to IFRS 16:

- For vehicle leases, the Group has applied a single discount rate to a portfolio of those leases with reasonably similar characteristics;
- For all leases, the Group has excluded from the measurement of the right of use asset initial direct costs incurred when obtaining the lease; and
- The Group has relied on its existing onerous lease assessments under IAS 37 to impair right of use assets instead of performing a new impairment assessment for those assets.

The Group reassessed its lease portfolio against the new IFRS 16 definition of a lease. This resulted in a small number of contracts for property-related arrangements such as car parking not qualifying as leases because the landlord has substantive substitution rights.

Key judgements made in calculating the transition impact include determining the lease term for property leases with extension or termination options. An extension period or a period beyond a termination option are included in the lease term only if the lease is reasonably certain to be extended or not terminated. This is assessed taking account mainly of the time remaining before the option is exercisable; any economic disadvantages or benefits to exercise such as penalties or low rent payments; and operational plans for the location. In most cases, this results in lease terms being assumed to end at the next break date until an operational decision to extend or terminate, unless termination would incur penalties.

The main estimate made on transition is in determining the incremental borrowing rates used as discount rates for property leases. The incremental borrowing rate is the rate of interest that the local Sage business holding the lease would have to pay in order to borrow funds to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, over a similar term and with a similar security. The incremental borrowing rate applied to each lease was determined based on the risk-free rate for the country in which the local business is located adjusted to reflect the credit risk associated with that business and the lease term remaining at 1 October 2019.

Quantification of the impact of transition

Quantification of the impact of transition to IFRS 16 and explanations of the adjustments are set out in note 12.

Amendments to IFRS 3

The Group has early adopted these amendments for business combinations and asset acquisitions occurring on or after 1 October 2019, as permitted by the transitional provisions for the amendments. The amendments would otherwise have become mandatory for the Group's business combinations and asset acquisitions occurring on or after 1 October 2020. The amendments clarify the definition of a business under IFRS 3 to help companies to determine whether an acquisition is of a business or a group of assets. The acquisition of a business is accounted for as a business combination whereas the acquisition of a group of assets is accounted for by allocating the cost of the transaction to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Goodwill is recognised only when acquiring a business.

The amendments also introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the concentration test is met, and the acquisition is not of a business.

The Group has applied the concentration test to the acquisition of Cake HR Limited on 28 November 2019. The transaction met the test and as a result has been accounted for as an acquisition of a group of assets and primarily of an intangible technology asset. This treatment has not resulted in any material difference to the Group's financial statements compared to accounting for the transaction as a business combination.

Adoption of new and revised IFRSs

There are no new accounting standards which are currently issued but not yet effective which the management expects would have a material impact on the Group.

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 35% of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue. Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as contract acquisition costs.

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract. The Group uses this technique in particular for estimating the term licence SSP sold as part of its on-premise subscription offerings as Sage has previously not sold term licences on a stand-alone basis (i.e., the selling price is uncertain).

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing.

The assumptions applied in calculating the value in use of the CGUs being tested for impairment is a source of estimation uncertainty. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth and long-term growth rate – as well as the discount rate to be applied in the calculation.

Following challenging current trading and economic conditions in Asia, management has reassessed the expected future business performance relating to the Asia group of CGUs. The revised projected cash flows are lower and this has led to an impairment charge of £19m, which is the total value of goodwill in Asia.

Due to the ongoing COVID-19 pandemic as noted on page 3 we have compared our sensitivity analysis used in the annual impairment review as disclosed in the 30 September 2019 financial statements against our current and forecasted trading performance. With the exception of Asia, as discussed above, there is no significant CGU or group of CGUs, including the Intacct CGU, where management have concluded that the carrying value of the CGU or group of CGUs exceeds its recoverable amount. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2019 financial statements.

Trade receivables

Due to COVID-19 the timing and level of impact of business failures is uncertain. Therefore, the expected credit loss allowance against trade receivables is a source of estimation uncertainty. Current and expected collection of trade receivables since the start of the COVID-19 pandemic has been modelled on a region-specific basis, taking into account macroeconomic factors, such as revised GDP outlooks and government support available and other regional specific microeconomic factors. Compared to historical collection rates management have provided an additional £13m expected credit loss provision representing an additional 10% loss rate above historical rates.

Website

This condensed consolidated half-yearly financial report for the six months ended 31 March 2020 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 is organised into nine key operating segments: North America (excluding Intacct) (US and Canada), North America Intacct, Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), Africa and the Middle East, Asia (including Australia) and Latin America. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

- North America (North America (excluding Intacct) and North America Intacct)
- Northern Europe
- Central and Southern Europe (Central Europe, France and Iberia)

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 and therefore share the same economic characteristics. The UK is the home country of the parent.

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. With effect from 1 October 2019, the Group reports revenue under two revenue categories as noted below:

Category	Examples
Recurring revenue	Subscription contracts Maintenance and support contracts
Other revenue	Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationery Payment processing services Payroll processing services

Prior to this the Group reported three revenue categories: Recurring revenue, Software and software-related services and Processing revenue. The aggregation of Software and software-related services and Processing revenue into the Other revenue category reflects the focus on recurring revenue and the divestment of certain processing businesses. There is no change to the revenue recognition policy in the period as disclosed in the annual financial statements for the year ended 30 September 2019.

Revenue by segment (Unaudited)

Six months ended 31 March 2020						
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment						
North America	311	–	311	11.8%	10.9%	11.9%
Northern Europe	187	–	187	14.4%	14.5%	13.3%
Central and Southern Europe	250	–	250	4.1%	6.1%	6.1%
International	100	(22)	78	1.2%	7.8%	10.9%
Recurring revenue	848	(22)	826	8.6%	9.9%	10.3%
Other revenue by segment						
North America	32	–	32	(35.7%)	(36.2%)	(11.1%)
Northern Europe	28	(17)	11	(17.0%)	(16.8%)	(23.1%)
Central and Southern Europe	47	–	47	(25.4%)	(24.0%)	(24.0%)
International	20	(1)	19	(33.7%)	(30.6%)	(18.7%)
Other revenue	127	(18)	109	(28.0%)	(27.1%)	(19.6%)
Total revenue by segment						
North America	343	–	343	4.6%	3.9%	9.3%
Northern Europe	215	(17)	198	8.9%	9.1%	10.3%
Central and Southern Europe	297	–	297	(2.0%)	(0.1%)	(0.1%)
International	120	(23)	97	(6.8%)	(1.1%)	3.4%
Total revenue	975	(40)	935	1.9%	3.1%	5.7%

* Adjustments relate to the disposal of Sage Pay and Brazil (note 11).

Revenue by segment (Unaudited)

	Six months ended 31 March 2019				
	Statutory and Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment					
North America	278	2	280	(2)	278
Northern Europe	163	–	163	2	165
Central and Southern Europe	241	(5)	236	–	236
International	99	(6)	93	(23)	70
Recurring revenue	781	(9)	772	(23)	749
Other revenue by segment**					
North America	49	1	50	(14)	36
Northern Europe	34	–	34	(20)	14
Central and Southern Europe	63	(1)	62	–	62
International	30	(2)	28	(4)	24
Other revenue	176	(2)	174	(38)	136
Total revenue by segment					
North America	327	3	330	(16)	314
Northern Europe	197	–	197	(18)	179
Central and Southern Europe	304	(6)	298	–	298
International	129	(8)	121	(27)	94
Total revenue	957	(11)	946	(61)	885

* Adjustments relate to the disposal of Sage Pay and Brazil in the current period (note 11) and acquisition of Ocrex Limited and disposal of Sage Payroll Solutions in the prior year.

** Previously reported as Software and software-related services and Processing revenue categories.

Operating profit by segment (Unaudited)

	Six months ended 31 March 2020						
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Change Statutory %	Change Underlying %
Operating profit by segment							
North America	56	13	69	–	69	(31.3%)	(5.8%)
Northern Europe	236	(162)	74	(4)	70	275.7%	12.0%
Central and Southern Europe	54	6	60	–	60	(12.3%)	(9.5%)
International	(57)	72	15	(1)	14	(1,612.5%)	46.1%
Total operating profit	289	(71)	218	(5)	213	37.9%	0.9%

	Six months ended 31 March 2019							
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m	
Operating profit by segment								
North America	81	(9)	72	1	73	–	73	
Northern Europe	63	4	67	–	67	(9)	58	
Central and Southern Europe	62	6	68	(1)	67	–	67	
International	4	7	11	(2)	9	–	9	
Total operating profit	210	8	218	(2)	216	(9)	207	

Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m
North America	69	73
Northern Europe	74	67
Central and Southern Europe	60	67
Total reportable segments	203	207
International	15	9
Underlying operating profit	218	216
Impact of movement in foreign currency exchange rates	–	2
Underlying operating profit (as reported)	218	218
Amortisation of acquired intangible assets	(15)	(15)
Other M&A activity-related items	(6)	(6)
Non-recurring items	92	13
Statutory operating profit	289	210

3 Adjustments between underlying profit and statutory profit (Unaudited)

	Six months ended 31 March 2020	Six months ended 31 March 2020	Six months ended 31 March 2020	Six months ended 31 March 2019	Six months ended 31 March 2019	Six months ended 31 March 2019
	Recurring £m	Non-recurring £m	Total £m	Recurring £m	Non-recurring £m	Total £m
M&A activity-related items						
Amortisation of acquired intangibles	(15)	–	(15)	(15)	–	(15)
Gain on disposal of subsidiaries	–	141	141	–	27	27
Other M&A activity-related items	(6)	–	(6)	(6)	–	(6)
Other items						
Impairment of goodwill	–	(19)	(19)	–	–	–
Property restructuring costs	–	(6)	(6)	–	(14)	(14)
Office relocation	–	(24)	(24)	–	–	–
Total adjustments made to operating profit	(21)	92	71	(21)	13	(8)
Fair value adjustment	(1)	–	(1)	–	–	–
Foreign currency movements on intercompany balances	–	–	–	1	–	1
Total adjustments made to profit before income tax	(22)	92	70	(20)	13	(7)

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. These assets are predominantly brands, customer relationships and technology rights.

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

The fair value adjustment comprises a charge of £1m (H1 FY19: charge of £nil) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Foreign currency movements on intercompany balances of £nil (H1 FY19: £1m) occurs due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future.

Non-recurring items

Details of the gain/(loss) on disposal of subsidiaries can be found in note 11.

Following challenging current trading and economic conditions in Asia, an impairment of the goodwill relating to the Asia group of CGUs has been recognised. See note 7 for further details.

Property restructuring costs relate to the reorganisation of the Group's properties and consist of net lease exit costs following consolidation of office space and impairment of leasehold and other related assets that are no longer in use. This is one programme that has bridged two financial years therefore the Group has continued to present these costs as non-recurring. The Group is anticipating incurring additional costs in connection with the reorganisation programme of the Group's property portfolio.

Office relocation costs relate to the incremental depreciation charge resulting from accelerated depreciation following the announced UK office move.

Cash paid in relation to recurring and non-recurring items in the year of £6m relates to M&A activity-related items and property restructuring costs.

4 Income tax expense

The effective tax rate on statutory profit before tax was 19% (six months ended 31 March 2019: 22%) whilst the effective tax rate on underlying profit before tax for continuing operations was 27% (six months ended 31 March 2019: 26%). 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 2020.

The difference between the underlying and statutory rate in H1 20 primarily reflects non-taxable disposals of subsidiaries (Sage Pay and the Brazilian business), offset by a non-tax-deductible charge relating to the impairment of goodwill in respect of the Asia business and the accelerated depreciation relating to North Park.

EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 in respect of its State Aid investigation into the UK's Controlled Foreign Company regime. In the FY19 Annual Report the Group disclosed that we had calculated our maximum potential liability, excluding interest, to be approximately £35m. Based on current advice, we consider that no provision is required at this time. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

5 Dividends

	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m	Year ended 30 September 2019 (Audited) £m
Final dividend paid for the year ended 30 September 2018 of 10.85p per share	–	118	118
Interim dividend paid for the year ended 30 September 2019 of 5.79p per share	–	–	63
Final dividend paid for the year ended 30 September 2019 of 11.12p per share	121	–	–
	121	118	181

The interim dividend of 5.93p per share will be paid on 12 June 2020 to shareholders on the register at the close of business on 22 May 2020.

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 2020 (Unaudited)	Underlying as reported Six months ended 31 March 2019 (Unaudited)	Underlying Six months ended 31 March 2019 (Unaudited)	Statutory Six months ended 31 March 2020 (Unaudited)	Statutory Six months ended 31 March 2019 (Unaudited)
Earnings attributable to owners of the parent					
Profit for the period	150	152	150	224	154
Number of shares (millions)					
Weighted average number of shares	1,090	1,086	1,086	1,090	1,086
Dilutive effects of shares	8	5	5	8	5
	1,098	1,091	1,091	1,098	1,091
Earnings per share attributable to owners of the parent (pence)					
Basic earnings per share	13.75	13.93	13.78	20.56	14.19
Diluted earnings per share	13.66	13.85	13.71	20.42	14.12

	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m
Reconciliation of earnings		
Underlying earnings attributable to owners of the parent	150	150
Impact of movement in foreign currency exchange rates	–	2
Underlying earnings attributable to owners of the parent (as reported)	150	152
Office relocation	(24)	–
Property restructuring costs	(6)	(14)
Impairment of goodwill	(19)	–
Amortisation of acquired intangible assets and adjustment to acquired deferred income	(15)	(15)
Fair value adjustments to debt-related financial instruments	(1)	–
Foreign currency movements on intercompany balances	–	1
Other M&A related items	(6)	(6)
Gain on disposal of subsidiaries	141	27
Taxation on adjustments	4	9
Net adjustments	74	2
Earnings statutory profit for period	224	154

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 2019	2,098	228	117	2,443
Impact of adoption of IFRS 16	–	–	113	113
Additions	–	11	26	37
Impairment	(19)	–	–	(19)
Depreciation, amortisation and other movements	–	(21)	(53)	(74)
Exchange movement	(20)	(2)	(5)	(27)
Closing net book amount at 31 March 2020	2,059	216	198	2,473

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2018	2,008	260	129	2,397
Additions	–	6	17	23
Disposal of subsidiary	4	(5)	–	(1)
Depreciation, amortisation and other movements	–	(22)	(14)	(36)
Exchange movement	(10)	(1)	(1)	(12)
Closing net book amount at 31 March 2019	2,002	238	131	2,371

Goodwill is not subject to amortisation, but is tested for impairment annually and whenever there is any indication of impairment. At 31 March 2020, with the exception of the Asia CGU, there were no indicators of impairment to goodwill. Details of the 2019 goodwill impairment review are provided in the 2019 consolidated financial statements.

Asia CGU Impairment

As presented in the 2019 consolidated financial statements, a reasonable possible change was identified that would reduce the recoverable value of the Asia CGU down to its carrying value. Following challenging current trading and economic conditions, management has reassessed the expected future business performance. The revised projected cash flows are lower and this has led to an impairment charge of £19m, which is the total value of goodwill in Asia.

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 2020		At 31 March 2019	
	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
Long term-borrowing	898	904	768	771
Short term-borrowing	121	121	5	5

9 Ordinary shares and share premium

	Number of shares (Unaudited)	Ordinary Shares (Unaudited) £m	Share premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2019	1,120,789,295	12	548	560
Shares issued/proceeds	–	–	–	–
At 31 March 2020	1,120,789,295	12	548	560

	Number of Shares (Unaudited)	Ordinary Shares (Unaudited) £m	Share Premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2018	1,120,789,295	12	548	560
Shares issued/proceeds	–	–	–	–
At 31 March 2019	1,120,789,295	12	548	560

In the current period, the Group transferred 2,567,873 (H1 FY19: 1,061,802) treasury shares to employees in order to satisfy vested awards and acquired 1,101,918 (H1 FY19: nil) treasury shares as part of the share buyback programme as announced on the 11 and 18 March 2020.

10 Cash flow and net debt

	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m
Statutory operating profit	289	210
Recurring and non-recurring items	(71)	8
Underlying operating profit (as reported)	218	218
Depreciation/amortisation/impairment/profit on disposal of non-current assets/non-cash items	29	16
Share-based payments	9	13
Net changes in working capital	36	106
Net capital expenditure	(16)	(23)
Underlying cash flow from operating activities	276	330
Net interest paid	(12)	(12)
Income tax paid	(39)	(41)
Non-recurring items	(2)	(20)
Exchange movement	4	–
Free cash flow	227	257
Net debt at 1 October*	(529)	(668)
Acquisitions and disposals of subsidiaries or similar transactions, net of cash disposed	217	67
Acquisitions and disposals related items	(4)	–
Proceeds on settlement of equity investment	–	17
Dividends paid to owners of the parent	(121)	(118)
New leases	(16)	–
Share buyback programme	(7)	–
Exchange movement	(7)	(3)
Other	2	–
Net debt at 31 March	(238)	(448)

*adjusted as at 1 October 2019 on adoption of IFRS16.

	Six months ended 31 March 2020 £m	Six months ended 31 March 2019 £m
Underlying cash flow from operating activities	276	330
Net capital expenditure	16	23
Recurring and non-recurring cash items	(6)	(21)
Other adjustments including foreign exchange translations	6	1
Statutory cash flow from operating activities	292	333

	At 1 October as originally presented 2019 £m	Impact of adoption of IFRS16 £m	Cash flow £m	Disposal of subsidiary £m	Non-cash movement £m	Exchange movement £m	At 31 March 2020 (Unaudited) £m
Analysis of change in net debt (inclusive of leases)							
Cash and cash equivalents	371	-	569	(12)	-	(16)	912
Cash amounts included in held for sale	1	-	-	(1)	-	-	-
Cash, cash equivalents and bank overdrafts	372	-	569	(13)	-	(16)	912
<i>Liabilities arising from financing activities</i>							
Loans due within than one year	(122)	-	-	-	-	1	(121)
Loans due after more than one year	(643)	-	(257)	-	-	2	(898)
Lease liabilities due within one year	-	(29)	4	-	(3)	-	(28)
Lease liabilities after more than one year	-	(106)	10	-	(13)	6	(103)
Lease liabilities included in held for sale	-	(1)	-	1	-	-	-
	(765)	(136)	(243)	1	(16)	9	(1,150)
Total	(393)	(136)	326	(12)	(16)	(7)	(238)

The Group continues to borrow from multiple lending sources and currently deems this to be the most effective means of raising finance at competitive rates and terms. The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), a syndicated Term Loan and US private placements ("USPP"). The Term Loan of £200m was put in place in September 2019 and expires in September 2021. The Group's RCF expires in February 2025 with facility levels of £715m (US\$719m and £135m tranches). At 31 March 2020, £302m (H1 2019: £274m) of the multi-currency revolving debt facility was drawn and the Term Loan was fully drawn.

Total USPP loan notes at 31 March 2020 were £519m (US\$550m and EUR€85m) (H1 2019: £497m, US\$550m and EUR€85m).

11 Acquisitions and disposals

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the six-month period ended 31 March 2020 or 31 March 2019 and had no assets or liabilities held for sale at 31 March 2020 or 31 March 2019. Assets and liabilities held for sale at 30 September 2019 relate to the subsidiaries forming the Group's Sage Pay and Brazilian businesses which were sold during the six-month period ended 31 March 2020 as explained below.

Disposals made during the period

On 11 March 2020, the Group completed the sale of Sage Pay, the Group's European payments processing business, for total consideration of £241m. On 31 March 2020, the Group completed the sale of its Brazilian business for total consideration of £1m. The gains and losses on disposal are calculated as follows:

	Sage Pay 2020 (Unaudited) £m	Brazil 2020 (Unaudited) £m	Total 2020 (Unaudited) £m
Gain/(loss) on disposal			
Cash consideration	241	1	242
Gross consideration	241	1	242
Transaction costs	(9)	(2)	(11)
Net consideration	232	(1)	231
Net assets disposed	(40)	(7)	(47)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	1	(44)	(43)
Gain/(loss) on disposal	193	(52)	141

Net assets disposed comprise:

	Sage Pay 2020 (Unaudited) £m	Brazil 2020 (Unaudited) £m	Total 2020 (Unaudited) £m
Goodwill	25	–	25
Other intangible assets	1	–	1
Property, plant and equipment	2	–	2
Deferred income tax asset	–	6	6
Inventory	1	–	1
Trade and other receivables	6	11	17
Cash and cash equivalents	9	4	13
Total assets	44	21	65
Trade and other payables	(3)	(4)	(7)
Borrowings	–	(1)	(1)
Current income tax liabilities	–	(1)	(1)
Provisions	–	(1)	(1)
Deferred income	(1)	(7)	(8)
Total liabilities	(4)	(14)	(18)
Net assets	40	7	47

The net gain is reported within continuing operations, as an adjustment between underlying and statutory results.

Prior to the disposals, Sage Pay formed part of the Group's Northern Europe reporting segment and the Brazilian business was part of the International segment.

The net inflow of cash and cash equivalents on the disposals is calculated as follows:

	Sage Pay 2020 (Unaudited) £m	Brazil 2020 (Unaudited) £m	Total 2020 (Unaudited) £m
Cash consideration	241	1	242
Transaction costs	(9)	(4)	(13)
Net consideration received	232	(3)	229
Cash disposed	(9)	(4)	(13)
Working capital payable	6	–	6
Inflow/(outflow) of cash and cash equivalents on disposal	229	(7)	222

During the six-month period ended 31 March 2019, the Group completed the sale of its Sage Payroll Solutions business. Net assets divested were £51m, and the transaction resulted in a gain on disposal of £27m.

12 IFRS 16

The Group recognised the following adjustments to amounts reported in the balance sheet at 1 October 2019.

	IFRS 16 right-of-use assets and lease liabilities (Unaudited) £m	Derecognise IAS 17 rent accruals and prepayments (Unaudited) £m	Right-of-use asset impairment* (Unaudited) £m	Tax impact** (Unaudited) £m	Total Impact (Unaudited) £m
Non-current Assets					
Property, plant and equipment	118	-	(5)	-	113
Deferred income tax assets	-	-	-	2	2
Current assets					
Trade and other receivables	-	(2)	-	-	(2)
Assets classified as held for sale	1	-	-	-	1
Current Liabilities					
Borrowing	(30)	-	-	-	(30)
Trade and other payables	-	10	-	-	10
Provisions	-	-	1	-	1
Liabilities classified as held for sale	(1)	-	-	-	(1)
Non-current Liabilities					
Borrowing	(105)	-	-	-	(105)
Provisions	-	-	4	-	4
Net assets	(17)	8	-	2	(7)
Total equity	(17)	8	-	2	(7)

* As a practical expedient on transition, the Group has relied on its existing onerous lease assessments under IAS 37 to impair right of-use assets instead of performing a new impairment assessment for those assets. As a result, onerous provisions relating to lease payments were reclassified to the right-of-use asset.

** Tax impact represents deferred tax on the net transition adjustment.

The standard does not impact net cash flow, but cash flows from the principal portion of lease payments for property and vehicle leases are now presented within cash flows from financing activities as the payments represent the repayment of lease liabilities. The interest element of these lease payments is included in interest paid within cash flows from operating activities. Previously lease payments were reclassified as cash flows from operating activities.

The table below reconciles the operating lease obligations reported under the previous accounting standard, IAS 17 "Leases", at 30 September 2019 to the lease liability recorded under IFRS 16 at the date of transition.

	(Unaudited) £m
Operating lease commitments reported at 30 September 2019	162
Commitment on a lease not commenced at 1 October 2019*	(7)
IAS 17 operating leases not qualifying as leases under IFRS 16**	(1)
Effect of discounting of future cash flows under IFRS 16***	(18)
Lease liability recognised at 1 October 2019	136
Of which:	
- Current lease liabilities	30
- Non-current lease liabilities	105
- Liabilities classified as held for sale	1

* At 30 September 2019, the Group had signed an agreement to lease a property but had not yet been granted access to it. Therefore, at that date the lease qualified for disclosure as a commitment under IAS 17, but not for recognition as a liability under IFRS 16.

** A small number of property arrangements treated as leases under IAS 17 did not meet the IFRS 16 definition of a lease. In most cases this was because the landlord has substantive substitution rights.

*** Lease commitments disclosed under IAS 17 are not discounted to their present value. Under IFRS 16, lease liabilities have been discounted using the incremental borrowing rate for each lease.

The weighted average incremental borrowing rate applied to discount the lease liabilities to their present value at 1 October 2019 was 3.7%. Rates applied to individual leases ranged from 0.25% to 11.6%. Differences in discount rates reflect principally the geographic location of leases and the length of the remaining lease term.

The estimated impact of the application of IFRS 16 on the income statement for the period ending 31 March 2020 was to increase operating profit by approximately £3m and increase profit for the period by approximately £1m.

13 Related party transactions

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Committee and Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries and have been eliminated on consolidation and are not disclosed in this note.

	Six months ended 31 March 2020 (Unaudited) £m	Six months ended 31 March 2019 (Unaudited) £m
Key management compensation		
Salaries and short-term employee benefits	5	5
Post-employment benefits	-	-
Share-based payments	4	2
	9	7

Key management personnel are deemed to be members of the Executive Committee, as defined in the Group's Annual Report & Accounts 2019 and the Non-executive Directors. Since the signing of the Group's Annual Report & Accounts 2019, there have been the following changes to the composition of the Executive Committee: with effect from 1 April 2020 Keith Robinson was appointed as Chief Strategy Officer, Marcus Banks was appointed as Interim Chief Marketing Officer, and Lee Perkins (previously Chief Product Officer) was appointed as Chief Commercial and Product Officer, and with effect from 31 March 2020 Blair Crump retired from his role as President and Ron McMurtrie left the Group on the same date. Changes in the Non-executive Directors are explained in the Statement of Directors' Responsibilities.

Managing Risk

The effective management of financial, compliance and operational risks is critical to the success of Sage’s strategy. By empowering and supporting our leaders to manage risks locally within their business and functional areas, we accelerate our progress against our organisational goals. Our “always-on, on-demand” risk reporting continues to provide real-time risk information to leaders across the organisation, further enhancing leaders’ ability to make risk informed decisions in a timely manner.

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

Sage continually assesses its Principal Risks to ensure continued and enhanced alignment to our strategy and in light of where Sage is currently on its journey to becoming a great SaaS business. Sage currently reports against 11 refreshed principal risks. At the same time, Sage has conducted a thorough assessment of the potential impacts of COVID-19 on the principal risks from a Strategic, Commercial and Operational perspective. This has ensured that the business can provide the appropriate response to impacts being felt in the short term, to both the business, our colleagues and customers, and to position ourselves regarding long term sustainability and viability.

As above, the principal risks continue to evolve, reflecting the organisation’s strategic focus on becoming a cloud-led SaaS business. By monitoring risk and performance indicators related to this strategy, principal risk owners focus on those metrics that signal current performance, as well as any emerging risks and issues. The principal risks reflect our three strategic lenses of customer success, colleague success and innovation. The management and mitigation actions described below reflect the refreshed principal risks and build on those actions previously reported in our FY19 Annual Report.

Principal Risk	Risk Context	Management and Mitigation
<p>Understanding Customer Needs</p> <p>If we fail to anticipate, understand and deliver against the capabilities and experiences our current and future customers need at appropriate pace, they will find alternative solution providers.</p> <p><u>Strategic alignment:</u></p> <p>Customer Success</p>	<p>Sage is the leader in key global markets, and this assists us in gathering valuable insights into what our current and future customers want and need. It also helps us to better understand the strengths and weaknesses of our products and services, and better develop and position those products and services to meet the needs of our current and future customers.</p> <p>By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment and retain a loyal customer and partner base over the long term.</p>	<ul style="list-style-type: none"> Brand health surveys are used to provide us with an understanding of customer perception of the Sage brand and its products, which we use to inform and enhance our market offerings Detailed customer segment analysis is used to develop segment-specific playbooks that support customer-focused development A Market and Competitive Intelligence team provides insights that Sage uses to win in the market. A product re-naming exercise was completed to simplify the purpose of each product, and assist with customer understanding Ongoing refinement and improvement of market data through feedback from the business, partners and customers, including specific focus upon COVID-19 and the impact on SMB’s Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs <p>In progress:</p> <ul style="list-style-type: none"> By providing ISVs with access to the Sage Developer Platform, which is focussed on the development of bespoke solutions, we gain additional insights into customer needs

Principal Risk	Risk Context	Management and Mitigation
<p>Execution of Product Strategy</p> <p>If we fail to deliver, to timescale, the capabilities and experiences outlined in our product strategy, we will not meet the needs of our customers or commercial goals.</p> <p><u>Strategic alignment:</u></p> <p>Customer Success Innovation</p>	<p>A key component of Sage’s transition to a Software as a Service (SaaS) company is the delivery of cloud-native products and solutions.</p> <p>To achieve this, we need to execute, at pace, a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products for our current and future customers requirements.</p>	<ul style="list-style-type: none"> • Following a product rationalisation and prioritisation exercise Sage’s product strategy was updated to ensure that cloud native products are delivered in line with customer expectations • A licensing model transition strategy is in place, anchored on the Sage Business Cloud • Sage Business Cloud is available in United Kingdom and Ireland, North America, France and Spain • Recent cloud-native products (Sage Intacct and Sage People) are available in Sage Business Cloud in North America, with international delivery ongoing • A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers <p>In progress:</p> <ul style="list-style-type: none"> • Prioritisation of core product and service delivery in key territories is continuing, including responding to the impact of COVID-19, with plans being developed to address non-core products and services in these markets



Principal Risk	Risk Context	Management and Mitigation
<p>Innovation</p> <p>If we fail to identify and leverage disruptive technologies and invest in modern development practices and tools at an appropriate pace, we will not meet the needs of our customers or our commercial goals.</p> <p><i>Strategic alignment:</i></p> <p>Customer Success Innovation</p>	<p>As Sage transitions into a SaaS business powered by a subscription license model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies, services, or new ways of working.</p> <p>Innovation requires us to address how we encourage innovation across our people, process and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services.</p> <p>By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.</p>	<ul style="list-style-type: none"> • Creation of Sage AI Labs team to focus and drive AI/ML development including to enhance the capability of our products, starting with Sage Intacct • Focussed colleague engagement to accelerate innovation across the organization through Continuous Innovation Community • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System • Acquisition of Autoentry provides automation of data entry through AI and Optical Character Recognition Technology for our accounting products • Objectives integrated into the planning of each segment and region to drive AI Transformation, Sage Business Cloud adoption and innovation of product features based on identified needs of customers • Integration of the Pegg chat bot with Sage Accounting, to enhance the product experience using artificial intelligence <p>In progress:</p> <ul style="list-style-type: none"> • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform • Strategic acquisition and collaboration with partners to complement and enable accelerated innovation • Platform Services delivered to Sage Business Cloud to enhance value proposition for Cloud adoption • Leveraging Sage ID and the Sage Business Cloud network, Sage will be able to deliver a unified and highly personalised experience for each customer across the entirety of Sage Business Cloud • Development of an incubation framework to guide how Sage interacts with its innovation partners • Enhancement of the Pegg AI capability, and increased use of machine learning to support new areas and operations • Development of Sage’s service fabric to support the development of cloud solutions

Principal Risk	Risk Context	Management and Mitigation
<p>Route to Market</p> <p>If we fail to deliver a bespoke blend of route to market channels in each country, based upon common components, we will not be able to efficiently deliver the right capabilities, and experiences to our current and future customers.</p> <p><u>Strategic alignment:</u></p> <p>Customer Success</p>	<p>By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities.</p> <p>This can shorten our sales cycle and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.</p>	<ul style="list-style-type: none"> Market data and intelligence is disseminated internally to support decision makers in the best routes to market Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market New routes to market are being opened through our partnerships with Payment and Banking technology providers <p>In progress:</p> <ul style="list-style-type: none"> Internationalisation of existing cloud-native products (Sage Intacct, Sage People) through a partner-driven sales model
<p>Customer Success</p> <p>If we fail to effectively identify and deliver ongoing value to our customers by focusing on their needs over the lifetime of their customer journey, we will not be able to achieve sustainable growth through renewal.</p> <p><u>Strategic alignment:</u></p> <p>Customer Success</p> <p>Colleague Success</p>	<p>In becoming a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focus on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates.</p> <p>While Sage is renowned for its quality customer support, a focus on customer success requires more proactive engagement as well. By proactively helping customers to recognise and fully realize the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.</p>	<ul style="list-style-type: none"> 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 A data-driven Customer Success Framework was designed and piloted in UKI to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer. Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends The Customer Success Framework is being rolled out in phases to other major markets to improve the customer experience Placing customers (and colleagues) at the heart of our response to the COVID-19 pandemic <p>In progress:</p> <ul style="list-style-type: none"> Consolidation of CRM systems continues to provide an efficient single view of the customer across all markets. Delivery of the Customer Core Program.

Principal Risk	Risk Context	Management and Mitigation
<p>Third Party Reliance</p> <p>If we do not embed our partners as an integral and aligned part of Sage's go to market strategy at an appropriate pace, we will fail to deliver the right capabilities and experiences to our customers.</p> <p><u>Strategic alignment:</u></p> <p>Customer Success</p>	<p>Sage places reliance on third-party providers to support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.</p> <p>Sage has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Carefully selecting, managing and supporting these partners and suppliers is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations.</p>	<ul style="list-style-type: none"> • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts • Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval • The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market <p>In progress:</p> <ul style="list-style-type: none"> • Rationalisation of targeted channels 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 • Enhancement of our third-party management framework, to support closer alignment and oversight of third-party activities.
<p>People and Performance</p> <p>If we fail to ensure we have engaged colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful.</p> <p><u>Strategic alignment:</u></p> <p>Customer Success Colleague Success</p>	<p>As Sage transitions into a SaaS business, the capacity, knowledge and leadership skills we need will change. Sage will not only need to attract the talent and experience we will need to help navigate this change, we will also need to provide an environment where colleagues can develop to meet these new expectations, an environment where everyone can perform at their very best.</p> <p>By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague voluntary attrition, and embracing the values of successful SaaS businesses, Sage can increase colleague engagement and create an aligned high performing team.</p>	<ul style="list-style-type: none"> • Continue to embed our operating model which is designed to provide 'freedom within a framework' ensuring that decision making is made as close to the customer as possible with the appropriate governance and strategic direction in place • Extensive focus on our hiring channels ensuring we are attractive in the market through our enhanced employee value proposition, enhanced presence through social media such as Glassdoor, comparably, Twitter, LinkedIn and Facebook • Identifying new hiring channels for example our pathways programme which enables talented returners who are struggling to find a route back into work • Focusing on entry level hiring through apprentice and graduate programmes • Ensuring our reward mechanisms incentivise and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets • Using a range of mechanisms – including digital platforms to recognise great performance and outstanding achievements • Focusing on the development of our leaders to ensure they create the environment which enables colleagues to thrive and perform at their very best • Through our Sage Belong programme ensuring we are supporting all colleagues to be successful at Sage regardless of age, gender, ethnic origin or social background

Principal Risk	Risk Context	Management and Mitigation
		<ul style="list-style-type: none"> Encouraging collaboration across the organisation through internal media channels, hackathon, collaboration jams and Sage Foundation. Placing colleagues (and customers) at the heart of our response to the COVID-19 pandemic <p>In progress:</p> <ul style="list-style-type: none"> Sage wide reward and capability review ensuring we have in place the SaaS skills and reward mechanisms we need for the next 3- 5 years. Design for emerging talent programme (including VP development programmes)
<p>Culture</p> <p>If we do not fully empower our colleagues and enable them to take accountability in line with our shared values and behaviours, we will be challenged to create a SaaS culture, that meets Sage's business ambitions.</p> <p><i>Strategic alignment:</i></p> <p>Customer Success Colleague Success</p>	<p>The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business, drive innovation will be critical in Sage's successful transition to a SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organization develops and sustains its shared values and behaviours, and develops a true SaaS culture.</p> <p>Sage will also need to create a culture of empowered leaders that support the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success and drive the engagement that results in increased market share.</p>	<ul style="list-style-type: none"> Integration of values and behaviours into all of our core colleague priorities including, performance management, talent attraction, selection and development, leadership development and onboarding Code of Conduct communicated to all colleagues, and subject to annual certification Alignment of personal objectives across Sage, with direct cascade from the CEO 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 Core eLearning modules rolled out across Sage, with annual refresher training Whistleblowing and Incident Reporting mechanisms in place to allow issues to be formally reported, and investigated All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community. Support for Sage Foundation included in bonus goals for our most senior leaders Placing colleagues (and customers) at the heart of our response to the COVID-19 pandemic Sage Compliance has been transformed into Sage Business Integrity, with a mandate to guide, support and challenge the business to own and enhance its values and behaviours In-person anti-bribery and corruption training has been delivered to multiple regions, with the remaining regions to be completed based on assessed risk <p>In progress:</p> <ul style="list-style-type: none"> Work continues to be rolled out in the form of the culture, values and behaviours plan across the organisation. Sales Capability Framework has been built with values & behaviours embedded to act as a pilot for global Capability Framework approach, plan on launch and embedment is being progressed.

Principal Risk	Risk Context	Management and Mitigation
<p>Cyber Security and Data Privacy</p> <p>If we fail to responsibly collect, process and store data, together with ensuring an appropriate standard of cyber security across the business, we will not meet our regulatory obligations, and will lose the trust of our stakeholders.</p> <p><i>Strategic alignment:</i></p> <p>Customer Success</p> <p>Innovation</p>	<p>Information is the life blood of a SaaS business – Protecting the confidentiality, integrity and accessibility of this data is table stakes for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.</p>	<ul style="list-style-type: none"> Accountability is established within both IT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business The Chief Data Protection Officer supported by a Data Governance forum oversees information protection and development for Sage. A network of country-level data champions support the business in embedding Sage practices across the organisation, with a particular focus on the requirements of the GDPR. Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training <p>The Information Security Risk Management Methodology continues to be deployed to provide objective risk information on our assets and systems</p> <p>In progress:</p> <ul style="list-style-type: none"> Data governance forum is leading a review of how Sage can provide maximum value to its current and future customers, including through the use of enhanced AI/ML capabilities
<p>Data Strategy</p> <p>If we fail to identify, utilise and maximise the value of our data and customer data, at an appropriate pace and in accordance with our data principles, we will not be able to realise the full potential of our assets.</p> <p><i>Strategic alignment:</i></p> <p>Customer Success</p> <p>Innovation</p>	<p>Information is the life blood of a SaaS business – it tells us how we create revenue, how we can improve the customer experience, and how we can meet our obligations and commitments. Analysed using manual and machine learning, it provides us with the intelligence we need to run and build our business.</p>	<ul style="list-style-type: none"> IT and Product have been consolidated under a single leader to drive alignment of data management practice across the business Formation of a Data strategy around 7 initiatives to support the delivery of real customer value and solve real customer problems <p>In progress:</p> <ul style="list-style-type: none"> Creation and formation of a global data stack. Data governance forum is leading a review of how Sage can provide maximum value to its current and future customers, including through the use of enhanced Artificial Intelligence /Machine Learning capabilities

Principal Risk	Risk Context	Management and Mitigation
<p>Live Services Management</p> <p>If we fail to maintain a secure, reliable and scalable live services environment, we will be unable to deliver the consistent cloud experience expected by our customers.</p> <p><i>Strategic alignment:</i></p> <p>Customer Success Innovation</p>	<p>As Sage continues to transition into a great SaaS business, there is a greater focus on ensuring that we are able to continue to scale our services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud experience. This delivery could relate to new technologies, operating practices, services</p> <p>Live Services Management must provide the right Infrastructure and Operations for all of our customer products, a platform to host customer products, the governance to insure they are adhering to best practices, and the oversight that insures optimal service availability, performance, security protection and restoration (if required).</p>	<ul style="list-style-type: none"> • Formal onboarding process established and executing including ongoing management in Portfolio Management processes. • Incident and management change processes adhered to for all products and services. • Report hosting and tool costs per product. • Published established tool standards. • Attained service level objectives including uptime, responsiveness, and mean time to repair objectives. • An established forum for continuous assessment and refinement. • Real Time Demand Management processes and controls. • Disaster Recovery Capability and operational resilience models <p>In progress:</p> <ul style="list-style-type: none"> • Continued enhancement and development of our robust security programs • Continue to reinforce accountability and ownership across Product Owners, underpinned by ongoing risk assessments at Segment and category levels

Statement of Directors' Responsibilities

The condensed consolidated half-yearly financial report for the six months ended 31 March 2020 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 IAS 34, "Interim Financial Reporting" as adopted by the EU and as issued by the IASB, 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 2019 Annual Report and Accounts except for the following changes: with effect from 25 February 2020, Blair Crump stepped down as executive director, Soni Jiandani stepped down as a non-executive director at the same date and with effect from 1 May 2020 Sangeeta Anand and Irana Wasti have been appointed to its Board as independent Non-executive Directors. A list of current directors is maintained on the Group's website: www.sage.com.

On behalf of the Board

J Howell

Chief Financial Officer

13 May 2020

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 2020 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 2020 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
13 May 2020