The Sage Group plc unaudited results for the six months ended 31 March 2019

Friday 17 May 2019

Strong recurring revenue growth reflects successful strategic execution

Overview

- Strong growth in high quality recurring revenue, underpinned by software subscription, reflecting successful strategic execution;
- Operating margin in line with expectations;
- Strong underlying cash conversion;
- Full year outlook shows continuing confidence in recurring revenue growth in the remainder of FY19.

Alternative Performance Measures (APMs)[1]	**H119**[2]	**H118**[3]	**Change**
Organic Financial APMs			
Organic Total Revenue	£941m	£886m	6.2%
Organic Recurring Revenue	£779m	£707m	10.2%
Organic Operating Profit	£218m	£220m	(0.8%)
% Organic Operating Profit Margin	*23.2%*	*24.8%*	*(1.6% pts)*
Underlying Financial APMs			
Underlying Total Revenue	£957m	£912m	4.9%
Underlying Recurring Revenue	£781m	£711m	9.9%
Underlying Operating Profit	£218m	£224m	(2.9%)
% Underlying Operating Profit Margin	*22.7%*	24.6%	(1.9% pts)
Underlying Basic EPS	13.93p	14.24p	(2.2%)
KPIs			
Annualised recurring revenue	£1,545m	£1,402m	10.2%
Renewal Rate by Value	100%	N/A	N/A
% Subscription Penetration	52%	43%	9% pts
% Sage Business Cloud Penetration	44%	27%	17% pts
Underlying Cash Conversion	151%	99%	52% pts
Statutory Measures	**H119**	**H118**	**% Change**
Revenue	£957m	£899m	6.4%
Operating Profit	£210m	£186m	12.9%
% Operating Profit Margin	*21.9%*	*20.7%*	*1.2% pts*
Basic EPS (p)	14.19p	12.50p	13.5%
Dividend Per Share (p)	5.79p	5.65p	2.5%

[1]Please see Appendix I for guidance of the usage and definitions of the Alternative Performance Measures

[2]Statutory, underlying and organic numbers in H119 are on an IFRS15 basis.

[3]Organic revenue and operating profit for H118 is restated to aid comparability with FY19. The definition of organic measures and the basis for the H118 proforma IFRS 15 adjustments can be found in appendix 1. Unless otherwise specified, all references to revenue, profit and margins are on an organic basis.

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

H119 Financial Performance

- Organic total revenue growth of 6.2%, reflecting strong growth in high quality recurring revenue of 10.2%, underpinned by software subscription growth of 27.7%, offset by an 11.8% decline in SSRS, reflecting the continued transition to subscription and 2.8% growth in processing;
- Growth in recurring revenue, driven largely by strength in North America at 12% and Northern Europe (UK & Ireland) at 14%;
- Organic operating margin of 23.2% reflecting performance in the business, offset by increased investment to accelerate strategic execution and an increase in colleague variable compensation in line with the strong business performance and the commitment to colleague success;
- Non-recurring gain of £13m (H118: charge of £1m), reflecting the gain on disposal of US Payroll Processing of £27m, offset by property restructuring costs of £14m;
- Underlying cash conversion of 151%, reflecting an improvement in the receivables collections process, the continued transition away from licence contracts which attract longer payment terms and lower levels of FY18 bonus payout in H119. Underlying cash conversion is expected to trend downwards in H219 versus H119. Free cash flow of £257m and net debt to EBITDA ratio of 0.8x;
- An increase in interim dividend of 2.5% to 5.79p, in line with the policy of maintaining the dividend in real terms going forward.

Progress in strategic execution

Sage's vision is to become a great SaaS company for customers and colleagues alike. Highlights in strategic execution in H119 include:

- In customer success, Sage has continued the roll-out of the single CRM system and digitisation of customer service functions, which over time enhances the relationship with the customer, improving retention rates and increasing contract values;
- In colleague success, Sage continues to build a culture that fosters collaboration, open honest dialogue and where colleagues feel connected to the vision, putting customers at the heart of all conversations;
- In innovation:
    - The project to internationalise Intacct continues to progress well with the solution due to launch in Australia and the UK later in 2019;
    - Sage continues to invest in cloud native and cloud connected solutions with significant functionality added to Sage Enterprise Management, Sage Payroll cloud and Sage cloud connected accounts solutions;
    - Executive Committee strengthened with internal promotions to reinforce the focus on innovation and SaaS.

Continuing progress in strategic execution has resulted in:

- Annualised recurring revenue[4] (ARR) growth of 10.2% to £1,545m reflecting continuing momentum in the recurring revenue of the business;
- Recurring revenue now represents 83% of total revenue with 52% software subscription penetration as the business continues the transition towards subscription and Sage Business Cloud;
- Future Sage Business Cloud opportunity (Sage Business Cloud and products with potential to migrate) recurring revenue growth of 12% and total revenue growth of 8%. Sage Business Cloud penetration of 44% reflecting continuing progress in the shift towards cloud connected and cloud native solutions;
- Renewal by value[5] remains strong at 100%, demonstrating the strength of the existing customer base.

[4]Defined as the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve.

[5]Defined as the annualised recurring revenue from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening annualised recurring revenue for the year.

Outlook

After strong performance in H119, due to early success with the implementation of our strategy and noting a somewhat softer recurring revenue comparator in H118, we expect FY19 organic recurring revenue growth to be at the top end or slightly exceed the guided range of between 8-9% and expect SSRS and processing revenue to be at the lower end or below the guided range of flat to mid-single digit decline. Overall, expectations for full year FY19 total revenue remain unchanged and the Group maintains its organic operating profit margin guidance of 23-25%.

Steve Hare, CEO, said:

"We are encouraged by the strong start to FY19. Sage's vision is to become a great SaaS company and by focusing on customers, colleagues and innovation we are starting to see evidence of successful strategic execution. This is reflected in the strong performance in high quality recurring revenue, underpinned by subscription in the first half of the year. We will continue to focus on driving high-quality recurring and subscription revenue in the second half of the year."

About Sage

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

For more information, visit www.sage.com

Enquiries:

The Sage Group plc
+44 (0) 191 294 3457
Lauren Wholley, Investor Relations
Amy Lawson, Corporate PR

FTI Consulting
+44 (0) 20 3727 1000
Charles Palmer
Dwight Burden

An analyst presentation will be held at 8.30am today at London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on www.sage.com/investors, dial-in number +44 (0) 207 192 8338, pin code: 3886909#. A replay of the call will also be available for one week after the event: Tel: +44 (0) 333 300 9785, pin code: 3886909#

CEO Review

H119 Results

In H119 the Group delivered recurring revenue growth of 10% to £779m with organic total revenue increasing by 6% to £941m.

Regionally, North America delivered recurring revenue growth of 12% to £276m, reflecting strong performance across the US, Canada and Sage Intacct, driven by cloud connected and cloud native solutions. Northern Europe delivered recurring revenue growth of 14% to £163m. Performance in this region reflects strength in cloud connected solutions from the on-going migration of existing customers, supplemented by significant reactivation and new customer acquisition, as new regulations on tax submissions attract customers to the latest version of software. France delivered recurring revenue growth of 5% to £119m reflecting continued recovery in recurring revenue in this region, driven by growth in cloud connected migrations. The other regions in the Group delivered broadly in line with expectations.

FY19 key initial priorities

At the FY18 results announcement, Sage announced additional investment into the business to increase focus on the strategic lenses of customer success, colleague success and innovation in order to work towards achieving the vision. Management remains committed to investing in these areas in FY19 and beyond, with investment weighted towards innovation.

This strategy is directly aligned to the key initial priorities for FY19 outlined at the FY18 results announcement and this reflects where management is focusing investment in FY19:

- 'Innovation and acceleration of capability of Sage Business Cloud' is covered in the Innovation section of this CEO review;
- 'Investment in best-in-class SaaS systems and tools' is covered in the Customer Success and Colleague Success sections;
- 'Accelerating the Sage Business Cloud migration strategy and product portfolio simplification' is covered in the Portfolio View of Revenue section.

Portfolio View of Revenue

Revenue by Portfolio[6]	**Recurring**			**Total**		
	H119	**H118**	***Growth***	**H119**	**H118**	***Growth***
	£m	**£m**	***%***	**£m**	**£m**	***%***
Cloud native	£80m	£63m	*27%*	£86m	£68m	*26%*
Cloud connected[7]	£210m	£94m	*124%*	£219m	£100m	*120%*
Sage Business Cloud	**£291m**	**£157m**	***85%***	**£306m**	**£168m**	***82%***
Products with potential to migrate	£373m	£434m	*-14%*	£467m	£544m	*-14%*
Future Sage Business Cloud Opportunity[8]	**£663m**	**£591m**	***12%***	**£773m**	**£712m**	***8%***
Other[9]	£116m	£116m	*0%*	£168m	£174m	*-3%*
Organic Total Revenue	**£779m**	**£707m**	***10%***	**£941m**	**£886m**	***6%***
Sage Business Cloud Penetration[10]	***44%***	***27%***				

[6]The revenue portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS8.

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

[8]Revenue from customers using products that are currently part of - or that management currently believes have a clear pathway to - the Sage Business Cloud.

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

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

As disclosed at the FY18 results announcement, Sage has identified products within its portfolio that are in, or have a clear pathway to, Sage Business Cloud, labelled above as the 'Future Sage Business Cloud Opportunity'. The primary operational focus for management is to migrate desktop customers and attract new customers to Sage Business Cloud through cloud connected and cloud native solutions and to continue to grow the lifetime value of these customers.

The Future Sage Business Cloud Opportunity continues to show strong performance, with recurring revenue growth of 12% and total revenue growth of 8%. Cloud native solutions have delivered recurring revenue growth of 27%, with Sage Intacct delivering recurring revenue growth of 29% and Sage People delivering recurring revenue growth of 38%. Sage Financials has transferred into the 'Other' portfolio from cloud native (£1m adjustment) as the product is no longer actively sold or marketed.

The growth in cloud connected revenue of 120% to £219m includes an addition of £41m into this portfolio from the migration of products new to Sage Business Cloud (as outlined in the RNS regarding the Update and simplification of financial reporting and disclosure on 2 April 2019). Excluding this impact, cloud connected solutions have delivered growth of 79%. Growth reflects the migration of existing customers, predominantly from North America, Northern Europe and France as well as new customer acquisition and reactivation of customers in Northern Europe.

The continued focus on migrating existing customers and attracting new customers to subscription and the cloud, combined with cloud connecting additional desktop products has resulted in Sage Business

Cloud penetration of 44%, up from 27% in H118. Excluding the impact of the net £40m adjustment to Sage Business Cloud revenue, Sage Business Cloud penetration would be 40%.

The revenue in the 'Other' portfolio comprises products for which management does not envisage a path to Sage Business Cloud, predominantly because the product addresses a segment outside Sage's core focus. Sage has identified value creation paths for these products.

The flat recurring revenue and decline of 3% of total revenue in the 'other' portfolio is in line with expectations and reflects the strategy to focus on solutions with a direct pathway to Sage Business Cloud.

Strategy – working towards the vision to become a great SaaS company

As outlined at the FY18 results announcement, Sage's vision is to become a great SaaS company for customers and colleagues alike. Management believes that driving an accelerated transition to a SaaS business is critical to unlocking the significant potential for value creation that exists at Sage.

Moving to a true SaaS model on subscription and in the cloud, will transform Sage's relationship with new and existing customers, with mutual benefits of an improved relationship leading to higher retention rates and higher contract values, which combined, increases lifetime value of contracts, whilst yielding efficient customer acquisition economics.

In order to achieve this vision, strategic execution is based around the three lenses of Customer Success, Colleague Success and Innovation with extra investment allocated into the business to accelerate the success in these areas.

Customer success

Customer success is driven by a customer-centric approach to everything the organisation does to create enduring subscription relationships. In H119 the Group has continued to invest in customer success, continuing the roll out of the single CRM system, improving the quality of data, allowing Sage more customer insight and improving the ability to sell and support customers more efficiently.

The project has now been rolled out for the Enterprise Management solution and the Lead Management process for major geographies, with focus now on implementing the project for the rest of the UK & Ireland business in H219. There are further plans to continue this roll out into other major geographies later in FY19 and into FY20.

The Group is also focused on continuing the digitisation of the customer services function, supplementing phone conversations with web chat, AI and online forums and communities, increasing the levels of interaction, reducing wait times and improving customer experience. This model also allows for 24/7 customer support, leveraging Sage's global presence to build deeper customer relationships, increasing up-sell potential and creating a more efficient cost to serve. As Sage continues to provide more means of contact, customer interaction levels have increased by 16% on the prior year, driven by the increase in digital contact.

Colleague Success

Management is committed to building a culture that fosters collaboration, open honest dialogue and where colleagues feel connected to Sage' vision, putting customers at the heart of everything we do at Sage. Supporting motivated colleagues, in turn, further supports the success of Sage's customers.

Company culture and colleague success have been key priorities of management in H119, with significant investment in tools and training for leaders and colleagues, to further embed the cultural imperatives of the organisation.

The ‘Perform’ project was implemented in FY18 in the UK & Ireland, training sales teams to transform their approach to customer success. The project led to efficiencies and productivity gains in the region. Following on from this success, the programme has been rolled out more widely in the UK & Ireland sales and services teams with a strong return on investment to date. The programme is now being launched in France, Canada and South Africa in H219 with further benefits expected over time.

Management and the Board focus consistently on colleague engagement, tracking both external and internal measures including colleague NPS, voluntary attrition, internal promotions and Sage Foundation days.

Innovation

Constant, customer-led innovation is a core part of a SaaS business model. Sage is continuing to develop a culture which embraces experimentation and a two-way dialogue between customers and the Group with a particular focus on:

- Increasing R&D resource on building out Sage Business Cloud more fully to ensure that, over time, Sage has comprehensive cloud native offerings to service its core strategic market segments. In the shorter term, this also means continuing to add more cloud features and functionality to cloud connected solutions, which improves retention and up-sell potential on these solutions. Particular progress in H119 reflects:

    - Adding further cloud functionality to cloud connected accounts solutions, including deepening the integration with Office 365, adding PowerApps and Flow applications;
    - Adding cloud functionality to Sage UK Payroll solutions (used by almost half of private UK businesses) including features such as access to online self-serve timesheets and payslips, with plans to add more cloud functionality and roll out to other major geographies over time;
    - Deepening functionality of Sage Enterprise Management allowing for cloud native, cloud connected or on-premise connection, with improved integration of bespoke APIs to enhance vertical specificity and to provide improved business insights and efficiency.

- Expanding the availability of Sage Business Cloud within Sage’s chosen markets, including delivering the Sage Intacct internationalisation. This process is progressing well and the business is on track to launch Sage Intacct in Australia and the UK by the end of 2019;

- Enhancing service fabric, the architectural ‘glue’ of Sage Business Cloud. This is a collection of cloud native services that can enable commonly required capabilities, like bank feeds, payments and VAT into any of Sage’s cloud native or cloud connected solutions Service fabric has been a key component in configuring Sage Intacct for internationalisation, allowing acceleration of product development and driving synergies between the product teams.

Sage recently announced new additions to the Executive Committee including promotions of Lee Perkins to Chief Product Officer and Sage Intacct Chief Technology Officer (CTO) Aaron Harris to Sage Group CTO, with incumbent CTO Klaus-Michael Vogelberg remaining on the Executive Committee as Chief Architect and Technology Advisor. These changes reinforce the focus on innovation and SaaS.

Strategic KPIs

Progress in strategic execution in H119 has resulted in:

- Growth in ARR of 10% to £1,545m reflecting continuing momentum in high quality recurring revenue with the business continuing to show sequential progression in recurring revenue over time.
- Software subscription penetration of 52% (H118: 43%) as the business continues to transition existing customers and attract new customers to subscription and the cloud;
- Sage Business Cloud penetration of 44% (H118: 27%) as the business continues to focus on core solutions which have a direct pathway to Sage Business Cloud;
- Renewal by value remains strong at 100%, demonstrating the strength of the existing customer base.

Financial Review

In H119, Sage delivered organic total revenue growth of 6% to £941m. Recurring revenue has increased by 10% to £779m, underpinned by the 28% increase in software subscription revenue as the business continues the transition to subscription and the cloud. SSRS decline of 12% reflects the planned continuing decline in licence revenue as the business transitions towards subscription, further impacted by under-performance in SSRS in the US and France.

The Group achieved an organic operating profit of £218m, yielding an organic operating margin of 23.2%. Margin reflects performance in the business, offset by increased investment to accelerate strategic execution and an increase in colleague variable compensation in line with strong business performance and the commitment to colleague success.

The Group also delivered underlying basic EPS of 13.93p, free cash flow of £257m and underlying cash conversion of 151%.

Financial Results

Financial Results	Statutory			Underlying[11]		
	H119	H118	Change	H119	H118	Change
North America	£327m	£274m	20%	£327m	£295m	11%
Northern Europe	£197m	£190m	4%	£197m	£191m	3%
Central & Southern Europe	£304m	£302m	1%	£304m	£300m	1%
International	£129m	£133m	(4%)	£129m	£126m	2%
Group Revenue	**£957m**	**£899m**	**6%**	**£957m**	**£912m**	**5%**
Operating Profit	£210m	£186m	13%	£218m	£224m	(3%)
% Operating Profit Margin	*21.9%*	*20.7%*	*1.2% pts*	*22.7%*	*24.6%*	*(1.9% pts)*
Profit Before Tax	£198m	£171m	16%	£205m	£208m	(2%)
Net Profit	£154m	£135m	14%	£152m	£154m	(2%)
Basic EPS	14.19p	12.50p	14%	13.93p	14.24p	(2%)

[11]Revenue and profit measures on an underlying and organic basis are defined in Appendix 1.

Sage delivered statutory revenue of £957m, an increase of 6% on the prior period. Statutory revenue reflects strong growth of 20% in North America, reflecting organic performance, combined with FX tailwinds (see Foreign Exchange section below), the impact of IFRS15 and the impact in the prior year from the deferred income unwind on the Sage Intacct acquisition.

Statutory revenue growth of 4% in Northern Europe and 1% in Central and Southern Europe largely reflects organic growth in the regions, and in International, the decline of 4% reflects organic growth, offset by FX headwinds.

The Group delivered a 3% decline in underlying operating profit to £218m. Underlying operating profit reflects organic performance and a small impact relating to IFRS 15.
The Group delivered an increase in statutory operating profit of 13% to £210m. This reflects underlying performance, plus a gain on disposal of the US Payroll processing business of £27m, offset by property restructuring costs of £14m. A full reconciliation of revenue and profit is included in the table below.

Underlying EPS decline of 2% is in line with the underlying operating profit of the business, net of taxation.

Underlying & Organic Reconciliations to Statutory

	H119			H118		
	Revenue	**Operating Profit**	**Operating Margin %**	**Revenue**	**Operating Profit**	**Operating Margin %**
Statutory	**£957m**	**£210m**	**21.9%**	**£899m**	**£186m**	**20.7%**
Recurring Items[12]	-	£21m	-	£9m	£35m	-
Non-recurring items:						
- *(Gain)/loss on disposal of subsidiary*	-	(£27m)	-	-	£1m	-
- *Property restructuring costs*	-	£14m	-	-	-	-
Impact of FX[13]	-	-	-	£4m	£2m	-
Underlying	**£957m**	**£218m**	**22.7%**	**£912m**	**£224m**	**24.6%**
Divestitures	(£16m)	-	-	(£22m)	-	-
Impact of IFRS 15[14]	-	-	-	(£4m)	(£4m)	-
Organic	**£941m**	**£218m**	**23.2%**	**£886m**	**£220m**	**24.8%**

[12]Recurring items are detailed in note 3 of the financial statements

[13]Impact of retranslating FY18 results at FY19 average rates

[14]Organic numbers for H118 are restated on a pro-forma IFRS15 basis.

Revenue

The Group delivered statutory and underlying revenue of £957m in H119. Adjustments between statutory and underlying revenue in H118 reflect £9m recurring items largely reflecting the adjustment to acquired deferred income on the acquisition of Intacct and a £4m FX adjustment.

Organic revenue of £941m in H119 reflects the adjustment of £16m of revenue from the US Payroll Processing business (H118: £22m). H118 organic revenue also includes a £4m adjustment to restate H118 organic revenue on a pro-forma IFRS15 basis.

Margin

The Group delivered a statutory operating profit of £210m. Adjustments between statutory and underlying operating profit in H119 reflect £21m of recurring items (H118: £35m), being £15m of amortisation of acquisition related intangibles (H118: £16m) and £6m of M&A related charges (H118: £10m). The prior year also had a recurring items adjustment of £9m, largely reflecting the adjustment to acquired deferred income on the acquisition of Sage Intacct.

Adjustments between statutory and underlying profit in H119 also include a £27m gain on the disposal of the US Payroll Processing business (H118: charge of £1m relating to a small disposal), offset by property restructuring costs of £14m.

Adjustments between underlying and organic operating profit reflect a £4m adjustment to restate H118 organic operating profit on a pro-forma IFRS15 basis. The US Payroll Processing business was approximately break-even at an operating profit level in both H119 and H118.

Organic Revenue Overview

Organic revenue for H118 is restated on a pro-forma IFRS15 basis and therefore all measures of revenue and growth of revenue are on an organic basis and compared on a pro-forma IFRS15 basis. Revenue definitions are included in Appendix 1 and further detail on IFRS15 can be found in note 13 to the accounts.

Organic Revenue Mix	**H119**		**H118**		**Revenue % Change**
	£m	**% of Total**	**£m**	**% of Total**	
Software Subscription Revenue	£485m	52%	£380m	43%	28%
Other Recurring Revenue	£294m	31%	£327m	37%	(10%)
Organic Recurring Revenue	**£779m**	**83%**	**£707m**	**80%**	**10%**
SSRS Revenue	£137m	14%	£155m	17%	(12%)
Processing Revenue	£25m	3%	£24m	3%	3%
Organic Total Revenue	**£941m**	**100%**	**£886m**	**100%**	**6%**

Total revenue has increased by 6% in H119 to £941m. Recurring revenue has increased by 10% to £779m, underpinned by the 28% increase in software subscription revenue to £485m as the business continues to transition existing customers and attract new customers to subscription and the cloud. The decline in other recurring revenue of 10% to £294m reflects the substitution effect as customers migrate to subscription contracts. SSRS decline of 12% to £137m reflects the planned continuing decline in licence revenue as the business transitions towards subscription, further impacted by under-performance in SSRS in the US and France. Processing revenue growth of 3% to £25m largely represents performance in Northern Europe.

In the portfolio view of revenue, the Future Sage Business Cloud Opportunity delivered recurring revenue growth of 12% to £663m and total revenue growth of 8% to £773m, driven by transitioning existing customers and attracting new customers to Sage Business Cloud. The 'Other' portfolio delivered flat recurring revenue performance at £116m and a total revenue decline of 3% to £168m, in line with expectations.

North America

Organic Revenue by Category	**H119**	**H118**	**% Change**
Organic Total Revenue	£311m	£283m	10%
Organic Recurring Revenue	£276m	£246m	12%
% Subscription Penetration	55%	43%	12% pts
% Sage Business Cloud Penetration	64%	50%	14% pts
Organic Total Revenue	**H119**	**H118**	**% Change**
US (excluding Intacct)	£209m	£197m	6%
Canada	£47m	£43m	10%
Intacct	£55m	£43m	28%

North America delivered recurring revenue growth of 12% to £276m and total revenue growth of 10% to £311m. Software subscription penetration is now 55%, up from 43% in the prior year and Sage Business Cloud penetration is now 64% up from 50% in the prior year, driven by both cloud connected and cloud native solutions.

The US (excluding Intacct) delivered recurring revenue growth of 8% to £182m and total revenue growth of 6% to £209m. The US has continued to show strong progress in the migration to cloud connected solutions with Sage 50 approaching full penetration on cloud connected and over half of Sage 200 customers now on a cloud connected solution.

Canada has also continued to deliver strong performance, with recurring revenue growth of 13% to £42m and total revenue growth of 10% to £47m, with cloud connected solutions also driving a significant part of the business's growth.

Sage Intacct recurring revenue growth of 29% to £52m reflects continuing momentum in the solution in the US and Canada, driving growth through both existing customers and new customer acquisition, with plans to internationalise the solution later in 2019.

Northern Europe

Organic Revenue by Category	**H119**	**H118**	**% Change**
Organic Total Revenue	£197m	£189m	4%
Organic Recurring Revenue	£163m	£143m	14%
% Subscription Penetration	56%	43%	12% pts
% Sage Business Cloud Penetration	59%	26%	33% pts

Northern Europe (UK & Ireland) delivered recurring revenue growth of 14% to £163m and total revenue growth of 4% to £197m. Software subscription penetration is now 56%, up from 43% in the prior year and Sage Business Cloud penetration is now 59%, up significantly from 26% in the prior year, as customers continue to migrate to Sage Business Cloud and as new products enter Sage Business Cloud that were previously only available on desktop, supplemented by growth in cloud native solutions.

Strength in recurring revenue is driven largely by success in cloud connected solutions. Revenue on Sage 50 cloud connected in Northern Europe has doubled, migrating new customers from 50 desktop, but also acquiring significant numbers of new customers and reactivations, in part due to new regulations on tax submissions attracting customers to the latest version of software. Recurring revenue has also benefitted from a weak comparator in the prior year, but performance is strong even excluding this impact.

The region saw a steep decline in of 44% in SSRS revenue in H119 to £15m, due to large value licence and services sales in the prior year which drove an increase in SSRS at the expense of recurring revenue in H118.

Central & Southern Europe

Organic Revenue by Category	**H119**	**H118**	**% Change**
Organic Total Revenue	£304m	£294m	3%
Organic Recurring Revenue	£241m	£227m	6%
% Subscription Penetration	43%	37%	6% pts
% Sage Business Cloud Penetration	21%	8%	13% pts
Organic Total Revenue	**H119**	**H118**	**% Change**
France	£139m	£135m	3%
Central Europe	£89m	£85m	4%
Iberia	£76m	£73m	4%

Central and Southern Europe delivered recurring revenue growth of 6% to £241m and total revenue growth of 3% to £304m. Subscription revenue now represents 43% of total revenue and there is now 21% Sage Business Cloud Penetration in the region, up from 8% in the prior year, largely driven by cloud connected solutions, supplemented by a small amount of revenue from cloud native solutions.

France delivered recurring revenue growth of 5% to £119m and total revenue growth of 3% to £139m. The Group continues to show improving performance in recurring revenue, largely driven by cloud connected migrations. Total revenue growth reflects the decline in SSRS revenue, reflecting the continued transition to subscription and underperformance of services revenue.

Central Europe delivered recurring revenue growth of 6% to £63m and total revenue growth of 4% to £89m. Growth in the region is mainly driven by local products, with cloud connected solutions only launching in the region in the past 12 months.

Iberia delivered recurring revenue growth of 7% to £59m and total revenue growth of 4% to £76m. Growth has been driven mainly by the migration of customers to Sage 200 cloud connected, which is starting to show strong traction.

International

Organic Revenue by Category	**H119**	**H118**	**% Change**
Organic Total Revenue	£129m	£120m	6%
Organic Recurring Revenue	£99m	£91m	8%
% Subscription Penetration	58%	56%	2% pts
% Sage Business Cloud Penetration	11%	9%	2% pts
Organic Total Revenue	**H119**	**H118**	**% Change**
Africa & Middle East	£70m	£61m	12%
Australia & Asia	£32m	£33m	(2%)
Latin America	£27m	£26m	3%

International delivered recurring revenue growth of 8% to £99m and total revenue growth of 6% to £129m. Sage Business Cloud penetration in the region is 11% up from 9% in the prior year.

Growth in the region is largely driven by local products, supplemented by a small amount of revenue from cloud native solutions: cloud connected solutions are not currently present in the region.

Africa & Middle East, which represents over half of the International region's revenue, delivered recurring revenue growth of 12% to £48m and total revenue growth of 12% to £70m. Growth in the region is driven by local products and cloud native solutions and the region has seen growth in SSRS, delivering professional services to support licences of larger solutions.

Australia & Asia delivered recurring revenue growth of 3% to £25m and a total revenue decline of 2% to £32m, with Asia continuing to be a drag on growth. Excluding Asia, Australia delivered total revenue growth of 3% of £24m, reflecting growth from local products and with a small element of revenue from cloud native solutions.

Latin America delivered recurring revenue growth of 7% to £25m total revenue growth of 3% to £27m, driven mainly through local products.

Operating Profit

The Group delivered an organic operating profit of £218m and an organic operating margin of 23.2% in H119. The underlying operating profit of £218m yields an underlying operating margin of 22.7%, with the difference between organic and underlying reflecting an adjustment to restate H118 organic operating profit on a pro-forma IFRS15 basis. H119 EBITDA is £248m, yielding an EBITDA margin of 25.9%.

	H119	H118	H119 Margin %
Organic Operating Profit	**£218m**	**£220m**	**23.2%**
Impact of IFRS15	-	£4m	
Underlying Operating Profit	**£218m**	**£224m**	**22.7%**
Depreciation & amortisation	£17m	£17m	
Share based payments	£13m	£5m	
EBITDA	**£248m**	**£246m**	**25.9%**

The Group organic operating margin of 23.2% is in line with the full year guided range. Margin reflects performance in the business, offset by the increased investment to accelerate strategic execution, combined with increases to the bonus provision (now underpinned by ARR growth) and share based payments in line with the improved business performance and the commitment to colleague success. The depreciation and amortisation charge is consistent with the prior year.

Net Finance Cost

The statutory net finance cost for the period was £12m (H118: £15m) and the underlying net finance cost was £13m (H1 FY18: £14m), with minor differences between statutory and underlying net finance cost reflecting FX movements. The average rate of interest against debt facilities in H119 has remained fairly consistent on the prior year.

Taxation

The statutory income tax expense for H119 was £44m (H118: £36m), yielding a statutory tax rate of 22% (H118: 21%). The underlying tax expense for H119 was £53m (H118: £54m), yielding an underlying tax rate of 26% (H118: 26%).

The difference between the underlying and statutory rate in H119 primarily reflects a non-taxable accounting gain on the disposal of the US Payroll Processing business. The difference between the underlying and statutory rate in H118 principally reflected a non-recurring tax credit on the rebasing of deferred tax balances in the USA as a result of the US Tax Reform.

Earnings per Share

	H119	H118	% Change
Statutory Basic EPS	14.19p	12.50p	13.5%
Recurring Items	1.40p	1.68p	
Non-Recurring Items	(1.66p)	0.07p	
Impact of Foreign Exchange	-	(0.01p)	
Underlying Basic EPS	13.93	14.24p	(2.2%)

Underlying basic earnings per share decreased by 2% to 13.93p (H118: 14.24p), consistent with the 2% decline in underlying operating profit, net of taxation.

Statutory basic earnings per share increased by 14%, with the recurring and non-recurring items consistent with those disclosed above, net of taxation.

Cash Flow

The Group remains highly cash generative with underlying cash flows from operating activities of £330m, which represents underlying cash conversion of 151%, increasing from 99% in H118.

Cash Flow APMs	**H119**	**H118 (as reported)**
Underlying Operating Profit	£218m	£222m
Depreciation, amortisation and non-cash items in profit	£16m	£17m
Share based payments	£13m	£5m
Net changes in working capital	£106m	(£5m)
Net capital expenditure	(£23m)	(£18m)
Underlying Cash Flow from Operating Activities	£330m	£221m
Underlying cash conversion %	*151%*	*99%*
Non-recurring cash items	(£20m)	(£21m)
Net interest paid	(£12m)	(£12m)
Income tax paid	(£41m)	(£29m)
Profit and loss foreign exchange movements	-	(£2m)
Free Cash Flow	£257m	£157m

Statutory Reconciliation of Cash Flow from Operating Activities	**H119**	**H118 (as reported)**
Statutory Cash Flow from Operating Activities	£333m	£215m
Recurring and non-recurring items	£21m	£23m
Net capital expenditure	(£23m)	(£18m)
Other adjustment including foreign exchange translations	(£1m)	£1m
Underlying Cash Flow from Operating Activities	**£330m**	**£221m**

The improvement in underlying cash conversion to 151% reflects an improvement in the receivables collections process, the continued transition away from licence contracts which attract longer payment terms and lower levels of FY18 bonus payout in H119. Underlying cash conversion is expected to trend downwards in H219 versus H119.

Net debt was £448m at 31 March 2019 (31 March 2018: £744m). The decrease in the year is attributable to strong free cash flow of £257m and proceeds from the disposal of an equity investment (£17m) and the US Payroll Processing Business (£68m), offset by the external dividend of £118m paid in March.

Debt facilities

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF") and US private placement ("USPP") investors. The Group's (RCF) expires in February 2024 (with a one year extension option to February 2025) with facility levels of £688m (split between US$719m and £135m tranches). At 31 March 2019, £274m (H1 2018: £336m) of the multi-currency revolving debt facility was drawn.

The Group's total USPP loan notes at 31 March 2019 were £497m (US$550 m and EUR€85m) (H1 2018: £502m, US$600m and EUR€85m).

Capital allocation

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

The Group will consider bolt-on acquisitions of complementary technology and partnerships that will further accelerate the strategy and enhance Sage Business Cloud and, in line with focusing on core competences within the business, is also evaluating the disposal of certain non-core assets, as it has recently done with Sage Payroll Solutions, the US-based payroll outsourcing services business, which was disposed of in February 2019. Acquisitions and disposals are always subject to stringent financial criteria.

Sage will continue to maintain the dividend in real terms going forward and the H119 interim dividend has increased by 2.5% to 5.79p. The Group is committed to maintaining good financial discipline and delivering strong shareholder returns and will consider additional capital returns to shareholders if appropriate.

Group net debt as at 31 March 2019 was £448m and reported EBITDA over last 12 months was £549m, yielding a net debt to EBITDA ratio of 0.8x and Group return on capital employed (ROCE) for H119 is 20.7% (H118: 20.6%).

	H119	**H118 (as reported)**
Net Debt	£448m	£744m
EBITDA (Last Twelve Months)	£549m	£516m
Net Debt/EBITDA Ratio	**0.8x**	**1.4x**

Sage's plans to operate in a broad range of 1-2x net debt to EBITDA over the medium term, with flexibility to move slightly outside this range as the business needs require.

Foreign exchange

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

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

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	**H119**	**H118**	**Change**
Euro (€)	1.14	1.13	1%
US Dollar ($)	1.29	1.36	(5%)
South African Rand (ZAR)	18.32	17.36	6%
Australian Dollar (A$)	1.81	1.75	3%
Brazilian Real (R$)	4.9	4.42	11%

Appendix 1 – Alternative Performance Measures

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

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: - Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and - Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: - Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and - Exclude the contribution from acquired businesses until the year following the year of acquisition, at which point they are included for the full current and prior period; and For FY19 this includes the impact of IFRS15. FY18 is restated to reflect proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as FY19. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business. During FY19, the organic measure adjusts the prior period (FY18) for IFRS15 to enable like-for-like comparison across the periods.
Underlying Cash Flow from Operating Activities	Underlying Cash Flow from Operating Activities is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cashflow generated by the operating activities and calculate underlying cash conversion.

Underlying Cash Conversion	Underlying Cash Flow from Operating Activities divided by Underlying Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
EBITDA	EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Cash Flow from Operating Activities minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: - Underlying Operating Profit; minus - Amortisation of acquired intangibles; the result being divided by - The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY19 PSP awards.

Appendix 2 – Revenue Types

Revenue Type	DESCRIPTION
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Software and software related services Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationery	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue Payment processing services Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

Consolidated income statement

For the six months ended 31 March 2019

	Note	**Six months ended 31 March 2019 (Unaudited) Underlying**	**Six months ended 31 March 2019 (Unaudited) Adjustments***	**Six months ended 31 March 2019 (Unaudited) Statutory**	Six months ended 31 March 2018 (Unaudited) Underlying as reported	Six months ended 31 March 2018 (Unaudited) Adjustments*	Six months ended 31 March 2018 (Unaudited) Statutory	Year ended 30 September 2018 (Audited) Statutory
		£m	**£m**	**£m**	£m	£m	£m	£m
Revenue	2	**957**	**–**	**957**	908	(9)	899	1,846
Cost of sales		**(70)**	**–**	**(70)**	(62)	–	(62)	(130)
Gross profit		**887**	**–**	**887**	846	(9)	837	1,716
Selling and administrative expenses		**(669)**	**(8)**	**(677)**	(624)	(27)	(651)	(1,289)
Operating profit	2	**218**	**(8)**	**210**	222	(36)	186	427
Finance income		**3**	**1**	**4**	2	1	3	5
Finance costs		**(16)**	**–**	**(16)**	(16)	(2)	(18)	(34)
Profit before income tax		**205**	**(7)**	**198**	208	(37)	171	398
Income tax expense	4	**(53)**	**9**	**(44)**	(54)	18	(36)	(103)
Profit for the period		**152**	**2**	**154**	154	(19)	135	295

* Adjustments are detailed in note 3.

Earnings per share attributable to the owners of the parent (pence)								
Basic	6	**13.93p**		**14.19p**	14.25p		12.50p	27.21p
Diluted	6	**13.85p**		**14.12p**	14.22p		12.48p	27.07p

Consolidated statement of comprehensive income
For the six months ended 31 March 2019

	Six months ended 31 March 2019 (Unaudited) £m	Six months ended 31 March 2018 (Unaudited) £m	Year ended 30 September 2018 (Audited) £m
Profit for the period	**154**	135	295
Other comprehensive (expenses)/income for the period			
Items that may be reclassified to profit or loss			
Gain on available-for-sale fixed asset investment*	**–**	–	1
Exchange differences on translating foreign operations	**(10)**	(25)	15
Exchange differences recycled through income statement on sale of foreign operations	**(6)**	–	–
	(16)	(25)	16
Other comprehensive (expenses)/income for the period, net of tax	**(16)**	(25)	16
Total comprehensive income for the period	**138**	110	311

*See note 1 for detail on transition to IFRS 9 and the disposal of the available-for-sale fixed asset investment during the six months ended 31 March 2019.

The notes on pages 26 to 43 form an integral part of this condensed consolidated half-yearly report.

Consolidated balance sheet
As at 31 March 2019

	Note	**31 March 2019 (Unaudited) £m**	31 March 2018 (Unaudited) £m	30 September 2018 (Audited) £m
Non-current assets				
Goodwill	7	**2,002**	1,975	2,008
Other intangible assets	7	**238**	253	260
Property, plant and equipment	7	**131**	129	129
Fixed asset investment		**–**	14	17
Other financial assets		**3**	1	3
Trade and other receivables	7	**40**	–	–
Deferred income tax assets		**57**	65	51
		2,471	2,437	2,468
Current assets				
Inventories		**2**	2	1
Trade and other receivables	8	**400**	475	459
Current income tax asset		**4**	4	4
Cash and cash equivalents (excluding bank overdrafts)	11	**351**	296	272
Assets classified as held for sale	12	**–**	–	113
		757	777	849
Total assets		**3,228**	3,214	3,317
Current liabilities				
Trade and other payables		**(276)**	(290)	(249)
Current income tax liabilities		**(47)**	(33)	(39)
Borrowings	11	**(5)**	(46)	(8)
Provisions		**(15)**	(21)	(26)
Deferred income		**(660)**	(652)	(620)
Liabilities classified as held for sale	12	**–**	–	(63)
		(1,003)	(1,042)	(1,005)
Non-current liabilities				
Borrowings	9,11	**(768)**	(906)	(913)
Post-employment benefits		**(22)**	(22)	(22)
Deferred income tax liabilities		**(26)**	(31)	(25)
Provisions		**(12)**	(26)	(11)
Trade and other payables		**(7)**	(5)	(8)
Deferred income		**(7)**	(4)	(6)
		(842)	(994)	(985)
Total liabilities		**(1,845)**	(2,036)	(1,990)
Net assets		**1,383**	1,178	1,327
Equity attributable to owners of the parent				
Ordinary shares	10	**12**	12	12
Share premium	10	**548**	548	548
Other reserves		**130**	106	146
Retained earnings		**693**	512	621
Total equity		**1,383**	1,178	1,327

Consolidated statement of changes in equity
For the six months ended 31 March 2019

	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
			Attributable to owners of the parent		
At 1 October 2018 as originally presented (Audited)	**12**	**548**	**146**	**621**	**1,327**
Adjustment on initial application of IFRS 15 net of tax (see note 13)	**–**	**–**	**–**	**24**	**24**
Adjustment on initial application of IFRS 9 net of tax (see note 1)	**–**	**–**	**–**	**(5)**	**(5)**
At 1 October 2018 (adjusted)	**12**	**548**	**146**	**640**	**1,346**
Profit for the period	**–**	**–**	**–**	**154**	**154**
Other comprehensive expenses					
Exchange differences on translating foreign operations	**–**	**–**	**(10)**	**–**	**(10)**
Exchange differences recycled through income statement on sale of foreign operations (see note 12)	**–**	**–**	**(6)**	**–**	**(6)**
Total comprehensive income for the period ended 31 March 2019 (Unaudited)	**–**	**–**	**(16)**	**154**	**138**
Transactions with owners					
Employee share option scheme:					
- Value of employee services, net of deferred tax	**–**	**–**	**–**	**17**	**17**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(118)**	**(118)**
Total transactions with owners for the period ended 31 March 2019 (Unaudited)	**–**	**–**	**–**	**(101)**	**(101)**
At 31 March 2019 (Unaudited)	**12**	**548**	**130**	**693**	**1,383**

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

Consolidated statement of cash flows

For the six months ended 31 March 2019

	Notes	**Six months ended 31 March 2019 (Unaudited) £m**	Six months ended 31 March 2018 (Unaudited) £m	Year ended 30 September 2018 (Audited) £m
Cash flows from operating activities				
Cash generated from continuing operations		**333**	215	487
Interest paid		**(15)**	(14)	(30)
Income tax paid		**(41)**	(29)	(64)
Net cash generated from operating activities		**277**	172	393
Cash flows from investing activities				
Acquisitions of subsidiaries, net of cash acquired		**–**	(8)	(8)
Disposal of subsidiaries, net of cash disposed	12	**67**	–	–
Proceeds on settlement of equity investment		**17**	–	–
Purchases of intangible assets	7	**(6)**	(10)	(36)
Purchases of property, plant and equipment	7	**(17)**	(10)	(20)
Proceeds from sale of property, plant and equipment		**–**	2	2
Interest received		**3**	2	4
Net cash generated from/(used in) investing activities		**64**	(24)	(58)
Cash flows from financing activities				
Proceeds from issuance of treasury shares	10	**–**	–	3
Proceeds from borrowings		**118**	117	330
Repayments of borrowings		**(261)**	(88)	(389)
Movements in cash held on behalf of customers		**(51)**	14	2
Borrowing costs		**(1)**	(2)	(3)
Dividends paid to owners of the parent	5	**(118)**	(110)	(171)
Net cash used in financing activities		**(313)**	(69)	(228)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)	11	**28**	79	107
Effects of exchange rate movement	11	**(4)**	(6)	2
Net increase in cash, cash equivalents and bank overdrafts		**24**	73	109
Cash, cash equivalents and bank overdrafts at 1 October	11	**322**	213	213
Cash, cash equivalents and bank overdrafts at period end	11	**346**	286	322

Notes to the financial information
For the six months ended 31 March 2019

1 Group accounting policies

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

This condensed consolidated half-yearly financial report was approved for issue by the board of directors on 16 May 2019.

The financial information set out above does not constitute the Company's Statutory Accounts. Statutory Accounts for the year ended 30 September 2018 have been delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and IFRSs as issued by the International Accounting Standards Board ("IASB"), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2018 with the exception of the adoption of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments", the impact of which has been detailed below.

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

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

Basis of preparation
The financial information for the six months ended 31 March 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union ("EU") and as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2018, which have been prepared in accordance with IFRSs as adopted by the EU and IFRSs as issued by the IASB.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the consolidated financial information has been prepared on a going concern basis.

Accounting policies
The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2018 as described in those annual financial statements with the exception of the adoption of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments" the impact of which has been detailed below.

IFRS 9

The Group has adopted IFRS 9 'Financial Instruments' from 1 October 2018 and applied the modified retrospective approach. Comparatives for 2018 have not been restated and the cumulative impact of adoption has been recognised as a decrease to retained earnings with a corresponding decrease in net assets as at 1 October 2018 as follows:

	1 October 2018 £m
Retained earnings	
Provision for losses against trade debtors	(6)
Tax impact	1
Total impact at 1 October 2018	**(5)**
Non-current assets	
Deferred income tax asset	1
Current assets	
Trade and other receivables	(6)
Total impact at 1 October 2018	**(5)**

The adjustment above arises from adoption of IFRS 9's simplified approach to providing for lifetime expected credit losses at the date of initial recognition of trade receivables. Previously under IAS 39 credit losses were not recognised until there was an indicator of impairment. Under IFRS 9, the Group uses a matrix approach to determine the loss provisions, with default rates assessed for each country in which the Group operates.

The Group continues to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9.

On transition to IFRS 9, the Group elected to classify its unquoted equity investment, which is presented in the balance sheet as a fixed asset investment, as at fair value through other comprehensive income. The investment has since been derecognised on its redemption in the six months ended 31 March 2019. The investment had previously been classified as an available-for-sale financial asset under IAS 39. As a result of the election made under IFRS 9, changes in the fair value of the investment prior to its derecognition continued to be recognised in the statement of other comprehensive income when they arose. However, in a change to the previous treatment, the cumulative gain was not reclassified to profit for the period when the investment was derecognised.

IFRS 15

As disclosed in our Annual Report 2018, the Group has adopted IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 October 2018 for the group (the "cumulative catch up" approach) and the practical expedient to apply the standard only to contracts in progress but not completed at the date of initial application . Prior year comparatives are not restated and retained earnings at 1 October have been restated for the full cumulative impact of adopting the standard.

Information on the changes resulting from the adoption of IFRS 15, quantitative information on their impact at 1 October 2018 and on the six months ended 31 March 2019 and the accounting policies that apply under the new standard are set out in note 13.

For the year ending 30 September 2019, the Group's annual financial statements will include a reconciliation between the primary financial statements under IFRS 15 and the financial position and performance that would have been reported in accordance with IAS 18.

Adoption of new and revised IFRSs

The following new accounting standards will have a material impact on the Group. They are currently issued but not effective for the Group for the six-month period ended 31 March 2019:

- IFRS 16 "Leases"

IFRS 16

IFRS 16 will become effective for the Group for the financial year commencing on 1 October 2019, replacing the existing lease accounting standard IAS 17. The new standard will impact the accounting for leases in which the Group is the lessee. The Group currently accounts for these leases as operating leases, with rentals payable charged to the income statement on a straight-line basis as an operating expense. Under the new standard, the Group will recognise additional lease assets and lease liabilities on the balance sheet to account for the right to use the leased items and the obligation to make future lease payments. The costs of leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability.

The Group will adopt IFRS 16 using the modified retrospective approach with the cumulative transition impact recognised in equity on 1 October 2019 and no restatement of the financial statements for the prior year. It is expected that practical expedients available on transition will be applied.

The Group's implementation is ongoing and is focussing primarily on the accounting for the Group's rented office buildings. These are the Group's most significant leases by value comprising over 95% of the Group's total undiscounted operating lease commitments of £151m at 30 September 2018 as disclosed under existing reporting requirements. The Group will elect to apply the exemptions available for short-term leases with a lease term of 12 months or less and leases of low value items. The leases to which these exemptions apply will be accounted for in the same way as current operating leases, with no lease assets or liabilities recognised. The low value exemption is expected to apply to most leases of IT and other office equipment.

While the impact of the standard on transition and in subsequent years will depend on the future make-up of the Group's lease portfolio, the lease assets and liabilities recognised will relate primarily to rented office buildings. For periods after transition, there will be a reduction in operating expenses and an increase in finance costs in the income statement compared to the current treatment, as a portion of the lease expense will be reported after operating profit as a finance charge. The standard will not impact net cash flow, but cash flows from most lease payments will be reclassified from cash flows from operating activities to cash flows from financing activities, as the payments will represent the repayment of lease liabilities. The Group's total rental expense for the year ended 30 September 2018 under existing reporting requirements was £27m.

Critical accounting estimates and judgements

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

Revenue recognition

Approximately 33% of the company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the product sale. The key criteria in this determination is whether the business partner has taken control of the product. This is usually assessed based on whether the business partner has responsibility for payment and takes on the risks and rewards of the product from Sage.

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment.

Goodwill impairment

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

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2018 financial statements.

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £25m as at 31 March 2019 (30 September 2018: £27m).

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

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

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

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

Business combinations

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

The fair values of the prior year business combinations are disclosed in the 30 September 2018 financial statements. There have been no material acquisitions during the six-month period ended 31 March 2019.

Website

This condensed consolidated half-yearly financial report for the six months ended 31 March 2019 can also be found on our website: www.sage.com/investors/investor-downloads

2 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Quarterly Business Reviews chaired by the President and Chief Financial Officer. The Executive Committee uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into nine key operating segments: North America (excluding Intacct) (US and Canada), North America Intacct, Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), Africa and the Middle East, Asia (including Australia) and Latin America. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

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

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

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

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

Revenue by segment (Unaudited)

	Six months ended 31 March 2019					
	Statutory and Underlying £m	**Organic adjustments* £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment						
North America	**278**	**(2)**	**276**	25.3%	16.1%	12.3%
Northern Europe	**163**	**–**	**163**	13.2%	12.7%	14.3%
Central and Southern Europe	**241**	**–**	**241**	3.5%	4.1%	6.0%
International	**99**	**–**	**99**	(1.5%)	4.2%	8.4%
Recurring revenue	**781**	**(2)**	**779**	10.1%	9.9%	10.2%
Software and software related services ("SSRS") revenue by segment						
North America	**35**	**–**	**35**	(1.2%)	(6.7%)	(4.9%)
Northern Europe	**15**	**–**	**15**	(43.9%)	(44.4%)	(44.2%)
Central and Southern Europe	**63**	**–**	**63**	(8.8%)	(8.2%)	(5.5%)
International	**24**	**–**	**24**	(7.3%)	(3.8%)	(3.0%)
SSRS revenue	**137**	**–**	**137**	(12.1%)	(13.4%)	(11.8%)
Processing revenue by segment						
North America	**14**	**(14)**	**–**	(12.4%)	(16.5%)	(5.0%)
Northern Europe	**19**	**–**	**19**	(0.6%)	(0.5%)	(0.5%)
Central and Southern Europe	**–**	**–**	**–**	–	–	–
International	**6**	**–**	**6**	(20.2%)	(16.1%)	16.1%
Processing revenue	**39**	**(14)**	**25**	(8.5%)	(9.4%)	2.8%
Total revenue by segment						
North America	**327**	**(16)**	**311**	19.6%	11.3%	10.1%
Northern Europe	**197**	**–**	**197**	3.7%	3.2%	4.4%
Central and Southern Europe	**304**	**–**	**304**	0.7%	1.2%	3.4%
International	**129**	**–**	**129**	(3.6%)	1.5%	6.5%
Total revenue	**957**	**(16)**	**941**	6.4%	4.9%	6.2%

* Adjustments relate to the disposal of Sage Payroll Solutions (note 12). The prior year adjustments also include IFRS 15 impact, applied in a manner consistent with FY19.

							Six months ended 31 March 2018
	Statutory £m	**Underlying adjustments £m**	**Underlying as reported £m**	Impact of foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment							
North America	222	8	230	10	240	6	246
Northern Europe	144	1	145	–	145	(2)	143
Central and Southern Europe	232	–	232	(1)	231	(4)	227
International	100	–	100	(5)	95	(4)	91
Recurring revenue	698	9	707	4	711	(4)	707
Software and software related services ("SSRS") revenue by segment							
North America	36	–	36	2	38	(1)	37
Northern Europe	27	–	27	–	27	–	27
Central and Southern Europe	70	–	70	(1)	69	(2)	67
International	25	–	25	(1)	24	–	24
SSRS revenue	158	–	158	–	158	(3)	155
Processing revenue by segment							
North America	16	–	16	1	17	(17)	–
Northern Europe	19	–	19	–	19	–	19
Central and Southern Europe	–	–	–	–	–	–	–
International	8	–	8	(1)	7	(2)	5
Processing revenue	43	–	43	–	43	(19)	24
Total revenue by segment							
North America	274	8	282	13	295	(12)	283
Northern Europe	190	1	191	–	191	(2)	189
Central and Southern Europe	302	–	302	(2)	300	(6)	294
International	133	–	133	(7)	126	(6)	120
Total revenue	899	9	908	4	912	(26)	886

Operating profit by segment (Unaudited)

	Six months ended 31 March 2019						
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	**Change Statutory %**	Change Underlying %
Operating profit by segment							
North America	**81**	**(9)**	**72**	–	**72**	117.6%	3.9%
Northern Europe	**63**	**4**	**67**	–	**67**	2.3%	2.5%
Central and Southern Europe	**62**	**6**	**68**	–	**68**	(20.4%)	(14.9%)
International	**4**	**7**	**11**	–	**11**	(59.7%)	12.2%
Total operating profit	**210**	**8**	**218**	–	**218**	12.9%	(2.9%)

	Six months ended 31 March 2018				
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m
Operating profit by segment					
North America	37	30	67	3	70
Northern Europe	62	3	65	–	65
Central and Southern Europe	78	2	80	–	80
International	9	1	10	(1)	9
Total operating profit	186	36	222	2	224

Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2019 (Unaudited) £m	Six months ended 31 March 2018 (Unaudited) £m
North America	**72**	70
Northern Europe	**67**	65
Central and Southern Europe	**68**	80
Total reportable segments	**207**	215
International	**11**	9
Underlying operating profit	**218**	224
Impact of movement in foreign currency exchange rates	**–**	(2)
Underlying operating profit (as reported)	**218**	222
Amortisation of acquired intangible assets	**(15)**	(16)
Other M&A activity-related items	**(6)**	(10)
Adjustment to acquired deferred income	**–**	(9)
Non-recurring items	**13**	(1)
Statutory operating profit	**210**	186

3 Adjustments between underlying profit and statutory profit (Unaudited)

	Six months ended 31 March 2019 Recurring £m	**Six months ended 31 March 2019 Non-recurring £m**	**Six months ended 31 March 2019 Total £m**	Six months ended 31 March 2018 Recurring £m	Six months ended 31 March 2018 Non-recurring £m	Six months ended 31 March 2018 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**(15)**	**–**	**(15)**	(16)	–	(16)
Gain/(loss) on disposal of subsidiary	**–**	**27**	**27**	–	(1)	(1)
Adjustment to acquired deferred income	**–**	**–**	**–**	(9)	–	(9)
Other M&A activity-related items	**(6)**	**–**	**(6)**	(10)	–	(10)
Other items						
Restructuring costs	**–**	**(14)**	**(14)**	–	–	–
Total adjustments made to operating profit	**(21)**	**13**	**(8)**	(35)	(1)	(36)
Fair value adjustments	**–**	**–**	**–**	(2)	–	(2)
Foreign currency movements on intercompany balances	**1**	**–**	**1**	1	–	1
Total adjustments made to profit before income tax	**(20)**	**13**	**(7)**	(36)	(1)	(37)

Recurring items

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

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

The fair value adjustment comprises a charge of £nil (H1 FY18: charge of £2m) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Foreign currency movements on intercompany balances of £1m (H1 FY18: £1m) occurs due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future.

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

Non-recurring items

Restructuring costs of £14m (H1 FY18: £nil) relate to the reorganisation of the Group's properties and consist of net lease exit costs following consolidation of office space and impairment of leasehold and other related assets that are no longer in use.

Details of gain/(loss) on disposal of subsidiary can be found in note 12.

4 Income tax expense

The effective tax rate on statutory profit before tax was 22% (six months ended 31 March 2018: 21%) whilst the effective tax rate on underlying profit before tax for continuing operations was 26% (six months ended 31 March 2018: 26%). The effective income tax rate represents the best estimate of the average annual effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 31 March 2019.

The difference between the statutory and underlying tax rate is due to a non-taxable accounting gain upon the disposal of a subsidiary.

EU State Aid

The Group is monitoring developments following the EU Commission's decision published in April 2019 in respect of the State Aid investigation into the UK's Controlled Foreign Company regime. The Group may be affected by the Commission's decision, as will other UK-based multinational groups that have financing arrangements in line with the UK's current legislation.

The application of this decision is not yet clear for UK companies. It is necessary to await HMRC's response to this decision as well as the response of the UK Government given that an appeal by the UK would require a ministerial decision. We have calculated our maximum potential liability excluding penalties and interest to be £35m in the event that there are no successful appeals against the position. Based upon advice taken, we consider that no provision is required at this time. We will continue to monitor the position as it develops.

5 Dividends

	Six months ended 31 March 2019 (Unaudited) £m	Six months ended 31 March 2018 (Unaudited) £m	Year ended 30 September 2018 (Audited) £m
Final dividend paid for the year ended 30 September 2017 of 10.20p per share	**–**	110	110
Interim dividend paid for the year ended 30 September 2018 of 5.65p per share	**–**	–	61
Final dividend paid for the year ended 30 September 2018 of 10.85p per share	**118**	–	–
	118	110	171

The interim dividend of 5.79p per share will be paid on 14 June 2019 to shareholders on the register at the close of business on 31 May 2019.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has dilutive potential ordinary shares consisting of share options granted to employees, where the exercise price is less than the average market price of the Company's ordinary shares during the period.

	Underlying Six months ended 31 March 2019 (Unaudited)	Underlying as reported Six months ended 31 March 2018 (Unaudited)	Underlying Six months ended 31 March 2018 (Unaudited)	**Statutory Six months ended 31 March 2019 (Unaudited)**	Statutory Six months ended 31 March 2018 (Unaudited)
Earnings attributable to owners of the parent					
Profit for the period	**152**	154	154	**154**	135
Number of shares (millions)					
Weighted average number of shares	**1,086**	1,082	1,082	**1,086**	1,082
Dilutive effects of shares	**5**	2	2	**5**	2
	1,091	1,084	1,084	**1,091**	1,084
Earnings per share attributable to owners of the parent (pence)					
Basic earnings per share	**13.93**	14.25	14.24	**14.19**	12.50
Diluted earnings per share	**13.85**	14.22	14.21	**14.12**	12.48

Reconciliation of earnings	**Six months ended 31 March 2019 (Unaudited) £m**	Six months ended 31 March 2018 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**152**	154
Impact of movement in foreign currency exchange rates	**–**	–
Underlying earnings attributable to owners of the parent (as reported)	**152**	154
Restructuring costs	**(14)**	–
Amortisation of acquired intangible assets and adjustment to acquired deferred income	**(15)**	(25)
Fair value adjustments to debt-related financial instruments	**–**	(2)
Foreign currency movements on intercompany balances	**1**	1
Other M&A related items	**(6)**	(10)
Gain/(loss) on disposal of subsidiary	**27**	(1)
Taxation on adjustments	**9**	5
Income tax adjustments	**–**	13
Net adjustments	**2**	(19)
Earnings statutory profit for period	**154**	135

7 Non-current assets

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

* Finalisation of the sale of Sage Payroll Solutions. See note 12.

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

Goodwill is not subject to amortisation, but is tested for impairment annually and whenever there is any indication of impairment. At 31 March 2019, there were no indicators of impairment to goodwill. Details of the 2018 goodwill impairment review are provided in the 2018 consolidated financial statements.

Included within Trade and other receivables are Customer acquisition costs of £40m at 31 March 2019. See note 13 for details of the transition adjustments for IFRS15.

8 Current Assets

Included within Trade and other receivables are Trade Receivables and Customer acquisition costs of £313m and £37m respectively at 31 March 2019. See note 13 for details of the transition adjustments for IFRS15.

9 Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US senior loan notes due to these bearing interest at fixed rates. The fair value of borrowings is determined by reference to interest rate movements on the US $ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13 with the respective book and fair values included in the table below.

	At 31 March 2019		At 31 March 2018	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long term-borrowing	**496**	**499**	466	463
Short term-borrowing	–	–	36	36

In the six months ended 31 March 2019, the Group derecognised its fixed asset investment in an unquoted equity instrument when the investment was redeemed. At 30 September 2018, the investment was classified as an available-for-sale financial asset under IAS 39 and carried at its fair value of £17m (31 March 2018: £14m). On transition to IFRS 9, the investment was reclassified as at fair value through other comprehensive income with no change to its carrying amount. Prior to its derecognition, the fair value of the instrument was determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions were made were the discount rate, the timing of future cash flows and the period over which the investment would continue to be held. This was a level 3 fair value as defined within IFRS 13.

10 Ordinary shares and share premium

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

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

In the current period, the Group transferred 1,061,802 (H1 FY18: 1,790,815) of treasury shares to employees in order to satisfy vested awards.

11 Cash flow and net debt

	Six months ended 31 March 2019 (Unaudited) £m	Six months ended 31 March 2018 (Unaudited) £m
Statutory operating profit	**210**	186
Recurring and non-recurring items	**8**	36
Underlying operating profit (as reported)	**218**	222
Depreciation/amortisation/impairment/profit on disposal of non-current assets/non-cash items	**16**	17
Share-based payments	**13**	5
Net changes in working capital	**106**	(5)
Net capital expenditure	**(23)**	(18)
Underlying cash flow from operating activities	**330**	221
Net interest paid	**(12)**	(12)
Income tax paid	**(41)**	(29)
Non-recurring items	**(20)**	(21)
Exchange movement	**–**	(2)
Free cash flow	**257**	157
Net debt at 1 October	**(668)**	(813)
Acquisitions and disposals of subsidiaries, net of cash disposed	**67**	(8)
Acquisitions and disposal related items	**–**	(1)
Proceeds on settlement of equity investment	**17**	–
Dividends paid to owners of the parent	**(118)**	(110)
Exchange movement	**(3)**	31
Net debt at 31 March	**(448)**	(744)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2018 (Audited) £m	**Cash flow £m**	**Disposal of subsidiary £m**	**Exchange movement £m**	**At 31 March 2019 (Unaudited) £m**
Cash and cash equivalents	272	**83**	**–**	**(4)**	**351**
Bank overdrafts	(8)	**3**	**–**	**–**	**(5)**
Cash amounts included in held for sale	58	**33**	**(91)**	**–**	**–**
Cash, cash equivalents and bank overdrafts	322	**119**	**(91)**	**(4)**	**346**
Liabilities arising from financing activities					
Loans due after more than one year	(913)	**144**	**–**	**1**	**(768)**
Cash held on behalf of customers	(19)	**(7)**	**–**	**–**	**(26)**
Cash held on behalf of customers included in held for sale	(58)	**(33)**	**91**	**–**	**–**
	(990)	**104**	**91**	**1**	**(794)**
Total	(668)	**223**	**–**	**(3)**	**(448)**

Included in cash above is £26m (31 March 2018: £88m, 30 September 2018: £77m) relating to cash held on behalf of customers. This arises as a consequence of providing payment transaction processing and electronic fund transfer services. The balance represents cash in transit from third parties to Sage customers. Accordingly, a liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt.

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group's current syndicated bank multi-currency revolving credit facility expires in February 2024 (with an option to extend for a further year) with facility levels of £688m (US$719m and £135m tranches). At 31 March 2019, £274m (H1 2018: £336m) of the multi-currency revolving debt facility was drawn.

Total US private placement ("USPP") loan notes at 31 March 2019 were £497m (US$550 m and EUR€85m) (H1 2018: £502m, US$600m and EUR€85m).

Non-recurring items include £13m (H1 FY18: £21m) paid in relation to the previous business transformation strategy.

12 Acquisitions and disposals

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the six-month period ended 31 March 2019, and had no assets or liabilities held for sale at 31 March 2019. Assets and liabilities held for sale at 30 September 2018 relate to the Group's subsidiary Sage Payroll Solutions which was sold on 21 February 2019.

Disposals made during the period

On 21 February 2019, the Group completed the sale of the Sage Payroll Solutions, the US-based payroll outsourcing business ("SPR") for total consideration of £76m. The gain on disposal is calculated as follows:

Gain on disposal	2019 (Unaudited) £m
Cash consideration	71
Contingent consideration	5
Gross consideration	76
Transaction costs	(4)
Net consideration	72
Net assets disposed	(51)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	6
Gain on disposal	27

The gain is reported within continuing operations, as an adjustment between underlying and statutory results. The contingent consideration is measured at its fair value determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

Prior to the disposal, the business formed part of the Group's North America reporting segment.
The inflow of cash and cash equivalents on the disposal is calculated as follows:

Inflow of cash and cash equivalents on disposal	2019 (Unaudited) £m
Cash consideration	71
Transaction costs	(4)
Net consideration received	67

In the prior year on 30 November 2017, the Group sold its subsidiary Sage XRT Brasil Ltda. Net assets divested were £1m, and the transaction resulted in a loss on disposal of £1m.

13 IFRS 15

Differences between IFRS 15 and previous accounting policies.

There are several differences between the Group's accounting policies under IFRS 15 and its previous accounting policies under IAS 18. The most significant of these are as follows.

- *Unbundling of subscription software and related maintenance and support contracts for on-premise products*

IFRS 15 introduces a new concept of performance obligations. This requires changes to the way the transaction price is allocated to separately identifiable components of a bundle within a contract, which can impact the timing of recognising revenue. As a result, the revenue recognition pattern changes for certain on-premise subscription contracts, which combine the delivery of software and support services and the obligation to deliver, in the future, unspecified software upgrades under a maintenance contract. Under IAS 18 policies, the Group recognised the entire price as revenue on a straight-line basis over the subscription term. Under IFRS 15, a portion of the transaction price is recognised upon delivery of the initial software at the outset of the arrangement with the remainder recognised over the term of the contract due to the fact that these are deemed to be separate performance obligations.

- *Non-refundable contract sign-up fees*

In some cases, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. As a result of paying the contract sign-up fee, the customer has an option to renew the contract and to pay a lower price on renewal than would have been the case had the contract sign-up fee not been paid. Under IFRS 15, the fee is considered to provide the customer with a material right that the customer would not receive without having entered into the initial contract. Therefore, the upfront fee is recognised as revenue over the anticipated period of benefit to the customer, which range from four to seven years and takes account of the likelihood of the customer renewing the contract. Under IAS 18 policies, the full amount of the contract sign-up fee was recognised as revenue on a straight-line basis over the initial contract term.

- *Costs of obtaining customer contracts*

Under IFRS 15, all incremental costs of obtaining a contract with a customer, including commission to internal sales employees, are recognised as an asset on the balance sheet, within trade and other receivables, if the Group expects to recover those costs. The costs are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. The amortisation periods range from one year to ten years depending on the type of offering. Amortisation is reported within selling and administrative expenses. Under previous policies, costs to obtain a contract were recognised as assets, within trade and other receivables, and amortised only if they were payable to a third-party agent and related to a contract where revenue was recognised over time. As a result, compared to previous policies the amount recognised as an asset under IFRS 15 increases and the recognition of costs is deferred.

- *Business partner arrangements*

Under IFRS 15, the Group is required to assess whether it controls a good or service before it is transferred to the end customer to determine whether it is principal or agent in that transaction. This is in contrast to the previous guidance which was focused on assessing whether the Group had the risks and rewards of a principal. For Sage, the application of IFRS 15 results in a change in principal versus agent assessment for a number of business partner arrangements. The Group has therefore identified an increase in the number of business partner arrangements where Sage is considered to be the principal under IFRS 15 with respect to the end customer. As a result, there is an increase in the gross revenue recognised for these arrangements as the amounts payable to business partners are classified as a cost of sale rather than a deduction from revenue. On the balance sheet, the unamortised amounts payable to business partners which were previously netted within deferred income are now presented as part of customer acquisition costs.

- *Timing of recognising a receivable*

Under IFRS 15, a receivable is recognised when the right to consideration is unconditional. Typically, for a non-cancellable contract this happens when the Group starts providing the service. Under IAS 18 receivables were recognised based on the billing arrangement agreed under the contract, even where the contract was not unconditional or the group had not started providing services under the contract. As a result, compared to previous policies amount recognised as a receivable decreased with a corresponding decrease in deferred income.

The Group uses the terms 'Trade receivables' and 'Deferred Income' for contract receivables and liabilities respectively.

Quantitative impact of policy changes on consolidated balance sheet

The financial impact of the policy changes explained above on the Group's consolidated balance sheet on initial application is as follows.

								As at 1 October 2018
	Unbundling of subscription software (Unaudited) £m	Non-refundable contract sign-up fees (Unaudited) £m	Costs of obtaining customer contracts (Unaudited) £m	Business partner arrangements (Unaudited) £m	Timing of recognising a receivable (Unaudited) £m	Other adjustments (Unaudited) £m	Tax impact Unaudited) £m	Total Impact (Unaudited) £m
Non-current Assets								
Trade and other receivables	–	–	34	–	–	–	–	34
Deferred income tax assets	–	–	–	–	–	–	(4)	(4)
Current assets								
Trade and other receivables	–	–	4	16	(43)	–	–	(23)
Current Liabilities								
Deferred income	21	(21)	–	(16)	43	(6)	–	21
Non-current Liabilities								
Deferred income tax liabilities	–	–	–	–	–	–	(4)	(4)
Net assets	21	(21)	38	–	–	(6)	(8)	24
Total equity	21	(21)	38	–	–	(6)	(8)	24

Quantitative impact of policy changes on consolidated income statement

Revenue from software license and support showed a net decrease of £5m, with most of the difference resulting from a revised revenue pattern for non-refundable contract sign up fees which are spread over the anticipated period of benefit to the customer. This is mitigated by an increase in the number of business partner arrangements where the end user is considered to be the customer for the Group and by upfront recognition of software for certain on-premise subscription contracts.

Selling and administrative expenses showed a net decrease of £3m, with most of the difference resulting from higher capitalisation of sales commissions offset by the related amortisation charge and increase in the number of business partner arrangements where the end user is considered to be the customer under IFRS 15.

The above results in a net negative impact on the Group's consolidated operating profit of approximately £2m for the six months ended 31 March 2019, as follows:

	For the six months ended 31 March 2019				
	Underlying as reported under IFRS 15 (Unaudited) £m	**Underlying adjustments* (Unaudited) £m**	**Statutory as reported under IFRS 15 (Unaudited) £m**	**Impact of IFRS 15 (Unaudited) £m**	**Statutory under IAS 18 (Unaudited) £m**
Revenue	**957**	**–**	**957**	**5**	**962**
Operating profit	**218**	**(8)**	**210**	**2**	**212**

*Adjustments are detailed in note 3.

14 Related party transactions

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

Key management compensation	**Six months ended 31 March 2019 (Unaudited) £m**	Six months ended 31 March 2018 (Unaudited) £m
Salaries and short-term employee benefits	**5**	3
Post-employment benefits	**–**	–
Share-based payments	**2**	2
	7	5

Key management personnel are deemed to be members of the Executive Committee, as defined in the Group's Annual Report & Accounts 2018 and the non-executive directors. Since the signing of the Group's Annual Report & Accounts 2018, there have been the following changes to the composition of the Executive Committee: with effect from 10 December 2018 Jonathan Howell was appointed as Chief Financial Officer, on 31 January 2019 Sanjay Almeida left the Group and with effect from 25 April 2019 Aaron Harris was appointed as Chief Technology Officer and Lee Perkins was appointed as Chief Product Officer. Changes in the non-executive directors are explained in the Statement of Directors' Responsibilities.

Managing Risk

The effective management of financial, compliance and operational risks is critical to the success of Sage's strategy. By empowering and supporting our leaders to manage risks locally within their business and functional areas, we accelerate our progress against our organisational goals. The introduction of the Sage Governance, Risk and Compliance (GRC) tool has increased the visibility of both local and global risks, and provided increased insights that let us manage our risks within expected appetite levels.

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

Sage currently reports against ten refreshed principal risks. These principal risks have evolved to reflect the organisation's strategic focus on becoming a cloud-led SaaS business. By monitoring risk and performance indicators related to this strategy, principal risk owners can focus on those metrics that signal current performance, as well as any emerging issues. These risks also reflect our three strategic lenses of customer success, colleague success and innovation. The management and mitigation actions described below build on those actions previously reported in our FY18 Annual Report.

Principal Risk	Risk Context	Management and Mitigation
Understanding Customer Needs If we fail to understand the products and services our current and future customers need to be successful, they will find alternative solution providers. *Strategic alignment:* ***Customers for Life*** ***Winning in the Market***	Sage is the leader in key global markets, and we can use this position to gather valuable insights into what our current and future customers want and need. It can also help us to better understand the strengths and weaknesses of our products and services, and better position those products and services to meet the needs of our current and future customers. By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This, in turn, will allow us to maximise our return on investment, and retain a loyal customer and partner base over the long term.	• Brand health surveys are used to provide us with an understanding of customer perception of the Sage brand and its products, which we use to inform and enhance our market offerings • Detailed customer segment analysis was used to develop segment-specific playbooks that support customer-focused development • A Market and Competitive Intelligence team provide insights that Sage uses to win in the market. • A product re-naming exercise was completed to simplify the purpose of each product and assist with customer understanding • Ongoing refinement and improvement of market data through feedback from the business and partners In progress: • By providing ISVs with access to the Sage Developer Platform, we gain additional insights into customer needs that are able to be met through the development of bespoke solutions • Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs

Principal Risk	Risk Context	Management and Mitigation
Product Strategy If we fail to develop and manage a prioritized strategy for our products that is aligned with our goals and delivers against customer needs, there is a significant financial risk that customers will go elsewhere. *Strategic alignment:* ***Customers for Life*** ***Winning in the Market*** ***Capacity for Growth***	A key component of Sage's transition to a Software as a Service (SaaS) company is the delivery of cloud-connected and cloud-native products. To achieve this, we will need to execute on a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products our current and future customers desire.	• Following a product rationalisation and prioritisation exercise Sage's product strategy has been updated to ensure that native cloud products are delivered in line with customer expectations • A licensing model transition strategy is in place, anchored on the Sage Business Cloud • Sage Business Cloud is available in United Kingdom and Ireland, North America, France and Spain • Recent cloud-native products (Sage Intacct and Sage People) are available in Sage Business Cloud in North America, with plans to deliver these internationally • A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers In progress: • Prioritisation of core product and service delivery in key territories is continuing, with plans being developed to address non-core products and services in these markets
Innovation If we fail to encourage and sustain the innovation that is required to create disruptive technologies, processes and services, we will fail to deliver on our commercial goals. *Strategic alignment:* ***Winning in the Market*** ***Capacity for Growth*** ***Revolutionise Business***	As Sage transitions into a SaaS business powered by a subscription license model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies, services, or new ways of working. Innovation will require us to address how we encourage innovation across our people, process and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services. By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.	• Market intelligence surveys identify market opportunities • Integration of the Pegg chat bot with Sage Accounting, to enhance the product experience using artificial intelligence • Prioritised product development based on 'customer for life' roadmaps, with the development of innovative solutions that meet the identified needs of our customers In progress: • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform • Strategic acquisition and collaboration to complement and enable accelerated innovation • Platform Services delivered to Sage Business Cloud to enhance value proposition for Cloud adoption • Development of an incubation framework to guide how Sage interacts with its innovation partners • Enhancement of the Pegg AI capability, and increased use of machine learning to support new areas and operations • Colleague engagement to increase innovation through activities such as hackathons • Development of Sage's service fabric to support the development of cloud solutions

Principal Risk	Risk Context	Management and Mitigation
Route to Market If we fail to identify, develop and maintain a blend of channels to market, our ability to sell and support the right products and services to the right customers at the right time is reduced. Strategic alignment: ***Winning in the Market*** ***Capacity for Growth***	By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities. This can shorten our sales cycle, and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.	• Market data and intelligence is disseminated internally to support decision makers in the best routes to market • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market • New routes to market are being opened through our partnerships with Payment and Banking technology providers In progress: • Internationalisation of existing cloud-native products (Sage Intacct, Sage People) through a partner-driven sales model
Customer Success If we fail to align front and back office activities to deliver the best possible customer experience, including the cloud-based products our customers need to be successful, we will not be able to achieve sustainable growth. Strategic alignment: ***Winning in the Market*** ***Customers for Life***	In becoming a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focus on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates. While Sage is renowned for its quality customer support, a focus on customer success requires more proactive engagement as well. By proactively helping customers to recognise and fully realize the value of Sage's products we can help increase the value of these relationships over time, and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• A Product Delivery team develops and delivers those products needed by our customers to support their success • Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • Defined 'customer for life' roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • A data-driven Customer Success Framework was designed and piloted in UKI to enhance the customer experience, and ensure that Sage is better positioned to meet the current and future needs of the customer. • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends In progress: • Consolidation of CRM systems continues to provide an efficient single view of the customer across all markets • The Customer Success Framework is being rolled out in phases to other major markets to improve the customer experience

Principal Risk	Risk Context	Management and Mitigation
Third Party Reliance If we fail to develop, manage and maintain relationships with third parties that are critical to the delivery of our products and services, we could suffer significant reputational and financial damage. *Strategic alignment:* ***Revolutionise Business*** ***Capacity for Growth***	Sage has an increasing reliance on third-party providers that support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses. Equally, Sage has an extensive network of sales partners critical to our success in the market. Carefully selecting, managing and supporting these partners is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations. As Sage continues its transition into a SaaS business, this will likely split into two risks. The first of these will focus on our key supplier dependencies, while the second will consider the risks specifically associated with our partner relationships.	• Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts • Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval • The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market In progress: • Rationalisation of targeted channels is continuing to focus on value-add activities • Managed growth of the API estate, including enhanced product development that enables access by third party API developers
Sustainable Processes and Controls If we fail to apply sustainable and repeatable end-to-end business processes and controls, we will not be able to deliver against our goals. *Strategic alignment:* ***Winning in the Market*** ***One Sage*** ***Capacity for Growth***	Sage operates in multiple geographies and market segments which require sustainable processes to drive operational efficiencies. By consistently delivering the right outcome from its business processes each and every time, Sage is able to efficiently and effectively deliver an improved customer experience. By embedding a common business control framework that prioritizes the critical people, process and technology, the organization can focus on delivering the right outcomes at the right time. By simplifying our control environment, we can also drive an improved focus on those outcomes that help support customer success, in turn helping to sustain our subscription growth.	• Established Global and Regional Risk Committees oversee the risk and internal control environment, and set the tone-from-the-top • The Sage Governance, Risk and Compliance (GRC) technology solution automates activity, and provides a consolidated view of risk, compliance and control environment. • The Sage Compliance Hub provides a one stop repository and alert mechanism for the organization, simplifying how Sage colleagues interact with and manage their compliance obligations. • Shared Service Centres (SSCs) in Newcastle, Johannesburg and Atlanta, enable the implementation of consistent and standardised systems and processes • Policy Approval Committee is in place to supervise and approve policies within the Sage-wide policy suite • Sage's business control framework is starting to drive standardization of practice and process across the business In progress: • Plans for migration of remaining country General Ledgers into Sage Enterprise Management are in place • The Business Control Framework continues to be built out as a way of supporting the One Sage approach to control
Colleague Success	As Sage transitions into a SaaS business, the capacity, knowledge	• Roles and vacancies are benchmarked in the market to ensure appropriate remuneration

Principal Risk	Risk Context	Management and Mitigation
If we fail to ensure we have colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful. *Strategic alignment:* ***One Sage*** ***Capacity for Growth***	and leadership skills we need will change. Sage will not only need to attract the talent and experience we will need to help navigate this change, we will also need to provide an environment where colleagues can develop to meet these new expectations. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague turn-over, and embracing the values of successful SaaS businesses, Sage can increase colleague engagement and create an aligned workforce.	• Job Descriptions provide criteria aligned with our SaaS strategy against which new hires and internal transfers are assessed • Continued the rollout of our Sage Business Cloud People solution to enhance colleague experience • Sage Save and Share scheme opened for a second year, with over 25% of colleagues now invested • The performance management process identifies training and development needs for colleagues that support their ability to deliver against the strategy • Fully embedded Sage Learning and deployed the Leading at Sage training programme for all managers within the business to develop leaders • The Look, Evaluate, Assist, Deliver (L.E.A.D). programme has been expanded across the organisation to enhance our approach to performance management, and to focus on future development In progress: • An Employee Value Proposition is being developed to drive a consistent experience for all prospective colleagues • Focused efforts continue to be developed to address regional retention drivers

Principal Risk	Risk Context	Management and Mitigation
Values and Behaviours If we do not fully empower our colleagues in line with our shared values, we will fail to develop the behavioural competencies required to be a successful SaaS business. *Strategic alignment:* ***One Sage*** ***Capacity for Growth*** ***Winning in the Market***	The development of a shared behavioural competency that encourages colleagues to think small and act big will be critical in Sage's successful transition to a SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organization develops and sustains its shared values and behaviours, and develops a true SaaS culture. Sage will also need to create a culture of empowered leaders that support the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer service and drive the engagement that results in increased market share.	• Code of Conduct communicated to all colleagues, and subject to annual certification • Alignment of personal objectives across Sage, with direct cascade from the CEO • Formal assessment against personal objectives for each colleague as part of established performance management process, which also considers personal application of Sage's Values and Behaviours • Core eLearning modules have been rolled out across the enterprise, with annual refresher training • Whistleblowing and Incident Reporting mechanisms are in place to allow issues to be formally reported, and investigated • All colleagues are empowered to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community • Compliance training has been transitioned into role-based education as a way of supporting colleagues to apply expected values and behaviours • Sage Compliance has been transformed into Sage Business Integrity, with a mandate to guide, support and challenge the business to own and enhance its values and behaviours • A business integrity dashboard has been developed and delivered to all regions to provide leaders with metric-based data on colleague values and behaviours In progress: • In-person anti-bribery and corruption training has been delivered to multiple regions, with the remaining regions to be completed based on assessed risk

Principal Risk	Risk Context	Management and Mitigation
Information as an Asset If we fail to manage, protect and maximise the value of our data, we will not be able to realise the full potential of our assets. <u>*Strategic alignment:*</u> ***Winning in the Market*** ***Revolutionise Business*** ***One Sage***	Information is the life blood of a SaaS business – it tells us how we create revenue, how we can improve the customer experience, and how we can meet our obligations and commitments. Analysed using manual and machine learning, it provides us with the intelligence we need to run and build our business. Protecting the confidentiality, integrity and accessibility of this data is table stakes for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.	• OneIT and Product have been consolidated under a single leader to drive alignment of data management practice across the business • Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection Officer supported by a Data Governance forum oversees information protection and development for Sage. • A network of country-level data champions supports the business in embedding Sage practices across the organisation, with a particular focus on the requirements of the GDPR. • Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance • An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk • All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training In progress: • The Information Security Risk Management Methodology continues to be deployed to provide objective risk information on our assets and systems • Data governance forum is leading a review of how Sage can provide maximum value to its current and future customers, including through the use of enhanced AI/ML capabilities

Statement of Directors' Responsibilities

The condensed consolidated half-yearly financial report for the six months ended 31 March 2019 includes the following responsibility statement.

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

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

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

The Directors of The Sage Group plc are consistent with those listed in the Group's 2018 Annual Report and Accounts except for the following changes: with effect from 10 December 2019, Jonathan Howell was appointed as Chief Financial Officer and executive director and ceased to act as a non-executive director, Annette Court and Jonathan Bewes were appointed as non-executive directors with effect from 1 April 2019, and Neil Berkett stepped down as a non-executive director at the same date. A list of current directors is maintained on the Group's website: www.sage.com.

On behalf of the Board

J Howell
Chief Financial Officer
16 May 2019

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 2019 which comprises Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related explanatory notes 1 to 14. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements. This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
16 May 2019

*Notes: **[1]** The maintenance and integrity of the Sage Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site. **[2]** Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*