



## Sage Group plc unaudited results for the six months ended 31 March 2015

Wednesday 6 May 2015

### Good operational progress – on track to meet 2015 targets

<b>FINANCIAL SUMMARY<sup>1</sup></b>	<b>H1 2015</b>	<b>H1 2014</b>	<b>Change</b>
<b>Organic revenue</b>	£682m	£642m	+6.2%
- <b>Organic recurring revenue</b>	£499m	£463m	+7.7%
- <b>Organic software and software-related services (“SSRS”) revenue</b>	£183m	£179m	+2.4%
<b>Organic operating profit</b>	£192m	£176m	+9.1%
<b>Organic operating profit margin</b>	28.1%	27.4%	+70bps
<b>Underlying basic earnings per share (“EPS”)</b>	12.66p	10.88p	+16.4%
<b>Underlying cash conversion<sup>2</sup></b>	112%	109%	+3%
<b>Ordinary dividend per share (“DPS”)</b>	4.45p	4.12p	+8%

  

<b>STATUTORY</b>	<b>H1 2015</b>	<b>H1 2014</b>	<b>Change</b>
<b>Revenue</b>	£699m	£657m	+6.5%
<b>Operating profit</b>	£183m	£174m	+5.1%
<b>Profit before tax</b>	£173m	£165m	+4.9%
<b>Basic EPS</b>	11.86p	10.58p	+12.1%

<sup>1</sup>Refer to Appendix II on page 15 for information on Non-GAAP measures.

<sup>2</sup>Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items. In the prior period, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 129% in H1 2015 (H1 2014: 110%).

### Highlights

- Organic recurring revenue growth of 8% in-line with management expectations, with 29% software subscription revenue growth the primary driver. Recurring revenue now accounts for 73% of Group organic revenue (H1 2014: 72%);
- Organic SSRS revenue growth of 2% was stronger than expected, due to certain one-offs, including a regulatory change in Malaysia, which contributed approximately 50 basis points to Group organic revenue growth;
- Increased organic operating margin reflects improved operating leverage from organic growth and disciplined cost management and supports the 28% operating profit margin target for the year;
- Weaker performance in parts of the business, particularly Enterprise Europe and payments and the Small and medium sized business (“SMB”) segment in North America, leads to a cautious outlook for these areas;
- Sage ERP X3, our global solution for enterprise businesses, grew organic revenue by 10% (H1 2014: 7%);
- The number of paying subscriptions for Sage One, our global cloud solution for smaller businesses, increased to 115,000\* (FY 2014: 86,000; H1 2014: 59,000); and
- The move to a subscription model continues with over 550,000 software subscription contracts and an annualised subscription value of £260m (FY 2014: £224m).

Stephen Kelly, Chief Executive Officer, said: “We have delivered a good first half performance and remain on track to meet our financial targets this year. Recurring revenue growth of 8% demonstrates the strength of our business and the quality of our customer relationships. The business also enjoyed a number of benefits in the second quarter which, though encouraging, are unlikely to recur in the second half, and so our expectations for the current year remain unchanged.

We have already started making changes to facilitate and underpin our longer-term growth plans. These changes are being carefully introduced to ensure minimum risk to the business. These include organisational and product

improvements which will help drive sustainable, profitable growth and build on Sage's existing strengths. We are at the start of this journey which will take a couple of years to fully implement.

Looking ahead, we have a significant opportunity to strengthen the valuable relationships we have as a trusted partner to millions of Small & Medium Businesses, and to build new ones. The changes we are making will allow us to be even more instrumental in our goal of supporting the success of Small & Medium Businesses globally. We look forward to providing more details on these initiatives at our Capital Markets Day in June."

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*An analyst presentation will be held at 8.45am today at the London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on [www.sage.com/investors](http://www.sage.com/investors), dial-in number +44 (0) 20 3139 4830, pin code: 62167535#. A replay of the call will also be available for two weeks after the event: Tel: +44 (0) 20 3426 2807, pin code: 657445#.*

**Non-GAAP measures**

*Unless stated otherwise, growth rates in the Chief Executive Officer's review and Chief Financial Officer's review are on an organic basis. For information on the calculation of Non-GAAP measures and why they are used, please see Appendix II on page 15.*

**Rounding**

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

*\*Following the incorporation of several existing SaaS products in Germany, France and South Africa into the Sage One portfolio during the prior year, Sage One paying subscriptions have been restated on a like-for-like basis. Without the restatement, Sage One paying subscriptions at 31 March 2015 were 76,000 (30 September 2014: 52,600, 31 March 2014: 35,000)*

## Chief Executive Officer's review

### Performance

6% organic revenue growth for the half is a good performance with software subscription revenue growth of 29% the primary driver of this growth. This reflects good momentum in transitioning customers to higher quality subscription relationships, with the number of software subscription contracts growing to over 550,000. Our customers, both existing and new, are attracted to the value benefits of subscription, including product innovation, flexible pricing and automatic compliance with legislative change. Our growing subscription base builds on the established foundations of Sage's highly recurring revenue business model, and supports our objective of sustainable, profitable organic growth.

SSRS organic revenue growth of 4% for the second quarter reflects a marked acceleration from 1% growth in the first quarter. It was higher than anticipated, due to a number of one-off items. The Malaysian regulatory catalyst was the most significant to Group growth, contributing approximately 50 basis points one-off benefit to organic revenue growth in the first half. Certain other benefits to SSRS revenue in the first half are expected to diminish in the second half, including migration fees in France and hardware sales for Sage Pay in the UK & Ireland. For these reasons, and the continued impact of the move to subscription, we expect a weaker SSRS performance in the second half of the year.

The underlying performance of the business remains in line with our plans, with the business delivering the sequential improvement in growth which supports our revenue target of 6% for the full year.

Our confidence in hitting our 2015 target is underpinned by good performances across the business. Europe performed well in the first half, reporting acceleration in revenue growth to 5%. This is a highlight for the period, particularly as it was driven by 8% growth in recurring revenue, which more than offset a 2% fall in SSRS revenue. The performances in the UK & Ireland (“UKI”) and France were particularly stand-out, both reporting good growth and subscription momentum. In North America, the performance of the Start-up and Small Business (“SSB”) segment and Enterprise were encouraging in a region which reported moderate growth. South Africa delivered another period of good growth, despite the economic, political and social challenges in that country.

There were weaker performances in other parts of the business. In North America, the performance of payments and the Small and Medium Sized Business (“SMB”) segment, which in aggregate represent over 50% of revenue in the region, were a drag on growth for the region. In Europe, the performance of Enterprise, which represents 16% of Europe revenue, continued to be behind plan, with revenue contracting by 4% in the first half. We are focused on taking actions in these areas, and are cautious on the growth outlook for these parts of the business.

It was encouraging to see Sage ERP X3 return to double-digit growth, with growth in North America and Africa particular highlights. Our ambition for double-digit growth remains, and we see good potential for this product in terms of winning market share in the Enterprise market.

Sage One’s performance, with 115,000 paying subscriptions globally, does not match our ambition. Progress in the US remained disappointing, and we have re-organised in that region to accelerate new customer acquisition. The UKI performance was more encouraging, with 64,000 paying subscriptions at the end of March 2015, an increase from 47,000 at the last year-end. We are focused on accelerating the rate of adoption for Sage One globally.

### **Organisation and operating model changes**

We are starting to make changes to facilitate and underpin our longer-term growth plans. It will take time to see the full benefits, but we are changing the operating model and are executing at increased pace.

The management team has been strengthened and refreshed through a combination of new hires and existing senior management taking on new roles. During the period, Alvaro Ramirez stepped down from his role as CEO Europe, and was replaced by Brendan Flattery as President of Sage Europe. Previously, Brendan was the CEO of Sage in the UKI. The transition process has been managed smoothly with no disruption to the regional performance. Alvaro remains on the Executive Committee for the remainder of the financial year and is assisting with the transition. Pascal Houillon, CEO Americas, is also leaving the business to broaden his career outside of Sage, with the change effective from 6 May 2015. An interim leader will be appointed while a search is conducted for the permanent President of Sage North America.

We have made changes to the organisational model in support of our plans. Marketing, Finance, HR, IT, Facilities, Procurement and Legal have been established as global functions to replace the local structures that have existed historically.

During the period, we announced a global agreement with Salesforce, to use their Customer Success Platform. This is an important change in moving to using world class collaboration and productivity tools across the business and we have already implemented Salesforce Chatter globally. We also continue to collaborate with Salesforce on a development project on their Salesforce1 cloud platform to extend our capability in delivering cloud solutions to Small & Medium Businesses.

Changes will continue as we transition the business. We will manage the sequencing carefully to minimise risk, but it is important to recognise there are operational risks involved with business change. Whilst it is a tougher course to navigate, it is the right path for colleagues, customers and shareholders.

### **Investment, resource and capital allocation**

We have continued to invest in the products and initiatives that add most value to our customers and help to accelerate future growth. During the period, investment in our Future portfolio across research and development (“R&D”) and sales and marketing (“S&M”) activities increased by 27%. 69% of total R&D investment and 66% of total S&M investment is now directed to the Future portfolio.

This disciplined approach to investment supports the 28% operating profit margin target in 2015, which we remain on track to deliver. The cash flow characteristics of the business remain strong, as does the balance sheet. This supports the 8% increase in the interim dividend, in line with our progressive dividend policy.

Our key focus continues to be sustainable, profitable organic growth, with scope for complementary acquisitions that support growth in our core business and meet our strict acquisition criteria.

### **Summary and Outlook**

We have delivered a good first half performance and remain on track to meet our financial targets this year. Recurring revenue growth of 8% demonstrates the strength of our business and the quality of our customer relationships. The business also enjoyed a number of benefits in the second quarter which, though encouraging, are unlikely to recur in the second half, and so our expectations for the current year remain unchanged.

We have already started making changes to facilitate and underpin our longer-term growth plans. These changes are being carefully introduced to ensure minimum risk to the business. These include organisational and product improvements which will help drive sustainable, profitable growth and build on Sage’s existing strengths. We are at the start of this journey which will take a couple of years to fully implement.

Looking ahead, we have a significant opportunity to strengthen the valuable relationships we have as a trusted partner to millions of Small & Medium Businesses, and to build new ones. The changes we are making will allow us to be even more instrumental in our goal of supporting the success of Small & Medium Businesses globally. We look forward to providing more details on these initiatives at our Capital Markets Day in June.

## Chief Financial Officer's review

### Operating review

#### Group performance

The Group delivered organic revenue growth of 6% (H1 2014: 5%), and increased organic operating profit margin to 28.1% (H1 2014: 27.4%).

The strong subscription momentum reported in the prior year remains the primary driver of the increased organic revenue growth rate for the first half of 2015. This was supported by a temporary acceleration of growth in SSRS. Good growth for the half was partially offset by weaker performances in other parts of the business, including Enterprise Europe and both the Payments and SMB segments in North America.

Organic operating profit growth reflects improved operating leverage resulting from organic revenue growth and disciplined cost management.

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from current and prior period acquisitions, disposals and products held for sale to aid comparability. A reconciliation of organic operating profit to statutory operating profit reported in H1 2015 is shown on page 11.

Statutory performance has been impacted by movements in key exchange rates during the half, particularly in Europe, North America, South Africa and Brazil. Statutory figures also include the contribution of acquisitions and disposals.

#### Revenue

	STATUTORY			ORGANIC		
	H1 2015	H1 2014	Change	H1 2015	H1 2014	Change
Europe	£382m	£382m	0%	£378m	£360m	+5%
Americas	£237m	£206m	+15%	£223m	£214m	+4%
AAMEA	£81m	£69m	+17%	£81m	£68m	+19%
<b>Group</b>	<b>£699m</b>	<b>£657m</b>	<b>+7%</b>	<b>£682m</b>	<b>£642m</b>	<b>+6%</b>

#### Operating profit

	STATUTORY			ORGANIC		
	H1 2015	H1 2014	Change	H1 2015	H1 2014	Change
Europe	£107m	£104m	+3%	£110m	£102m	+8%
Americas	£54m	£53m	+2%	£60m	£57m	+6%
AAMEA	£21m	£17m	+24%	£22m	£17m	+25%
<b>Group</b>	<b>£183m</b>	<b>£174m</b>	<b>+5%</b>	<b>£192m</b>	<b>£176m</b>	<b>+9%</b>
<b>Margin</b>	<b>26.3%</b>	<b>26.5%</b>	<b>-20bps</b>	<b>28.1%</b>	<b>27.4%</b>	<b>+70bps</b>

## Revenue mix

ORGANIC	RECURRING REVENUE			SSRS REVENUE		
	H1 2015	H1 2014	Change	H1 2015	H1 2014	Change
Europe	£272m	£252m	+8%	£106m	£109m	-2%
Americas	£184m	£173m	+6%	£40m	£41m	-3%
AAMEA	£44m	£39m	+13%	£37m	£29m	+27%
<b>Group</b>	<b>£499m</b>	<b>£464m</b>	<b>+8%</b>	<b>£183m</b>	<b>£179m</b>	<b>+2%</b>
<b>% of total organic revenue</b>	<b>73%</b>	<b>72%</b>		<b>27%</b>	<b>28%</b>	

### Recurring revenue

The Group has delivered an improvement in organic recurring revenue growth to 8% (H1 2014: 7%), of which subscription growth accounted for over 75% of the year-on-year increase in recurring revenue. This is evidence of good subscription momentum across the Group, particularly in Europe. The improvement in recurring revenue growth was achieved despite a flat performance in Payments in North America, which was affected by the termination of a partnership contract in the prior year and continued challenging market dynamics.

Organic recurring revenue represents 73% of the Group's total organic revenue (H1 2014: 72%) with the contract renewal rate at 84% (H1 2014: 83%). This highlights the continued success of our subscription initiatives, and maintains a long-running strategic shift to higher quality and less cyclical revenue that is underpinned by our maintenance and support contract base. Organic software subscription revenue now represents 18% of Group organic revenue (H1 2014: 15%).

### SSRS revenue

Organic SSRS revenue grew by 2% in the year (H1 2014: flat), driven by growth in Malaysia and France. In Malaysia, we experienced an exceptionally strong result as customers acted to become compliant with new goods and sales tax legislation, the effects of which are expected to diminish during the second half. In France, the continued move towards subscription in the Sage 100 i7 product range generated strong migration fees.

## Regional performance - Europe

ORGANIC REVENUE GROWTH	H1 2015	H1 2014
France	+6%	+3%
UKI	+6%	+4%
Spain	+1%	Flat
Germany	+3%	+3%
Sage Pay	+11%	+10%
Rest of Europe	+1%	Flat
<b>Europe</b>	<b>+5%</b>	<b>+3%</b>

Revenue in Europe grew organically by 5%, with organic recurring revenue growth of 8% (H1 2014: 6%) and organic SSRS revenue contracting by 2% (H1 2014: 3% contraction). The acceleration in revenue growth was achieved despite the underperformance of the Europe Enterprise segment which contracted by 4% for the period.

Organic software subscription revenue growth of 30% was a highlight and drives software subscription revenue to 20% of total organic revenue in Europe. Over 80% of recurring revenue growth came through subscription across both the Start-up and Small Business ("SSB") and SMB segments, driven by key product initiatives particularly in France and the UKI.

Organic SSRS revenue contraction of 2% reflects a sustained substitution effect resulting from subscription growth, as well as a weak performance in Enterprise Europe which saw organic SSRS revenue contraction of 12%.

#### *UKI – cumulative benefits of subscription drive growth*

UKI revenue grew organically by 6% (H1 2014: 4%) to £135m, supported by organic subscription revenue growth of 34% for the half, with Sage 50 Payroll and Accounts and Sage 200 behind this strong performance. The UKI business led customers through the launch of Auto-enrolment legislation last year, with a new automated pension module being made available only on a subscription basis. H1 2015 has benefitted from the associated recurring revenue coming through. Core product innovation has also been successful in the UK, with good adoption of Sage Drive, the cloud enabling feature for Sage 50. Both of these initiatives helped to attract customers to subscription, with the annualised value of the subscription contract base across Sage 50 Accounts and Payroll growing to £25m as at the end of March 2015 (FY 2014: £16m).

Sage One paying subscriptions grew to 64,000 from 47,000 in September 2014. Whilst Sage One is not yet a significant constituent part of the UKI revenue base, it is an important product in driving market share growth in the SSB segment.

Overall, a good UKI performance was recorded across all segments excluding Enterprise.

#### *France – subscription momentum offsets Enterprise market weakness*

In France, organic revenue grew by 6% (H1 2014 3%) to £117m, with growth excluding the Enterprise market of 10%. Strong subscription momentum remained the primary driver, with around half of France's recurring revenue base comprised of software subscription revenue that grew 22% in the half.

Success continues to centre on two key initiatives. First, the i7 upgrade applicable to Sage 100 accounting and payroll products. Customers have embraced the enhanced functionality of the i7 offering, which also addresses an upcoming legislative payroll reporting requirement, driving the associated annualised value of our subscription contract base to £21m at the end of March 2015 (FY 2014: £15m). Combined penetration of the i7 upgrade across the Sage 100 accounting and payroll contract base is over 50%, so the migration opportunity is diminishing going forward.

Second, the tiered, subscription-only, Sage Ciel Flex offering, which overlays additional features on the Ciel product range, has continued to deliver growth. The annualised value of the subscription contract base grew by 34% to £12m as at the end of March 2015 (FY 2014: £9m). The number of subscription contracts grew by over 40% during the half to 20,000. Around 60% are subscribed to the highest tier, which includes cloud enablement. This is a good example of core product innovation in Europe, with Ciel Flex acting as a catalyst for the reactivation of inactive customers as well as driving new customer acquisition.

Both i7 and Ciel Flex highlight the attraction of subscription to SMB and SSB customers respectively and offset the weakness experienced in Enterprise which contracted by 5% in the half. The performance of Enterprise reflects poor execution and weak pipeline coverage. Whilst actions are being taken to address this underperformance, we remain cautious on the growth outlook.

#### *Spain – subscription pricing strategies continue to drive improved growth*

Organic revenue in Spain grew 1% organically to £44m after a flat performance over the same period in 2014, led by a 3% increase in recurring revenue (H1 2014: contraction of 1%). Growth excluding Enterprise was stronger at 2% (H1 2014: Flat).

Spain's return to growth is the result of positive management action in an economic environment that is only recently showing signs of improvement. We are seeing encouraging growth for Sage Murano, our flagship SMB product in Spain, with subscription pricing supporting customers to upgrade. Training for new tax legislation, which came into effect in the second quarter, drove growth across both the SMB and Accountants segment.

#### *Germany – improved recurring revenue growth offsets weaker SSRS growth*

In Germany, organic revenue of £40m represents organic growth of 3% (H1 2014: 3%). SSRS revenue contraction of 4% (H1 2014: contraction of 2%) was offset by recurring revenue growth of 9%, up from 7% last year. This reflects a focus on migration to subscription products across the SSB and SMB segments. The performance of SMB was behind plan, notwithstanding the migration progress.

The integration of Exact Lohn, the payroll business acquired in 2014, is on track.

#### *Sage Pay – hardware sales maintain growth rate*

Sage Pay delivered organic revenue growth of 11% (H1 2014 10%) to £17m. The e-commerce segment benefitted from greater transaction volumes and up-selling of value added services, whilst the card-holder-present (“CHP”) business was buoyed by hardware sales, which are not expected to be sustained. Recurring revenue is a better guide of sustainable performance and showed modest growth of 5% for the half (H1 2014: 11%). Cross-sell of payments into the accounting installed base is a key focus going forward, and organisational changes have been implemented during the first half in order to drive that initiative.

#### *Rest of Europe*

In Switzerland, revenue grew 3% organically (H1 2014: Flat) to £12m, whilst organic revenue was flat in Poland (H1 2014: 3%) at £6m. Organic revenue in Portugal of £6m was flat to the same period in the prior year (H1 2014: contraction of 2%). Recurring revenue grew by 11% through focus on subscription pricing for new customers in the SMB segment.

#### *Organic operating profit*

Organic operating profit in Europe increased to £110m (H1 2014: £102m), representing a margin of 29.2% (H1 2014: 28.4%), primarily as a result of revenue growth improving operating leverage.

### **Regional performance - Americas**

<b>ORGANIC REVENUE GROWTH</b>	<b>H1 2015</b>	<b>H1 2014</b>
Sage Business Solutions (“SBS”)	+5%	+5%
Sage Payment Solutions (“SPS”)	Flat	+6%
<b>North America</b>	<b>+4%</b>	<b>+6%</b>
<b>Brazil</b>	<b>+8%</b>	<b>+9%</b>
<b>Americas</b>	<b>+4%</b>	<b>+6%</b>

The Americas delivered organic revenue growth of 4%. Organic recurring revenue grew 6% (H1 2014: 7%) and organic SSRS revenue contracted by 3% (H1 2014: 2% growth). The rate of growth in the Americas has fallen, primarily as a result of a sharp decline in the rate of growth in Sage Payment Solutions.

#### *SBS – growth on track but reflects mixed performance*

The rate of growth in SBS, which delivered £164m of organic revenue in the period, was maintained by a strong performance in the SSB and Enterprise segments, partially offset by a weaker performance in the SMB segment. Organic growth of 5% was delivered in SSB, with strong renewal rates and up-selling both catalysts for growth. We



saw good subscription adoption across the Accountants and Sage 50 base, with the annualised value of the subscription contract base for these products growing by £8m for the half to £17m (FY 2014: £9m). The integration of PAI Group, Inc. (“PayChoice”), the payroll acquisition completed during the half, is tracking to plan. During the period, PayChoice was rebranded to Sage Payroll Solutions.

Despite an improvement, SMB remained a drag on growth at 3% for the half (H1 2014: 1%). Up-selling of premium support services is delivering well in the segment, but going forward there is increasing focus on new customer acquisition.

Sage ERP X3 organic revenue growth of 36% (H1 2014: 23%) is a highlight within the Enterprise segment which grew at 9% overall (H1 2014: 5%).

#### *SPS – market pressures remain but financial performance stabilised*

SPS organic revenues were flat at £36m, compared to growth of 6% in H1 2014, which reflected non-recurring income relating to the termination of a contract with an independent sales organisation (“ISO”) during H1 2014. H1 2015 benefits neither from the one off payment nor the income stream associated with the terminated contract.

A CEO of SPS has been appointed during the half who is refocussing the sales function to accelerate the cross-selling of integrated payment solutions into the SBS customer base. These steps are expected to contribute towards the longer term progress of the payments business, but industry dynamics are competitive and we remain cautious about the growth prospects of payments in the nearer term.

#### *Brazil – accounting and payroll software delivers double-digit growth against tough economic conditions*

Organic revenue in Brazil grew by 8% (H1 2014 9%) to £23m. Double digit revenue growth continued in accounting and payroll software, but has slowed since the prior year to 11% (H1 2014: 20%). Overall growth was also tempered by lower technical content revenue as the subdued demand for this service continues in the face of tough macroeconomic conditions.

#### *Organic operating profit*

Organic operating profit in Americas increased to £60m (H1 2014: £57m), representing a margin of 26.9% (H1 2014: 26.4%). The increase in margin is the result of improved operating leverage.

### **Regional performance - AAMEA**

<b>ORGANIC REVENUE GROWTH</b>	<b>H1 2015</b>	<b>H1 2014</b>
South Africa	+16%	+16%
Australia	+5%	+5%
Middle East and Asia	+63%	+10%
<b>AAMEA</b>	<b>+19%</b>	<b>+12%</b>

Organic revenue grew strongly in AAMEA at 19%, with organic recurring revenue growth of 13% (H1 2014: 14%) and organic SSRS revenue growth of 27% (H1 2014: 9%). An exceptional performance in Malaysia was supplemented by sustained strong performance in South Africa.

#### *South Africa – double-digit growth performance maintained*

Organic revenue of £46m in South Africa represents sustained strong organic growth of 16% (H1 2014 16%), with double-digit organic revenue growth in both SSRS and recurring revenue. South African growth is underpinned by annual price increases that reflect the rate of inflation.

The South African Enterprise Market has continued to perform well, with Sage ERP X3, Pastel Evolution Accounting and VIP People Payroll reporting good growth. The contribution of revenue from the wider African continent continues to increase in importance, comprising 14% of total South African revenue and growing 21% organically (H1 2014: 22%).

#### *Australia, Middle East and Asia*

Organic revenue in the Middle East and Asia grew by 63% to £15m, with Malaysia the key contributor. A goods and services tax has been introduced in Malaysia, with a government sponsored compliance scheme in place to aid companies in fulfilling their obligations. The corresponding spike in sales is expected to soften in the second half, and £3.5m of revenue recorded in the first half is unlikely to reoccur.

In Australia, organic revenue growth of 5% (H1 2014: 5%) to £20m was delivered, with price increases on key products Micropay and Handisoft responsible for much of this growth. In the current low inflation environment, focus must intensify on new customer acquisition as price increases in the region are considered unsustainable. The launch of Sage One in Australia in the second half is a measure being taken to acquire new customers.

#### *Organic operating profit*

AAMEA organic operating profit has increased to £22m (H1 2014: £17m), representing a margin of 26.8% (H1 2014: 25.6%). The increase is driven by the temporary spike in sales.

## Financial review

ORGANIC TO STATUTORY RECONCILIATIONS	H1 2015			H1 2014		
	Revenue	Operating profit	Margin	Revenue	Operating profit	Margin
<b>Organic</b>	£682m	£192m	28.1%	£642m	£176m	27.4%
Non-organic adjustments <sup>1</sup>	£17m	£1m		-	-	
Underlying	£699m	£193m	27.6%	£642m	£176m	27.4%
Impact of foreign exchange	-	-		£15m	£4m	
<b>Underlying (as reported)</b>	£699m	£193m	27.6%	£657m	£180m	27.4%
Recurring items <sup>2</sup>	-	(£10m)		-	(£5m)	
Non-recurring items <sup>3</sup>	-	-		-	(£1m)	
<b>Statutory</b>	<b>£699m</b>	<b>£183m</b>	<b>26.2%</b>	<b>£657m</b>	<b>£174m</b>	<b>26.5%</b>

<sup>1</sup>Non-organic adjustments comprise contributions from acquisitions, disposals and products held for sale

<sup>2</sup>Recurring items comprise amortisation of acquired intangible assets, acquisition-related items and fair value adjustments

<sup>3</sup>Non-recurring items comprise items that management judge to be one-off or non-operational

### Revenue

Statutory revenue grew by 7% to £699m (H1 2014: £657m). The growth reflects organic growth in the business and the contribution from two acquisitions, offset partially by adverse foreign exchange movements experienced in H1 2015. The average exchange rates used to translate the Consolidated income statement for the year are set out on page 13.

### Operating profit

Statutory operating profit increased to £183m (H1 2014: £174m).

Organic operating profit margin excludes the contribution from acquisitions made in Germany and the US in Q4 2014 and Q1 2015 respectively. A reconciliation of the reported H1 2015 underlying margin of 27.6% to the H1 2015 organic margin of 28.1% is shown above.

Organic operating profit increased by 9% to £192m (H1 2014: £176m), and organic operating profit margin increased to 28.1% (H1 2014: 27.4%). The operating profit margin has benefited from an improvement in operating leverage as a result of revenue growth and a disciplined approach to managing the cost base.

### Research and development expenditure

Total R&D expenditure was £70m, which represents 10% of total organic revenue (H1 2014: 10%). During the half, R&D expenditure on Future products increased 37% organically as resources have been reallocated from Heritage and Growth products. All R&D expenditure incurred this year was expensed.

### Earnings per share

Underlying basic earnings per share increased by 16.4% to 12.66p (H1 2014: 10.88p) due to a lower effective tax rate and a reduction in the average number of shares in issue to 1,077.0m (H1 2014: 1,097.9m), resulting from share repurchases.

Statutory basic earnings per share increased to 11.86p (H1 2014: 10.58p), which reflects the factors set out above.

### Net finance cost

The statutory net finance cost for the period was £10m (H1 2014: £10m). The underlying net finance cost increased to £11m (H1 2014: £9m), principally due to increased borrowings during the period relating to the acquisition of

PayChoice. The difference between the underlying and statutory net finance cost for the period reflects a fair value adjustment to a debt related instrument of £1m.

### Taxation

The statutory income tax expense was £45m (H1 2014: £47m). The effective tax rate on statutory profit before tax was 26% (H1 2014: 28%). The effective tax rate on underlying profit before tax was 25% (H1 2014: 28%). The reduction is driven by a general reduction in tax rates including the UK tax rate, together with a number of one off items arising as a result of corporate simplifications.

### Cash flow and net debt

<b>CASH FLOW</b>	<b>H1 2015</b>	<b>H1 2014</b>
<b>Underlying operating profit</b>	<b>£193m</b>	<b>£176m</b>
Exchange rate translation movements	-	£4m
<b>Underlying operating profit (as reported)</b>	<b>£193m</b>	<b>£180m</b>
Non-recurring items	(£1m)	(£1m)
Depreciation/amortisation/profit on disposal	£15m	£14m
Share-based payments	£5m	£3m
Working capital movements	£15m	£9m
Exchange rate translation movements	£20m	(£10m)
<b>Statutory cash flow from operating activities</b>	<b>£246m</b>	<b>£197m</b>
Net interest	(£10m)	(£9m)
Tax paid	(£60m)	(£55m)
Net capital expenditure	(£11m)	(£12m)
<b>Free cash flow</b>	<b>£165m</b>	<b>£120m</b>

<b>Statutory cash flow from operating activities</b>	£246m	£197m
Non-recurring cash items	£1m	-
Net capital expenditure	(£11m)	(£12m)
Eliminate exchange rate translation movements	(£20m)	£6m
<b>Underlying cash flow from operating activities</b>	<b>£216m</b>	<b>£191m</b>
<b>Underlying cash conversion<sup>1</sup></b>	<b>112%</b>	<b>109%</b>

<sup>1</sup>Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure, adjusted for movements on foreign exchange rates and non-recurring cash items. In the prior period, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 129% in H1 2015 (H1 2014: 110%).

The Group remains highly cash generative with cash flows from operating activities of £246m. This represents strong underlying cash conversion of 112% (H1 2014: 109%).

A total of £102m (H1 2014: £105m) was returned to shareholders through ordinary dividends paid of £86m (H1 2014: £81m) and share repurchases of £16m (H1 2014: £24m). Net debt stood at £510m at 31 March 2015 (30 September 2014: £437m, 31 March 2014: £361m), which is equivalent to 1.2x rolling 12-month EBITDA.

### Treasury management

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group's current syndicated bank multi-currency revolving credit facility expires in June 2019 with facility levels of £529m (US\$551m and €218m tranches). At 31 March 2015, £156m (H1 2014: £17m) of

the multi-currency revolving debt facility was drawn, with the increase primarily due to the completion of the PayChoice acquisition.

Total US private placement (“USPP”) loan notes at 31 March 2015 were £533m (US\$700m and EUR€85m) (H1 2014: £420m, US\$700m). Approximately £135m (US\$200m) of USPP borrowings were repaid in March 2015. This debt was refinanced in the USPP market in January 2015, placing US\$200m (£135m) at 3.73% fixed until 2025, €55m (£40m) at 1.89% fixed until 2022 and €30m (£22m) at 2.07% fixed until 2023.

### Acquisitions

On 16 October 2014, the Group acquired 100% of the share capital of PayChoice, a provider of payroll and HR services in the US, for total consideration of US\$157.8m (£98m). The acquisition strengthens Sage’s position in the large and growing US payroll market.

### 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 period figures are as follows:

<b>AVERAGE EXCHANGE RATES (EQUAL TO GBP1)</b>	<b>H1 2015</b>	<b>H1 2014</b>	<b>Change</b>
Euro (€)	1.32	1.20	+10%
US Dollar (\$)	1.54	1.65	-7%
South African Rand (ZAR)	17.75	17.33	+2%
Australian Dollar (A\$)	1.90	1.82	+4%
Brazilian Real (R\$)	4.22	3.83	+10%

### Capital structure and dividend

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

Consistent with this policy, the Board is proposing an 8% increase in the interim ordinary dividend per share for the period to 4.45p per share (H1 2014: 4.12p per share).

### Archer Capital

On 14 November 2011, the Group reported a claim for damages made by Archer Capital (“Archer”) following the termination of discussions between the Group and Archer relating to the potential purchase of MYOB. The Group strongly rejects the claim, which is alleged to be in the region of £99m (A\$188m). The claim was heard by the Court in late 2013 and judgment is pending.

## Appendix I – Key Performance Indicators (“KPIs”)

		H1 2015	FY 2014	H1 2014
STRATEGIC DRIVERS	KPI DESCRIPTION			
Research and development resource optimisation	Resource optimisation is captured by reporting on the resource allocation in our business.	69:28:03	62:35:03	58:38:04
Sales and marketing resource optimisation	Research and development and sales and marketing spend in the period is divided into three categories of product – Future:Growth:Heritage. Our strategy is to focus our investment towards the Future products in our portfolio.	66:32:02	57:39:04	59:38:03
Adoption of Sage One	The number of paying subscriptions at the end of the period for our portfolio of Sage One products.*	115,000	86,000	59,000
Adoption of hybrid cloud	The number of paying subscriptions at the end of the period for hybrid cloud products.	2,400	1,500	850
Integration of payments	The number of customers at the end of the period who are using a Sage core accounting system, a Sage payments solution, and the integration of the two is provided or owned by Sage.	16,600	15,800	15,200
Sage ERP X3 organic revenue growth	The percentage increase in organic revenue derived from Sage ERP X3 in H1 2015 compared to the same period in the prior year.	10%	7%	7%
Organic annualised value of the software subscriber base	The amount of organic software subscription revenue recorded in the last month of the period multiplied by 12. Software subscription is defined as any contract where customers may no longer use their software product if they cease to pay.	£260m	£224m	£193m

\*Following the incorporation of several existing SaaS (software as a service) products in Germany, France and South Africa into the Sage One portfolio during the prior year, Sage One paying subscriptions have been restated on a like-for-like basis. Without the restatement, Sage One paying subscriptions at 31 March 2015 were 76,000 (30 September 2014: 52,600, 31 March 2014: 35,000)

CUSTOMER LOYALTY	KPI DESCRIPTION	H1 2015	FY 2014	H1 2014
Recurring contract renewal rate	The number of contracts successfully renewed for the last twelve months as a percentage of those that were due for renewal.	84%	83%	83%

FINANCIAL DRIVERS	KPI DESCRIPTION	H1 2015	FY 2014	H1 2014
Organic revenue growth	Organic revenue neutralises the impact of foreign exchange in prior period figures and excludes the contribution of current and prior period acquisitions, disposals and products held for sale.	6.2%	4.9%	4.9%
Organic operating profit margin	Organic operating profit excludes: <ul style="list-style-type: none"> <li>- Recurring items including amortisation of acquired intangible assets, acquisition-related items and fair value adjustments;</li> <li>- Non-recurring items that management judge to be one-off or non-operational; and</li> <li>- The contribution of current and prior period acquisitions, disposals and products held for sale.</li> </ul> The impact of foreign exchange is neutralised in prior period figures.	28.1%	27.5%	27.4%
Underlying basic EPS growth	Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding: <ul style="list-style-type: none"> <li>- Recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and imputed interest; and</li> <li>- Non-recurring items that management judge to be one-off or non-operational.</li> </ul> All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior period figures.	16.4%	8.2%	8.3%
Underlying cash conversion <sup>1</sup>	Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.	112%	102%	109%
Net debt leverage	The net value of cash less borrowings expressed as a multiple of rolling 12-month EBITDA. EBITDA is defined as earnings before interest, tax, depreciation, amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and non-recurring items that management judge to be one-off or non-operational.	1.2:1	1.1:1	0.9:1
Interest cover	Statutory operating profit for the last twelve months excluding non-recurring items that management judge to be one-off or non-operational, expressed as a multiple of finance costs excluding imputed interest for the same period.	16x	17x	19x

<sup>1</sup>In prior periods, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 129% in H1 2015 (FY 2014: 107%, H1 2014: 110%).

## Appendix II – Non-GAAP measures

MEASURE	DESCRIPTION	WHY WE USE IT
Underlying	<p>Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p> <p>Underlying operating profit excludes:</p> <ul style="list-style-type: none"> <li>- Recurring items: <ul style="list-style-type: none"> <li>· Amortisation of acquired intangible assets;</li> <li>· Acquisition-related items;</li> <li>· Fair value adjustments on non-debt-related financial instruments; and</li> </ul> </li> <li>- Non-recurring items that management judge are one-off or non-operational</li> </ul> <p>Underlying profit before tax excludes:</p> <ul style="list-style-type: none"> <li>- All the items above; and</li> <li>- Imputed interest; and</li> <li>- Fair value adjustments on debt-related financial instruments.</li> </ul> <p>Underlying profit after tax and earnings per share excludes:</p> <ul style="list-style-type: none"> <li>- All the items above net of tax.</li> </ul>	<p>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.</p> <p>By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&amp;A decisions on earnings per share growth can be evaluated.</p>
Organic	<p>In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale in the current and prior period.</p>	<p>Organic measures allow management and investors to understand the like-for-like performance of the business.</p>
Underlying cash conversion	<p>Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.</p>	<p>Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is turned into cash.</p>
Underlying (as reported)	<p>Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).</p>	<p>This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.</p>

## Consolidated income statement

### For the six months ended 31 March 2015

		Six months ended 31 March 2015 (Unaudited) Underlying £m	Six months ended 31 March 2015 (Unaudited) Adjustments* £m	Six months ended 31 March 2015 (Unaudited) Statutory £m	Six months ended 31 March 2014 (Unaudited) Underlying As reported £m	Six months ended 31 March 2014 (Unaudited) Adjustments* £m	Six months ended 31 March 2014 (Unaudited) Statutory £m	Year ended 30 September 2014 (Audited) Statutory £m
	Note							
Revenue	1	699.2	–	699.2	656.5	–	656.5	1,306.8
Cost of sales		(44.1)	–	(44.1)	(37.5)	–	(37.5)	(74.5)
Gross profit		655.1	–	655.1	619.0	–	619.0	1,232.3
Selling and administrative expenses		(462.0)	(10.2)	(472.2)	(439.0)	(5.9)	(444.9)	(933.9)
Operating profit	1	193.1	(10.2)	182.9	180.0	(5.9)	174.1	298.4
Finance income		1.0	1.0	2.0	0.9	–	0.9	2.1
Finance costs		(12.3)	–	(12.3)	(10.0)	(0.5)	(10.5)	(23.0)
Finance costs – net		(11.3)	1.0	(10.3)	(9.1)	(0.5)	(9.6)	(20.9)
Profit before income tax		181.8	(9.2)	172.6	170.9	(6.4)	164.5	277.5
Income tax expense	3	(45.5)	0.6	(44.9)	(47.9)	0.5	(47.4)	(89.8)
Profit for the period		136.3	(8.6)	127.7	123.0	(5.9)	117.1	187.7

\* Adjustments are detailed in note 2 to the accounts

#### Profit attributable to:

Owners of the parent		136.3	(8.6)	127.7	122.1	(5.9)	116.2	186.8
Non-controlling interest		–	–	–	0.9	–	0.9	0.9
		136.3	(8.6)	127.7	123.0	(5.9)	117.1	187.7

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

Basic	5	12.66p		11.86p	11.12p		10.58p	17.07p
Diluted	5	12.63p		11.83p	11.10p		10.56p	17.04p



## Consolidated statement of comprehensive income

### For the six months ended 31 March 2015

	<b>Six months ended 31 March 2015 (Unaudited) £m</b>	Six months ended 31 March 2014 (Unaudited) £m	Year ended 30 September 2014 (Audited) £m
Profit for the period	127.7	117.1	187.7
Other comprehensive income/(expenses) for the period:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	(0.7)	(0.4)	(0.4)
Deferred tax credit on actuarial loss on post-employment benefit obligations	0.3	0.1	0.4
	<b>(0.4)</b>	<b>(0.3)</b>	<b>–</b>
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	3.6	(19.6)	(39.6)
	<b>3.6</b>	<b>(19.6)</b>	<b>(39.6)</b>
Other comprehensive expense for the period, net of tax	<b>3.2</b>	<b>(19.9)</b>	<b>(39.6)</b>
<b>Total comprehensive income for the period</b>	<b>130.9</b>	<b>97.2</b>	<b>148.1</b>
Total comprehensive income for the period attributable to:			
– Owners of the parent	130.9	96.3	147.2
– Non-controlling interest	–	0.9	0.9
	<b>130.9</b>	<b>97.2</b>	<b>148.1</b>

The notes on pages 22 to 34 form an integral part of this condensed consolidated half-yearly report.

# Consolidated balance sheet

## As at 31 March 2015

	Note	31 March 2015 (Unaudited) £m	31 March 2014 (Unaudited) £m	30 September 2014 Audited £m
<b>Non-current assets</b>				
Goodwill	6	1,540.7	1,483.9	1,433.0
Other intangible assets	6	120.6	102.7	98.1
Property, plant and equipment	6	126.0	126.2	126.7
Deferred income tax assets		25.9	16.5	21.9
Other financial assets	2	1.0	–	–
		<b>1,814.2</b>	<b>1,729.3</b>	<b>1,679.7</b>
<b>Current assets</b>				
Inventories		2.2	2.0	2.0
Trade and other receivables		344.5	350.5	321.5
Cash and cash equivalents (excluding bank overdrafts)	9	268.0	111.5	144.6
		<b>614.7</b>	<b>464.0</b>	<b>468.1</b>
<b>Total assets</b>		<b>2,428.9</b>	<b>2,193.3</b>	<b>2,147.8</b>
<b>Current liabilities</b>				
Trade and other payables		(332.0)	(285.2)	(297.3)
Current income tax liabilities		(11.7)	(29.6)	(23.7)
Borrowings		(34.5)	(123.2)	(125.4)
Other financial liabilities		–	(100.5)	(60.1)
Deferred consideration		(2.3)	(2.7)	(3.5)
Deferred income		(461.8)	(448.8)	(402.7)
		<b>(842.3)</b>	<b>(990.0)</b>	<b>(912.7)</b>
<b>Non-current liabilities</b>				
Borrowings		(651.9)	(315.2)	(415.8)
Post-employment benefits		(14.0)	(13.8)	(13.6)
Deferred income tax liabilities		(34.4)	(20.9)	(19.1)
Deferred income		(2.8)	–	(2.7)
		<b>(703.1)</b>	<b>(349.9)</b>	<b>(451.2)</b>
<b>Total liabilities</b>		<b>(1,545.4)</b>	<b>(1,339.9)</b>	<b>(1,363.9)</b>
<b>Net assets</b>		<b>883.5</b>	<b>853.4</b>	<b>783.9</b>
<b>Equity attributable to owners of the parent</b>				
Ordinary shares	8	11.7	11.7	11.7
Share premium	8	538.0	534.5	535.9
Other reserves		92.4	40.9	88.8
Retained earnings		241.4	266.5	147.5
<b>Total equity attributable to owners of the parent</b>		<b>883.5</b>	<b>853.6</b>	<b>783.9</b>
Non-controlling interest		–	(0.2)	–
<b>Total equity</b>		<b>883.5</b>	<b>853.4</b>	<b>783.9</b>

# Consolidated statement of cash flows

## For the six months ended 31 March 2015

	Notes	Six months ended 31 March 2015 (Unaudited) £m	Six months ended 31 March 2014 (Unaudited) £m	Year ended 30 September 2014 (Audited) £m
<b>Cash flows from operating activities</b>				
Cash generated from continuing operations	9	246.3	196.7	382.4
Interest paid		(11.2)	(10.2)	(21.6)
Income tax paid		(60.1)	(55.3)	(107.2)
<b>Net cash generated from operating activities</b>		<b>175.0</b>	<b>131.2</b>	<b>253.6</b>
<b>Cash flows from investing activities</b>				
Acquisitions of subsidiaries, net of cash acquired	10	(97.5)	(4.3)	(14.1)
Purchases of intangible assets	6	(3.1)	(3.8)	(8.3)
Purchases of property, plant and equipment	6	(8.9)	(8.1)	(19.7)
Proceeds from sale of property, plant and equipment		0.8	0.1	1.1
Interest received		1.0	0.9	2.1
<b>Net cash generated from investing activities</b>		<b>(107.7)</b>	<b>(15.2)</b>	<b>(38.9)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares	8	2.1	2.3	3.7
Purchase of treasury shares		(15.5)	(23.7)	(91.0)
Purchase of non-controlling interest	7	–	–	(50.4)
Finance lease principal payments		(1.5)	(0.4)	(1.9)
Proceeds from borrowings		456.4	45.2	171.0
Repayments of borrowings		(354.6)	(38.0)	(71.8)
Movements in cash collected from customers		47.6	9.3	15.5
Dividends paid to owners of the parent	4	(85.7)	(81.2)	(126.2)
<b>Net cash generated from/(used in) financing activities</b>		<b>48.8</b>	<b>(86.5)</b>	<b>(151.1)</b>
<b>Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)</b>				
	9	<b>116.1</b>	29.5	63.6
Effects of exchange rate movement	9	8.2	(2.9)	(2.8)
<b>Net increase in cash, cash equivalents and bank overdrafts</b>		<b>124.3</b>	<b>26.6</b>	<b>60.8</b>
Cash, cash equivalents and bank overdrafts at 1 October	9	143.7	82.9	82.9
<b>Cash, cash equivalents and bank overdrafts at period end</b>	9	<b>268.0</b>	<b>109.5</b>	<b>143.7</b>

## Consolidated statement of changes in equity

### For the six months ended 31 March 2015

	Attributable to owners of the parent						Non-	Total
	Ordinary	Share	Other	Retained	Total	controlling	equity	
	shares	premium	reserves	earnings	£m	interest	£m	
	£m	£m	£m	£m	£m	£m	£m	
At 1 October 2014 (Audited)	11.7	535.9	88.8	147.5	783.9	–	783.9	
Profit for the period	–	–	–	127.7	127.7	–	127.7	
Other comprehensive income/(expense):								
Exchange differences on translating foreign operations	–	–	3.6	–	3.6	–	3.6	
Actuarial loss on post-employment benefit obligations	–	–	–	(0.7)	(0.7)	–	(0.7)	
Deferred tax credit on actuarial gain on post-employment obligations	–	–	–	0.3	0.3	–	0.3	
<b>Total comprehensive income for the period ended 31 March 2015 (unaudited)</b>	<b>–</b>	<b>–</b>	<b>3.6</b>	<b>127.3</b>	<b>130.9</b>	<b>–</b>	<b>130.9</b>	
Transactions with owners:								
Employee share option scheme:								
- Proceeds from shares issued	–	2.1	–	–	2.1	–	2.1	
- Value of employee services, net of deferred tax	–	–	–	4.8	4.8	–	4.8	
Purchase of treasury shares	–	–	–	(12.5)	(12.5)	–	(12.5)	
Close period share buyback programme	–	–	–	60.0	60.0	–	60.0	
Dividends paid to owners of the parent	–	–	–	(85.7)	(85.7)	–	(85.7)	
<b>Total transactions with owners for the period ended 31 March 2015 (Unaudited)</b>	<b>–</b>	<b>2.1</b>	<b>–</b>	<b>(33.4)</b>	<b>(31.3)</b>	<b>–</b>	<b>(31.3)</b>	
<b>At 31 March 2015 (Unaudited)</b>	<b>11.7</b>	<b>538.0</b>	<b>92.4</b>	<b>241.4</b>	<b>883.5</b>	<b>–</b>	<b>883.5</b>	

Attributable to owners of the parent

	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
<b>At 1 October 2013 (Audited)</b>	11.7	532.2	60.4	267.0	871.3	(1.0)	870.3
<b>Profit for the period</b>	–	–	–	116.2	116.2	0.9	117.1
<b>Other comprehensive income/(expense):</b>							
Exchange differences on translating foreign operations	–	–	(19.5)	–	(19.5)	(0.1)	(19.6)
Actuarial loss on post-employment benefit obligations	–	–	–	(0.4)	(0.4)	–	(0.4)
Deferred tax charge on actuarial gain on post-employment obligations	–	–	–	0.1	0.1	–	0.1
<b>Total comprehensive income for the period ended 31 March 2014 (unaudited)</b>	–	–	(19.5)	115.9	96.4	0.8	97.2
<b>Transactions with owners:</b>							
<b>Employee share option scheme:</b>							
Proceeds from shares issued	–	2.3	–	–	2.3	–	2.3
Value of employee services	–	–	–	3.3	3.3	–	3.3
Equity movement of deferred tax on options	–	–	–	0.6	0.6	–	0.6
Purchase of treasury shares	–	–	–	(19.1)	(19.1)	–	(19.1)
Close period share buyback programme	–	–	–	(20.0)	(20.0)	–	(20.0)
Cancellation of treasury shares	–	–	–	–	–	–	–
Dividends paid to owners of the parent	–	–	–	(81.2)	(81.2)	–	(81.2)
<b>Total transactions with owners for the period ended 31 March 2014 (Unaudited)</b>	–	2.3	–	(116.4)	(114.1)	–	(114.1)
<b>At 31 March 2014 (Unaudited)</b>	11.7	534.5	40.9	266.5	853.6	(0.2)	853.4

# Notes to the financial information

## For the six months ended 31 March 2015

### 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 6 May 2015.

The financial information set out above does not constitute the Company’s Statutory Accounts. Statutory Accounts for the year ended 30 September 2014 have been delivered to the Registrar of Companies. The auditor’s report was unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2014.

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 2015 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, “Interim Financial Reporting” as adopted by the European Union, (“EU”). The condensed consolidated half-yearly financial report should be read in conjunction with the annual statements for the year ended 30 September 2014, which have been prepared in accordance with IFRSs as adopted by the EU.

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

#### Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2014 as described in those annual financial statements.

#### Adoption of new and revised IFRSs

All amendments to standards effective during the period to 31 March 2015 have been disclosed in the 2014 annual financial statements.

### Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

#### Revenue recognition

The key area of judgement in respect of recognising revenue is the timing of recognition, specifically in relation to recognition and deferral of revenue on licence, support and other contracts where management assumptions and estimates are necessary.

For instance, when products are bundled together for the purpose of sale, the associated revenue, net of any applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis, which determines the pattern of revenue recognition. The Group has a systematic basis for allocating relative fair values in these situations, based upon published list prices. In the limited circumstances in which published list prices are not available, a prudent approach is taken whereby any discounts are recognised immediately. The full revenue recognition policy is disclosed in the 30 September 2014 financial statements.

#### Goodwill impairment

The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the operating companies being tested for impairment and the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. The key assumptions applied in the calculation relate to the future performance expectations of the business. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2014 financial statements.

#### Price purchase adjustments

The judgements in relation to a purchase price allocation exercise relate to the assumptions applied in calculating the fair value of the intangibles acquired as part of a business combination. The key assumptions include, but are not limited to medium and long term growth rates, operating margins, discount rates, customer attrition rates and royalty rates. The Group has an established basis for the calculation of the fair values of acquired intangibles. The full accounting policy for intangible assets is disclosed in the 30 September 2014 financial statements.

#### Archer Capital litigation

The claim for damages made by Archer Capital in relation to the potential purchase of MYOB continues to be strongly rejected by management. Based on supporting expert legal advice, management do not consider there to be a present obligation and the possibility of an outflow of resources is remote. As such, no provision or contingent liability has been recognised at 31 March 2015 or in the 30 September 2014 financial statements.

#### Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot be finally determined until a resolution has been reached by the relevant tax authority. Management bases estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain.

#### Website

This condensed consolidated half-yearly financial report for the six month ended 31 March 2015 can also be found on our website: [www.sage.com/investors/investor-downloads](http://www.sage.com/investors/investor-downloads)

## 1 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance. The Executive Committee use organic and underlying data to monitor business performance. Refer to the definitions on page 15 for more information on these measures. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

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

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

### Revenue by segment (Unaudited)

	Six months ended 31 March 2015					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory %	Underlying %	Organic %
<b>Recurring revenue by segment</b>								
Europe	274.5	–	274.5	(2.8)	271.7	4%	9%	8%
Americas	187.4	–	187.4	(3.8)	183.6	12%	8%	6%
AAMEA	43.8	–	43.8	–	43.8	11%	13%	13%
Recurring revenue	505.7	–	505.7	(6.6)	499.1	7%	9%	8%
<b>Software and software related services ("SSRS") revenue by segment</b>								
Europe	107.6	–	107.6	(1.3)	106.3	-7%	-1%	-2%
Americas	49.3	–	49.3	(9.5)	39.8	24%	21%	-3%
AAMEA	36.7	–	36.7	–	36.7	25%	27%	27%
SSRS revenue	193.6	–	193.6	(10.8)	182.8	5%	8%	2%
<b>Total revenue by segment</b>								
Europe	382.0	–	382.0	(4.0)	378.0	0%	6%	5%
Americas	236.7	–	236.7	(13.3)	223.4	15%	10%	4%
AAMEA	80.5	–	80.5	–	80.5	17%	19%	19%
Total revenue	699.2	–	699.2	(17.3)	681.9	7%	9%	6%



Six months ended 31 March 2014

	Statutory £m	Underlying adjustments £m	Underlying as Reported £m	Impact of foreign exchange £m	Underlying at constant currency £m	Organic adjustments £m	Organic £m
<b>Recurring revenue by segment</b>							
Europe	265.2	–	265.2	(13.7)	251.5	–	251.5
Americas	166.8	–	166.8	6.6	173.4	–	173.4
AAMEA	39.5	–	39.5	(0.9)	38.6	–	38.6
Recurring revenue	471.5	–	471.5	(8.0)	463.5	–	463.5
<b>Software and software related services (“SSRS”) revenue by segment</b>							
Europe	116.9	–	116.9	(8.1)	108.8	–	108.8
Americas	38.8	–	38.8	2.1	40.9	–	40.9
AAMEA	29.3	–	29.3	(0.4)	28.9	–	28.9
SSRS revenue	185.0	–	185.0	(6.4)	178.6	–	178.6
<b>Total revenue by segment</b>							
Europe	382.1	–	382.1	(21.9)	360.2	–	360.2
Americas	205.6	–	205.6	8.7	214.3	–	214.3
AAMEA	68.8	–	68.8	(1.3)	67.5	–	67.5
Total revenue	656.5	–	656.5	(14.5)	642.0	–	642.0

**Operating profit by segment**

	Six months ended 31 March 2015					Change		
	Underlying		Organic		Organic	Statutory	Underlying	Organic
	Statutory adjustments	Underlying adjustments	Statutory adjustments	Organic adjustments				
	£m	£m	£m	£m	£m	%	%	%
<b>Operating profit by segment</b>								
Europe	107.4	3.2	110.6	(0.4)	110.2	3%	8%	8%
Americas	54.2	6.7	60.9	(0.8)	60.1	2%	8%	6%
AAMEA	21.3	0.3	21.6	–	21.6	24%	25%	25%
Total operating profit	182.9	10.2	193.1	(1.2)	191.9	6%	10%	9%

Six months ended 31 March 2014

	Statutory	Underlying	Underlying	Impact of	Underlying	Organic	Organic	
	adjustments	adjustments	as reported	foreign	at constant	adjustments	Organic	
	£m	£m	£m	exchange	currency	£m	£m	
				£m	£m			
<b>Operating profit by segment</b>								
Europe		103.9	4.2	108.1	(5.7)	102.4	–	102.4
Americas		53.0	1.3	54.3	2.1	56.4	–	56.4
AAMEA		17.2	0.4	17.6	(0.4)	17.2	–	17.2
Total operating profit		174.1	5.9	180.0	(4.0)	176.0	–	176.0

## Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2015 (Unaudited) £m	Six months ended 31 March 2014 (Unaudited) £m
Underlying operating profit	193.1	176.0
Impact of movement in foreign currency exchange rates	–	4.0
Underlying operating profit (as previously reported)	193.1	180.0
Amortisation of acquired intangible assets	(9.5)	(7.4)
Other acquisition-related items	(0.7)	0.9
Goodwill impairment and fair value adjustments	–	2.0
Exceptional items	–	(1.4)
Statutory operating profit	182.9	174.1

## 2 Adjustments between underlying profit and statutory profit

	Six months ended 31 March 2015 Recurring £m	Six months ended 31 March 2015 Non- recurring £m	Six months ended 31 March 2015 Total £m	Six months ended 31 March 2014 Recurring £m	Six months ended 31 March 2014 Non- recurring £m	Six months ended 31 March 2014 Total £m
<b>Acquisition related items</b>						
Amortisation of acquired intangibles	(9.5)	–	(9.5)	(7.4)	–	(7.4)
Fair value adjustments	–	–	–	2.0	–	2.0
Litigation costs	–	–	–	–	(1.4)	(1.4)
Other acquisition related items	(0.7)	–	(0.7)	0.9	–	0.9
<b>Total adjustments made to operating profit</b>	<b>(10.2)</b>	<b>–</b>	<b>(10.2)</b>	<b>(4.5)</b>	<b>(1.4)</b>	<b>(5.9)</b>
Acquisition related items: Imputed interest on put and call arrangements	–	–	–	(0.5)	–	(0.5)
Fair value adjustments to debt related financial instruments	–	1.0	1.0	–	–	–
<b>Total adjustments made to profit before income tax</b>	<b>(10.2)</b>	<b>1.0</b>	<b>(9.2)</b>	<b>(5.0)</b>	<b>(1.4)</b>	<b>(6.4)</b>

### Recurring items

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

The adjustment relating to acquisition related items is made up of the cost of carrying out business combinations in the period, partly offset by the net release of earn-out liabilities on previous acquisitions.

### Non-recurring items

The current period adjustment relates to an embedded derivative asset which is recognised in the March 2015 interim financial statements. This derivative relates to contractual terms agreed as part of the US private placement debt which was partly refinanced during the period. This has been recognised on the face of the balance sheet as a non-current other financial asset.

The prior period fair value adjustment relates to movement on the fair value of the put and call option in the prior year. See note 7 for further details.

The prior period adjustment relating to litigation costs relates to the defence of the Archer Capital case, which is strongly rejected by management. Based upon legal advice, no provision or contingent liability has been recognised in these

financial statements. All other litigation costs which may be incurred through the normal course of business are charged through operational expenses.

### 3 Income tax expense

The underlying effective income tax rate for the six months ended 31 March 2015 (Unaudited) is 25% (six months ended 31 March 2014 (Unaudited): 28%; year ended 30 September 2014 excluding exceptional charges (Audited): 27%), representing 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 2015.

### 4 Dividends

	<b>Six months ended 31 March 2015 (Unaudited) £m</b>	Six months ended 31 March 2014 (Unaudited) £m	Year ended 30 September 2014 (Audited) £m
<b>Final</b> dividend paid for the year ended 30 September 2013 of 7.44p per share	–	81.2	81.2
<b>Interim</b> dividend paid for the year ended 30 September 2014 of 4.12p per share	–	–	45.0
<b>Final</b> dividend paid for the year ended 30 September 2014 of 8.00p per share	85.7	–	–
	<b>85.7</b>	<b>81.2</b>	<b>126.2</b>

The interim dividend of 4.45p per share will be paid on 6 June 2015 to shareholders on the register at the close of business on 15 May 2015.

### 5 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.

	<b>Underlying Six months ended 31 March 2015 (Unaudited)</b>	Underlying Six months ended 31 March 2014 (Unaudited)	<b>Statutory Six months ended 31 March 2015 (Unaudited)</b>	Statutory Six months ended 31 March 2014 (Unaudited)
<b>Earnings attributable to owners of the parent (£m)</b>				
Profit for the period	<b>136.3</b>	119.4	<b>127.7</b>	116.2
<b>Number of shares (millions)</b>				
Weighted average number of shares	<b>1,077.0</b>	1,097.9	<b>1,077.0</b>	1,097.9
Dilutive effects of shares	<b>2.1</b>	1.9	<b>2.1</b>	1.9
	<b>1,079.1</b>	1,099.8	<b>1,079.1</b>	1,099.8
<b>Earnings per share attributable to owners of the parent (pence)</b>				
Basic earnings per share	<b>12.66</b>	10.88	<b>11.86</b>	10.58
Diluted earnings per share	<b>12.63</b>	10.85	<b>11.83</b>	10.56

	<b>Six months ended 31 March 2015 (Unaudited) £m</b>	Six months ended 31 March 2014 (Unaudited) £m
<b>Reconciliation of earnings</b>		
Underlying earnings attributable to owners of the parent	136.3	119.4
Impact of movement in foreign currency exchange rates	–	2.7
Underlying earnings attributable to owners of the parent (as previously reported)	136.3	122.1
Amortisation of acquired intangible assets	(9.5)	(7.4)
Other acquisition-related items	(0.7)	0.9
Goodwill impairment and fair value adjustments	1.0	2.0
Litigation costs	–	(1.4)
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	–	(0.5)
Taxation on adjustments	0.6	0.5
<b>Net adjustments</b>	<b>(8.6)</b>	<b>(5.9)</b>
	<b>127.7</b>	<b>116.2</b>

## 6 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 2014	1,433.0	98.1	126.7	1,657.8
Additions	–	3.1	8.9	12.0
Acquisition of subsidiaries	77.0	33.5	1.0	111.5
Disposals	–	(0.1)	(0.8)	(0.9)
Depreciation, amortisation and other movements	–	(14.9)	(9.0)	(23.9)
Impairment	–	–	(0.6)	(0.6)
Exchange movement	30.7	0.9	(0.2)	31.4
<b>Closing net book amount at 31 March 2015</b>	<b>1,540.7</b>	<b>120.6</b>	<b>126.0</b>	<b>1,787.3</b>

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2013	1,515.2	113.5	128.8	1,757.5
Acquisitions of subsidiaries	–	–	–	–
Additions	–	3.8	8.1	11.9
Disposals	–	(0.1)	(0.2)	(0.3)
Disposal of subsidiaries	–	–	–	–
Depreciation, amortisation and other movements	–	(12.0)	(9.3)	(21.3)
Impairment	–	–	–	–
Exchange movement	(31.3)	(2.5)	(1.2)	(35.0)
<b>Closing net book amount at 31 March 2014</b>	<b>1,483.9</b>	<b>102.7</b>	<b>126.2</b>	<b>1,712.8</b>

Goodwill is not subject to amortisation, but is tested for impairment annually at the year-end or whenever there is any indication of impairment. At 31 March 2015, there were no indicators of impairment to goodwill. Full details of the outcome of the 2014 goodwill impairment review are provided in the 2014 financial statements.

Detail of the current period acquisition has been provided in note 10.

## 7 Financial instruments

For financial assets and liabilities other than borrowings, the carrying amount of the financial instrument approximates the fair value of the instruments. At 31 March 2015, USPP borrowings with a carrying value of £533.0m had a fair value of £543.8m due to bearing interest at fixed rates which are currently higher than equivalent current market fixed rates.

Prior year financial liabilities held at fair value related to a put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic in Brazil. This arrangement was settled during 2014 for consideration of £50.4m, increasing the Groups ownership of the Brazilian sub-Group to 100%

The following table shows the movements in the valuation of the put and call liability during the comparative period.

	Six months ended 31 March 2014 Unaudited £m
Fair value at 1 October	54.2
Consideration paid	–
Imputed interest recognised in the Consolidated income statement within finance costs	0.5
Loss/(gain) on fair value adjustments	(2.0)
Exchange movement	(2.2)
Closing carrying value 31 March	50.5

## 8 Ordinary shares and share premium

	Number of shares (Unaudited)	Ordinary Shares (Unaudited) £m	Share premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2014	1,115,892,047	11.7	535.9	547.6
Shares issued/proceeds	962,612	–	2.1	2.1
At 31 March 2015	1,116,854,659	11.7	538.0	549.7

  

	Number of shares	Ordinary shares £m	Share premium £m	Total £m
At 1 October 2013	1,114,135,420	11.7	532.2	543.9
Shares issued/proceeds	1,073,706	–	2.3	2.3
At 31 March 2014	1,115,209,126	11.7	534.5	546.2

During the period, the Group purchased 3,457,020 (2014: 5,717,000) shares at a cost of £12.4m (2014: £19.1m) and a cash outflow of £15.5m (2014: £23.7m).

Shares purchased under the Group's buyback programme are initially retained in issue as treasury shares and represent a deduction from equity. Treasury shares are subsequently cancelled on a periodic basis.

A close period buyback scheme with Citigroup Global Markets Limited was entered into to cover the period from the 30 September to 6 December 2014. The Group did not exercise their rights under this scheme and the liability was released during the period.

## 9 Cash flow and net debt

	<b>Six months ended 31 March 2015 (Unaudited) £m</b>	Six months ended 31 March 2014 (Unaudited) £m
<b>Statutory operating profit</b>	<b>182.9</b>	174.1
Depreciation/amortisation/impairment profit on disposal of intangible assets and property, plant and equipment	<b>24.2</b>	21.3
Share-based payments	<b>4.8</b>	3.3
Fair value adjustments and goodwill impairment	<b>–</b>	(2.7)
Changes in working capital	<b>(42.9)</b>	(40.8)
Increase in deferred income	<b>57.2</b>	49.8
Exchange movement	<b>20.1</b>	(8.3)
<b>Cash flows from operating activities</b>	<b>246.3</b>	196.7
Net interest paid	<b>(10.2)</b>	(9.3)
Income tax paid	<b>(60.1)</b>	(55.4)
Net capital expenditure	<b>(11.2)</b>	(11.6)
<b>Free cash flow</b>	<b>164.8</b>	120.4
<b>Net debt at 1 October</b>	<b>(437.2)</b>	(384.3)
Acquisitions and disposals of subsidiaries, net of cash	<b>(97.5)</b>	(4.3)
Dividends paid to owners of the parent	<b>(85.7)</b>	(81.2)
Purchase of treasury shares	<b>(15.5)</b>	(23.7)
Exchange movement	<b>(38.9)</b>	10.3
Other	<b>0.1</b>	1.8
<b>Net debt at 31 March</b>	<b>(509.9)</b>	(361.0)

	At 1 October 2014 (Audited) £m	Cash flow £m	Acquisitions £m	Non-cash movements £m	Exchange movement £m	At 31 March 2015 (Unaudited) £m
<b>Analysis of change in net debt (inclusive of finance leases)</b>						
Cash and cash equivalents	144.6	<b>212.7</b>	<b>(97.5)</b>	–	<b>8.2</b>	<b>268.0</b>
Bank overdrafts	(0.9)	<b>0.9</b>	–	–	–	–
Cash, cash equivalents and bank overdrafts	143.7	<b>213.6</b>	<b>(97.5)</b>	–	<b>8.2</b>	<b>268.0</b>
Finance leases due within one year	(1.1)	<b>0.3</b>	–	–	–	<b>(0.8)</b>
Loans due within one year	(123.4)	<b>134.7</b>	–	<b>(33.7)</b>	<b>(11.3)</b>	<b>(33.7)</b>
Loans due after more than one year	(415.4)	<b>(237.3)</b>	–	<b>33.7</b>	<b>(32.5)</b>	<b>(651.5)</b>
Finance leases due after more than one year	(0.4)	–	–	–	–	<b>(0.4)</b>
Cash collected from customers	(40.6)	<b>(47.6)</b>	–	–	<b>(3.3)</b>	<b>(91.5)</b>
<b>Total</b>	<b>(437.2)</b>	<b>63.7</b>	<b>(97.5)</b>	–	<b>(38.9)</b>	<b>(509.9)</b>

Included in cash above is £91.5m (31 March 2014: £34.0m, 30 September 2014: £40.6m) relating to cash collected from customers, which the Group is contracted to pay onto another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The current Group's syndicated bank multi-currency revolving credit facility expires in June 2019 with facility levels of £529m (US\$551m and €218m tranches). At 31 March 2015, £156m (H1 2014: £17m) of the multi-

currency revolving debt facility was drawn, with the increase primarily due to the completion of the PayChoice acquisition in the US in October 2014

Total US private placement (“USPP”) loan notes at 31 March 2015 were £533m (US\$700m and EUR€85m) (H1 2014: £420m, US\$700m). Approximately £135m (US\$200m) of USPP borrowings were repaid in March 2015. This debt was refinanced in the USPP market in January 2015, placing US\$200m (£135m) at 3.73% fixed until 2025, €55m (£40m) at 1.89% fixed until 2022 and €30m (£22m) at 2.07% fixed until 2023.

## 10 Acquisitions and disposals

### Acquisitions made during the period

On 16 October 2014 the Group acquired PAI Group, Inc. (“PayChoice”), a provider of payroll and HR services for small and medium sized businesses in North America, for a cash consideration of £75.2m. At the date of acquisition, the external debt of PayChoice was settled for £22.2m

The net identifiable assets were recognised at their provisional fair values as at 16 October 2014. The allocation of the consideration has been subject to a preliminary purchase price allocation exercise during the period. The excess of consideration over the net assets acquired, which within the audited September 2014 financial statements, was entirely recognised as goodwill, and has now been allocated accordingly across asset and liability categories. Further fair value adjustments to the opening balance sheet of PayChoice may occur in the second half of the year.

PayChoice’s product portfolio provides easy to use online payroll solutions to SMB’s, and strengthens the Sage value proposition to customers with a more robust and comprehensive offering. The combined portfolio provides attractive growth opportunities, particularly through new customer acquisition and cross-sell to the combined customer base.

The net assets acquired and goodwill are as follows (presented at the exchange rate as at the acquisition date):

Fair values of acquisition	£m
Intangible assets	33.5
Property, plant and equipment	1.0
Other non-current assets	0.7
Trade and other receivables	1.6
Cash and cash equivalents	0.9
Trade and other payables	(3.9)
Current borrowings	(2.6)
Non-current borrowings	(19.6)
Deferred tax liabilities	(12.8)
Provisions	(0.6)
<b>Total net identifiable liabilities acquired</b>	<b>(1.8)</b>
Goodwill	77.0
<b>Total purchase consideration</b>	<b>75.2</b>

The outflow of cash and cash equivalents on acquisitions is calculated as follows:	£m
Cash consideration	75.2
Cash and cash equivalents acquired	(0.9)
Borrowings acquired	22.2
<b>Net cash outflow in respect of PayChoice</b>	<b>96.5</b>
Deferred consideration, paid on prior period acquisitions	1.0
<b>Net cash outflow in respect of acquisition</b>	<b>97.5</b>

### Disposals made during the period

There were no disposals made in the period.

### 11 Contingent liabilities

The Group had no contingent liabilities at 31 March 2015 (31 March 2014: none).

### 12 Related party transactions

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

	<b>Six months ended 31 March 2015 (Unaudited) £m</b>	Six months ended 31 March 2014 (Unaudited) £m
<b>Key management compensation</b>		
Salaries and short-term employee benefits	<b>3.4</b>	2.9
Post-employment benefits	<b>0.3</b>	0.3
Share-based payments	<b>1.8</b>	0.6
	<b>5.5</b>	3.8

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee and are defined in the Group's Annual Report & Accounts 2014.

Supplier transactions occurred during the period between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies and Ivan Epstein, Chief Executive Officer, AAMEA. These transactions relate to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the period £2.2m (2014: £3.2m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the period ended 31 March 2015 (31 March 2014: £nil).

Supplier transactions occurred during the period between Sage SP, S.L., one of the Group's subsidiary companies and Álvaro Ramírez, Chief Executive Officer, Europe. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the period £0.5m (31 March 2014: £0.7m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the period ended 31 March 2014 (31 March 2013: £nil). These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

### 13 Group risk factors

Risks can materialise and impact on both the achievement of business strategy and the successful running of our business. A key element in achieving our strategy and maintaining services to our customers is the management of risks.

Our risk management strategy is therefore to support the successful running of the business by identifying and managing risks to an acceptable level and delivering assurances on this. We have identified 10 principal risks which could impact our ability to achieve our strategic objectives and these are set out below. Lower level risks are analysed and mitigated via the normal embedded risk management process.



Risk	Consequences	Principal mitigations
<p><b>Business Model Transition</b></p> <p>Sage does not successfully manage the transition of its business to a global operating model, in line with identified timeframes</p>	<ul style="list-style-type: none"> <li>- Lack of unified direction</li> <li>- Missed revenue targets</li> <li>- Employee dissatisfaction</li> <li>- Employee churn and knowledge / skill loss</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic opportunities are regularly reviewed by the Group Board</li> <li>- Change and strategic projects are identified and their delivery monitored by the Executive Committee and Global Project Management Office ('PMO')</li> <li>- Technology Advisory Group review of key technology initiatives on a regular basis</li> </ul>
<p><b>Licensing Model Transition</b></p> <p>Sage does not successfully move to a target subscription licencing model, in line with identified timelines, and adapt its customer approach to reflect the change to this model</p>	<ul style="list-style-type: none"> <li>- Declining revenue / growth potential</li> <li>- Customer retention / attraction</li> <li>- Reduced competitiveness</li> <li>- Unpredictable cash flow and forecasting</li> <li>- Missed revenue targets</li> </ul>	<ul style="list-style-type: none"> <li>- Documented plans and targets in place, with formal tracking against progress</li> <li>- Detailed business planning and budget processes, to review and approve proposals and to ensure on-going review of financial results on a regular basis</li> </ul>
<p><b>Market Intelligence</b></p> <p>Sage does not understand or anticipate changes in the external environment (including areas such as customer needs, emerging market trends, competitor strategies and regulatory / legal requirements)</p>	<ul style="list-style-type: none"> <li>- Incomplete / unreliable planning data</li> <li>- Missed opportunities</li> <li>- Revenue / growth potential</li> <li>- Customer retention / attraction</li> <li>- Reduced competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>- Structures and processes in place for the capture of market intelligence</li> <li>- Marketing Operations Group supervising development of processes</li> </ul>
<p><b>Competitive Positioning and Product Development</b></p> <p>Sage is unable to clearly identify its approach to the market, and support it with strategies that drive competitive advantage, including product development</p>	<ul style="list-style-type: none"> <li>- Erosion of market position</li> <li>- Revenue / growth potential</li> <li>- Incorrect pace of change</li> <li>- Misaligned products for clients</li> <li>- Missed opportunities</li> <li>- Failure to meet investor expectations</li> </ul>	<ul style="list-style-type: none"> <li>- Product development needs identified via customer input and external research</li> <li>- Detailed subscription and pricing initiatives planned and being delivered</li> <li>- Resource allocation processes in place</li> </ul>
<p><b>Sage Brand</b></p> <p>Sage does not deliver clear and consistent branding to the market</p>	<ul style="list-style-type: none"> <li>- Ineffective global leverage</li> <li>- Loss of cross-sell opportunities</li> <li>- Revenue / growth potential</li> <li>- Customer retention / attraction</li> <li>- Reputational damage</li> <li>- Failure to recruit top talent</li> </ul>	<ul style="list-style-type: none"> <li>- Global brand campaign targeting customer and prospects</li> <li>- Consistency of brand messaging</li> </ul>
<p><b>Strategic Partnerships</b></p> <p>Sage fails to identify, build and maintain strategic relationships</p>	<ul style="list-style-type: none"> <li>- Tardy responsiveness in the market</li> <li>- Reduced competitiveness</li> <li>- Missed opportunities</li> <li>- Reputational damage</li> <li>- Revenue / growth potential</li> </ul>	<ul style="list-style-type: none"> <li>- Business driven requirement definition</li> <li>- Partnership management models</li> </ul>
<p><b>Supporting Control Environment</b></p> <p>Sage's underlying control environment (business processes and technology infrastructure) do not support the efficient operation of the business and do not support the control framework</p>	<ul style="list-style-type: none"> <li>- Tardy responsiveness in the market</li> <li>- Reduced competitiveness</li> <li>- Missed opportunities</li> <li>- Reputational damage</li> <li>- Revenue / growth potential</li> </ul>	<ul style="list-style-type: none"> <li>- Change and strategic projects are identified and their delivery monitored by the Executive Committee and Global Project Management Office</li> <li>- Technology Advisory Group review of key technology initiatives on a regular basis</li> <li>- Internal audit process reviews, with areas for improvement identified and remediation plans put in place</li> </ul>

<p><b>3<sup>rd</sup> Party Reliance</b></p> <p>Sage fails to adequately understand and effectively manage the 3<sup>rd</sup> party environment that supports its business</p>	<ul style="list-style-type: none"> <li>- Service availability issues</li> <li>- Service reliability issues</li> <li>- Legal breach</li> <li>- Regulatory breach</li> <li>- Reputational damage</li> <li>- Unrationalised third party estate</li> <li>- Financial consequences</li> <li>- Customer retention / attraction</li> </ul>	<ul style="list-style-type: none"> <li>- Purchasing process and control reviews</li> <li>- Delegation of Authority controls and limits</li> <li>- Use of standard terms and conditions</li> </ul>
<p><b>Information Management and Protection (including cyber)</b></p> <p>Sage fails to adequately understand, manage and protect data</p>	<ul style="list-style-type: none"> <li>- Varying application of controls across the wider estate</li> <li>- Lack of central visibility of risk profile</li> <li>- Loss of Data</li> <li>- Breach of Confidentiality</li> <li>- Loss of data integrity</li> <li>- Loss of availability</li> <li>- Legal breach</li> <li>- Regulatory breach</li> <li>- Reputational damage</li> <li>- Financial consequences</li> </ul>	<ul style="list-style-type: none"> <li>- Framework in place, and continues to be developed and enhanced in order to control the risks associated with the protection of data</li> <li>- On-going monitoring of security incidents</li> <li>- On-going assurance activities</li> </ul>
<p><b>Regulatory and Legal Framework</b></p> <p>Sage fails to understand and effectively operate within the legal and regulatory framework applying to its services</p>	<ul style="list-style-type: none"> <li>- Legal breach</li> <li>- Regulatory breach</li> <li>- Reputational damage</li> <li>- Financial consequences</li> <li>- Customer retention / attraction</li> </ul>	<ul style="list-style-type: none"> <li>- Group-wide compliance programme which seeks to ensure that all local, national and international regulatory and compliance requirements are identified and complied with</li> <li>- Key examples of compliance requirements include Data Protection, PCI compliance and the Bribery Act</li> </ul>

## **Statement of Directors' Responsibilities**

### **Responsibility statement of the directors on the Annual Report & Accounts**

The condensed consolidated half-yearly financial report for the six months ended 31 March 2015 includes the following responsibility statement.

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

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

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).

On behalf of the Board

#### **S Hare**

Chief Financial Officer  
5 May 2015

## **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 2015 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, group accounting policies 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 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the group accounting policies, 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 Ireland) 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 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP  
London  
5 May 2015