

## Accelerating performance and transforming the business

### Operating performance

- Improved organic revenue growth to 6.2% (H1 2015: 5.0%), achieving double digit recurring revenue growth of 10.0% (H1 2015: 8.1%);
- Accelerated software subscription growth to 35.3% (H1 2015: 25.4%) in line with planned transition and corresponding decline in SSRS revenue of 6.3% (H1 2015: -2.0%);
- Customers embracing closer relationships with a 50% increase in subscription contracts to 842,000 (H1 2015: 561,000);
- Strong results in Europe, North America and Africa were balanced by a slower performance in Asia, which benefitted from non-repeating revenues in the prior period;
- Progress made on areas targeted for improved performance (Enterprise Europe, Payments North America and Small and Medium Business North America).

FINANCIAL SUMMARY <sup>1,2</sup>	H1 16	H1 15	Change
<b>Organic revenue</b>	<b>£747m</b>	<b>£703m</b>	<b>+6.2%</b>
- Recurring revenue	£513m	£466m	+10.0%
- Processing Revenue	£97m	£91m	+6.6%
- SSRS Revenue	£137m	£146m	-6.3%
<b>Organic operating profit</b>	<b>£189m</b>	<b>£186m</b>	<b>+1.9%</b>
<b>Organic operating profit margin</b>	<b>25.4%</b>	<b>26.4%</b>	
<b>Underlying basic EPS</b>	<b>12.09p</b>	<b>12.28p</b>	<b>-1.5%</b>
<b>Underlying cash conversion</b>	<b>111%</b>	<b>114%</b>	
<b>Ordinary dividend per share</b>	<b>4.80p</b>	<b>4.45p</b>	<b>+8%</b>

STATUTORY SUMMARY <sup>2</sup>	H1 16	H1 15	Change
<b>Revenue</b>	<b>£747m</b>	<b>£717m</b>	<b>+4.1%</b>
<b>Operating profit</b>	<b>£152m</b>	<b>£179m</b>	<b>-15.1%</b>
<b>Profit before tax</b>	<b>£142m</b>	<b>£168m</b>	<b>-15.6%</b>
<b>Basic EPS</b>	<b>9.88p</b>	<b>11.65p</b>	<b>-15.2%</b>

<sup>1</sup>Organic operating profit is stated before non-recurring items (exceptional costs). Unless otherwise stated, all revenue growth measures referred to in the CEO report are stated on the constant exchange organic basis. Refer to Appendix II on page 16 for information on Non-GAAP measures and note 3 of interim financial statements for details of items excluded from underlying operating profit.

<sup>2</sup>All H1 15 comparatives and growth rates in the Chief Executive Officer's Review and Chief Financial Officer's Review have been stated after the revenue reporting changes described in the FY15 full year results. Refer to notes 1 and 2 of interim financial statements for further details.

### Investing for accelerated growth

- Organic operating margin of 25.4% reflects previously communicated first half strategic investment bias in sales and marketing;
- Underlying cash conversion remains strong at 111%, supporting free cash flow of £142m and the 8% increase of the interim dividend to 4.80p;
- Consistent focus on improving the quality organic growth, superior operating margins, strong free cash flow conversion and progressive dividends;
- Reaffirm confidence in achieving full year organic operating margin of at least 27% and delivering at least 6% organic revenue growth;

## Business transformation

- Remain on-track to secure annualised savings of c.£50m from General & Administrative (G&A) functions by the end of FY16 with a target payback of under two years; Actions taken to deliver £17m of annualised G&A savings taken by end of H1, with an associated exceptional cost of £22m at the half year;
- Notices served on 46 property leases, which will take locations down to fewer than 100, with 25 exits by end of March 2016;
- Continued to strengthen management to accelerate growth, with over a dozen new joiners to the top 100 leadership team.

## Technology driving growth

- Achieved 17% (H1 2015: 10%) revenue growth for Sage X3, the solution for larger businesses; Highlights include in excess of 60% growth from International; 20% growth in France; and 25% growth in UK & Ireland;
- Increased paying subscriptions for Sage One, the cloud solution for small businesses, by 100% year-on-year to 230,000;
- Sage 50 Cloud, our market leading accounting solution for small businesses, supported software subscription growth of 31% in Europe and just under 100% in North America.

Stephen Kelly, Chief Executive Officer said: "Sage continues to perform and transform. We made a good start to FY16 with double digit recurring revenue growth as validation that customers are embracing closer subscription relationships. High quality organic revenue growth continued to accelerate H1 over H1.

"In this phase of the transformation, we have been very focussed on improving the capability of our management and creating a culture where customer obsession and innovation becomes a way of life at Sage. Our customers are the entrepreneurs who drive economic growth and prosperity. These entrepreneurs deserve awesome technology that is an enabler to their growth and success. The Sage cloud and partner ecosystem places the customer at the centre to provide a complete business solution from business start-up through scale-up to vibrant enterprise businesses.

"We are pleased with the early progress made and recognise there is still much to do in the transformation. We remain confident in achieving our full year targets of at least 6% organic revenue growth and organic operating margin of 27%."

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*An analyst presentation will be held at 8.45am today at the London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on [www.sage.com/investors](http://www.sage.com/investors), dial-in number +44 (0) 203 427 1908, pin code: 7939458. A replay of the call will also be available for two weeks after the event: Tel: +44(0)20 3427 0598, pin code: 7939458#*

## Rounding

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

## Chief Executive Officer's Review

### Operational performance

Sage continues to perform and transform. I want the Sage management team to be known for doing what we say and for providing absolute transparency, identifying what is going well and what areas require greater focus. In 2015, we committed to driving an improvement in three targeted underperforming areas:

#### Enterprise Europe:

- Following replacement of the entire management team and reorganisation of the sales team structure, Enterprise Europe delivered growth of 5% for H1, reversing decline in the prior year.
- Sage X3 revenue growth of 16% achieved for H1 in Europe, with 25% growth in UK & Ireland and 20% growth in France.

#### Small & Medium Businesses North America:

- Rate of revenue growth has nearly doubled to 5% for the half.
- Launched Sage 100 Cloud and Sage 300 Cloud in November 2015, from which we are targeting further momentum.

#### Payments North America:

- Following reorganisation of the sales team and the introduction of new leadership, the business returned to modest growth of 2% versus a flat performance for H1 2015.
- Signed agreements with seven Independent Software Vendors (ISVs) to integrate with their applications and broaden the Sage Payments customer base.
- Launched the Sage Payment Centre in April, embedding integration within our accounting software to accelerate cross-sell.

Overall, we achieved 6% organic revenue growth for the first half, led by recurring revenue growth of 10%. Within recurring revenue, software subscription grew by 35%, with Q2 2016 being the tenth successive quarter delivering double digit year on year growth for this revenue stream. Higher quality software subscription revenue is supported by over 842,000 contracts, up from 561,000 year on year.

Software subscription is being driven by the transition from perpetual license revenues, as outlined at our Capital Markets Day in 2015. Correspondingly, SSRS declined by 6% as expected, comprising software license revenues falling by 18% and Software related services growing by 7%. Processing revenues grew by 7% for the half, which represents a modest uptick in the payments business and strong payroll processing in North America, building on the platform created by the acquisition of Paychoice.

Solid revenue growth of 7% for Europe was complimented by accelerated revenue growth in North America of 6%. The revenue performance for International, which delivered growth of 5%, falls short of our ambitions for the region. Whilst Africa delivered 17% revenue growth, performance was slower in some other geographies, particularly Asia, where the prior half-year comparator included some non-repeating revenue of £3.5m in Malaysia. We have made changes in leadership and priorities in Asia.

### Investing for accelerated growth

As indicated at the time of the 2015 full year results, there is a planned strategic investment bias towards the first half of FY16 and the organic operating margin of 25.4% is in line with expectations. Areas of investment included the sales and marketing functions, where for instance we have added net around 180 heads in sales. We remain confident in achieving our full year organic margin guidance of at least 27%, as secured savings are realised during the second half.

## Business transformation

Our transformation remains on track and has progressed in both back-office (G&A) functions and sales and marketing functions. We remain confident of securing annualised G&A savings of £50m by the end of FY16. For more details on the financial impact, refer to the Financial Review section of the Chief Financial Officer's Review below.

## Technology driving growth

We have driven continued market share momentum with Sage One, where paying subscriptions have grown by 100% over the past 12 months to 230,000. Countries in which Sage One was launched during FY15 also supported growth, with over 10,000 paying subscriptions achieved in Brazil in 12 months. In common with the agile development of all growth products, Sage One updates are available every two weeks.

We are generating significant subscription momentum with the Sage 50 cloud family. Sage 50 cloud products enable users to access their data from multiple locations and on mobile devices. This functionality has encouraged customers onto the latest versions of the product and also helped to drive subscription uptake. Sage 50 subscription units in North America have increased by around 25,000 with a third of these being either new customers or reactivations.

Sage Live was fully launched in February in the UK, via the Customer Business Centre (CBC) for Europe. Whilst it is still early since initial development of Sage Live, we are seeing success with our go to market model, progressing some customers to purchase within hours of first web-hit and going live within days. There are live customers in both North America and the UK with strong pipeline generated by digital marketing efforts. Over 100 new ISV partners have been recruited in last 6 months with 10 already integrated with Sage Live as we expand the Sage Ecosystem.

Accelerated growth from the Sage X3 family has been achieved, with global revenues growing at 17% (H1 2015: 10%). Highlights include greater than 60% growth in the International region which now represents c.17% of X3 global revenues. X3 Cloud was launched in July 2015, offering more choice to customers. We have strengthened our strategic partnership with Fairsail, a leading provider of cloud human capital management (HCM) solutions. Fairsail's product will be made available as an integrated cloud HCM solution for Sage X3 as well as being implemented internally at Sage.

## Progress of execution

Progress has been made under the five pillars of our strategy with continued focus for improvement.

### *Customers for Life*

#### **Progress:**

- Delivering value for customers via subscription relationships; The number of subscription contracts was increased by 50% over the last 12 months from 561,000 to 842,000;
- Based on interviews with Sage X3 enterprise customers, the research firm Forrester created a Total Economic Impact (TEI) Study, showing that a composite organisation using Sage X3 achieved a 177% return on investment from cost savings over three years and an expected payback period of only five months;
- Early success in cross-sell of payroll with accounting, achieving a 26% increase in cross-sell of these products for Small & Medium Businesses in South Africa.

**Focus:**

- Already achieving some limited success, we need to scale up cross-sell campaigns to improve the average number of products held by our customers.

*Winning in the Market***Progress:**

- Momentum maintained with 100% increase in Sage One subscriptions; In Australia we added over 1,000 units in our peak month since launch; In Brazil we achieved 10,000 subscriptions in the 12 months since launch;
- Partnerships continue to strengthen, for example, strategic partnerships with Apple, Deloitte, Google, PwC and Salesforce;
- Established the digital platform; 10 web domains have been consolidated onto Sage.com; Achieved over 130% more web traffic year on year on Sage.com.

**Focus:**

- Partnership recruitment and CBC acceleration.

*Revolutionise Business***Progress:**

- Expanding the Sage ecosystem, by launching Sage marketplace, an online hub to access complimentary partner applications (initially 50); Our dedication to partner collaboration has enabled two ISVs to integrate with Sage One within 24 hours of signing up (Fundbox and SalesSeek).
- Launched Sage Payment Centre in North America, providing seamless payments integration embedded in Sage 50 and Sage 100 accounting solutions.
- Upgraded over 25,000 Sage Instant Accounts customers in the UK onto Sage 50 cloud.

**Focus:**

- The R&D function is starting to operate on a coordinated basis and we are implementing centres of excellence to fully leverage our talent and resources. We are also expanding our technology labs to accelerate innovative technology creation.

*Capacity for Growth***Progress:**

- Investment in our digital marketing capability is starting to deliver. Our global media capability has been consolidated with all paid search spending under one account structure replacing over 150 accounts in FY15. Combined with other initiatives such as social media content and demand campaigns, the approach is starting to generate thousands of leads per week.
- We have implemented our own product, Sage X3, in the UK & Ireland, with a further 5 countries planned for deployment in the next 12 months.

**Focus:**

- Whilst restructuring our back-office functions, we are starting to reshape our go to market functions, including sales, marketing, customer services, professional services and training.

One Sage:

**Progress:**

- Management capability strengthened with new joiners to the top 100 leadership team;
- Increasing employee engagement through the Sage Foundation, with over 2,500 volunteer days donated by colleagues during the first half;
- Launched a global induction site as we continue to hire top talent in order to harmonise the joiner experience for new staff wherever they join and over 10,000 hours of training were logged through Sage Academy during the period.
- Driving Excellence in Governance, making progress with code of conduct certification and the risk, assurance and control environment.

**Focus:**

- Integrated business planning for FY17 and cultural change to encourage consistency.

## Organisation

Marc Scheipe has been permanently appointed as President of Sage North America having filled the role on an interim basis during a period when performance in North America improved and the target operating model was implemented. Ivan Epstein, the co-founder of Softline, will retire as President of Sage International. He has been instrumental in his various leadership roles for Sage since our acquisition of Softline in 2003 and has overseen a period of sustained growth in our International businesses. Ivan will remain in his current executive role until 30 September 2016. Ivan will then continue as Chairman of the Sage Foundation.

## Summary

Sage continues to perform and transform. We made a good start to FY16 with double digit recurring revenue growth as validation that customers are embracing closer subscription relationships. High quality organic revenue growth continued to accelerate H1 over H1.

In this phase of the transformation, we have been very focussed on improving the capability of our management and creating a culture where customer obsession and innovation becomes a way of life at Sage. Our customers are the entrepreneurs who drive economic growth and prosperity. These entrepreneurs deserve awesome technology that is an enabler to their growth and success. The Sage cloud and partner ecosystem places the customer at the centre to provide a complete business solution from business start-up through scale-up to vibrant enterprise businesses.

We are pleased with the early progress made and recognise there is still much to do in the transformation. We remain confident in achieving our full year targets of at least 6% organic revenue growth and organic operating margin of 27%.

## Chief Financial Officer's Review

### Group performance

The Group delivered organic revenue growth of 6.2% (H1 2015: 5.0%) and an organic operating profit margin of 25.4% (H1 2015: 26.4%).

The quality of the growth is demonstrated by recurring revenue growing at 10% (H1 2015: 8%) which includes growth of 35% (H1 2015: 25%) for software subscription revenue.

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from current and prior period acquisitions when relevant. A reconciliation of organic operating profit to statutory operating profit is shown on page 12. All H1 2015 comparatives and growth rates have been stated after the revenue reporting changes described in the FY15 full year results. Refer to notes 1 and 2 of interim financial statements for further details.

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

### Revenue

	STATUTORY			ORGANIC		
	H1 16	H1 15	Change	H1 16	H1 15	Change
Europe	£398m	£377m	+6%	£398m	£373m	+7%
North America	£256m	£235m	+9%	£256m	£242m	+6%
International	£93m	£105m	-12%	£93m	£88m	+5%
<b>Group</b>	<b>£747m</b>	<b>£717m</b>	<b>+4%</b>	<b>£747m</b>	<b>£703m</b>	<b>+6%</b>

### Operating profit

	STATUTORY			ORGANIC		
	H1 16	H1 15	Change	H1 16	H1 15	Change
<b>Group</b>	£152m	£179m	-15%	£189m	£186m	+2%
<b>Margin</b>	20.3%	24.9%		25.4%	26.4%	

The organic operating profit margin has reduced during the half, as expected, due to planned investments indicated at the time of the FY15 full year results. The investment is being made in the go to market functions, particularly the sales and marketing functions. We remain confident of our performance in the second half to meet the full year operating margin guidance of at least 27%.

The current year statutory operating profit is stated after exceptional costs incurred relating to business transformation and after the benefit of costs recovered relating to litigation, both of which are excluded from organic profit (net impact is a reduction of £29m in statutory operating profit).

Significant progress has been made in implementing the sequenced transformation outlined at the time of the FY15 results. G&A savings of £17m relating to people and facilities have been secured as at the half year, to be realised fully in future periods. An exceptional charge of £31m has been incurred in H1, of which £22m relates to G&A functions. Business transformation will continue in the second half, costing



around £100m cumulatively and including actions to secure the full year target of £50m of annualised G&A savings.

The percentage of revenue spent on G&A remains at around 19% for the half due to the timing difference between securing and realising the savings. Total spending on Research and Development (R&D) remains at around 10% and the vast majority of R&D expenditure remains focussed on Growth products. All R&D expenditure incurred is expensed, in line with our policy.

## Revenue mix

### *Segmental reporting*

Consistent with our FY15 results, we consider the business split into three Strategic regions, Europe, North America and International.

ORGANIC	RECURRING REVENUE			PROCESSING REVENUE			SSRS REVENUE		
	H1 16	H1 15	Change	H1 16	H1 15	Change	H1 16	H1 15	Change
Europe	£301m	£276m	+9%	£17m	£16m	+9%	£80m	£81m	-1%
North America	£146m	£134m	+9%	£76m	£72m	+6%	£34m	£37m	-9%
International	£66m	£56m	+17%	£4m	£3m	+12%	£23m	£29m	-19%
<b>Group</b>	£513m	£466m	+10%	£97m	£91m	+7%	£137m	£146m	-6%
<b>% of total organic revenue</b>	<b>69%</b>	<b>66%</b>		<b>13%</b>	<b>13%</b>		<b>18%</b>	<b>21%</b>	

### *Recurring revenue*

The Group has delivered an improvement in organic recurring revenue growth to 10% (H1 2015: 8%). Growth was driven purely by software subscription (35%, H1 2015: 25%), whilst traditional maintenance and support declined by 2% due to the planned transition to subscription.

Organic recurring revenue represents 69% of the Group's total organic revenue (H1 2015: 66%) with the contract renewal rate at 84% (H1 2015: 84%). Subscription initiatives for all growth products are maintaining a long-running strategic shift to higher quality revenue, building on the recurring revenues derived from our maintenance and support contract base. Subscription contracts also typically attract higher renewal rates than stand-alone maintenance and support contracts, currently at c.90%.

### *Processing revenue*

Processing revenue has grown organically by 7% (H1 2015: 1%), which represents a modest uptick in the payments business and a strong result from Sage Payroll Solutions in North America. Growth in payments processing revenues in Europe remained strong at 10% (H1 2015: 8%).

### *SSRS revenue*

Organic SSRS revenue declined during the year by 6% (H1 2015: -2%), due to the planned transition towards subscription relationships. Within SSRS, revenue from perpetual licenses represents less than 9% of Group revenue and demonstrates the continued emphasis on subscription and recurring revenue relationships.



## Regional performance - Europe

<b>ORGANIC REVENUE GROWTH</b>	<b>H1 2016</b>	<b>H1 2015</b>
UK & Ireland	+9%	+6%
France	+7%	+2%
Spain	+6%	+1%
Germany	+6%	+3%
Rest of Europe	-4%	+2%
<b>Europe</b>	<b>+7%</b>	<b>+4%</b>

Revenue in Europe grew organically by 7% (H1 2015: 4%), with organic recurring revenue growth of 9% (H1 2015: 8%). The acceleration in revenue growth was driven by our larger European businesses, whilst the result of rest of Europe was more challenging.

The performance of the products which constituted Enterprise Europe in the prior year has been improved, generating 5% revenue growth, reversing revenue decline in the prior year. The steps taken to reintegrate the management of our Enterprise customers within the country management structure, has enabled a more coherent approach to lead generation.

Organic software subscription revenue growth remained strong, accelerating to 31% (H1 2015: 25%) and driving this revenue stream to 31% (H1 2015: 25%) of total revenue in Europe. A key driver for subscription success across Europe is the Sage 50 cloud family of products. The latest versions of the product enable customers to expose their data to the cloud, enabling multi location access for colleagues and accountants and data access via mobile devices. This feature is a significant enhancement, enabling customers to continue enjoying the rich and familiar functionality of their desktop solution whilst experiencing the power of the cloud.

Organic processing revenue growth of 9% (H1 2015: 8%), primarily relates to our UK payments business, and demonstrates sustained growth in excess of the group average.

Organic SSRS revenue decline of 1% (H1 2015: decline of 9%) reflects an expected decline in license revenues, due to subscription transition, balanced by good growth for training and professional services.

### *UK & Ireland – continued success with key initiatives*

UK & Ireland revenue grew organically by 9% (H1 2015: 6%) to £165m, supported by organic subscription revenue growth of 47% to £50m. This acceleration in software subscription growth reflects that subscription is now the default relationship for growth products. We have driven continued success with the Auto-Enrolment pensions module for Sage 50 Payroll, selling a further 10,000 units during the period. Cloud Sage 50 Accounts also helped to drive significant growth for the UK&I. Over 25,000 customers were upgraded from Sage Instant Accounts to Sage 50 Essentials during the period, which has brought cloud access to thousands of smaller business.

Cloud momentum was also maintained with Sage One, achieving unit growth of 88% to 120,000. The launch of Sage One Start during the period provides a pathway for micro-businesses to use Sage software and then migrate to a fuller solution when required, all in the cloud.

Processing revenue, primarily related to payments, grew organically by 8% to £17m. We are expanding our service offering to existing customers, for instance offering e-invoicing which includes a pay now button in order to help customers to get paid faster for goods and services. Our payments-out service, enabling

customers to initiate payments to employees and suppliers from within their accounting solution, is also building in scale since launch in the prior year. Cross-sell of payments remains a top priority.

*France – improving growth supported by Enterprise*

In France, organic revenue grew by 7% (H1 2015: 2%) to £118m. Subscription momentum continued, with software subscription revenue growing by 16% to £59m for the half.

The i7 upgrade to Sage 100 and Sage Paie (the core payroll product for medium sized businesses in France) continued to drive adoption of subscription relationships. The penetration of the customer bases of each product with the i7 upgrade, only available on subscription, now stands at 68% and 83% for Sage 100 and Sage Paie respectively. The latest version delivers increased functionality and addresses additional legislation concerning the submission of real-time information to the local tax authorities.

For smaller business, the Sage Ciel Flex offering (Sage 50 family), continues to drive subscription adoption. Consistent with our cloud strategy across Europe, around half of the Ciel subscribers are opting for the highest tier of subscription which includes mobile data access.

Overall growth was also supported by improved results for the Enterprise products following targeted actions taken in the prior period, delivering growth of nearly 10%.

*Spain – rate of revenue growth increasing*

Organic revenue in Spain grew by 6% to £46m (H1 2015: 1%). Cloud for Contaplus (Sage 50 family) supported software subscription growth of more than 50% for this product. Sage Murano, our flagship product for medium sized businesses in Spain grew organic revenues by 13% overall. Over 80% of growth for the cloud version of the product, Murano Online, was driven by new customer acquisition.

*Germany – cloud and reengaged partner channel drive growth*

In Germany, organic revenue of £46m represents organic growth of 6% (H1 2015: 3%). As with other major European markets, Sage 50 Cloud supported software subscription growth of over 50% in Germany for Sage 50. A renewed focus on the partner channel contributed to over 15% revenue growth for Office Line, our flagship product for medium sized businesses.

*Rest of Europe – drag on regional growth rate*

In Rest of Europe, growth in Portugal was balanced by more challenging conditions in Switzerland and Poland, with revenue decline dragging the regional result down marginally. Changes in leadership have been made in Switzerland and Poland and we are confident of improving the performance through the second half.

**Regional performance – North America**

<b>ORGANIC REVENUE GROWTH</b>	<b>H1 2016</b>	<b>H1 2015</b>
<b>North America</b>	<b>+6%</b>	<b>+3%</b>

North America delivered organic revenue growth of 6% supported by organic recurring revenue growth of 9% (H1 2015: 7%) and organic processing revenue growth of 6% (H1 2015: -2%). Organic SSRS revenue contracted by 9% (H1 2015: -5%) due to the planned transition to subscription.

*Growth accelerated from full year 2015*

The improvement of growth for the region has been supported by improved results for accounting, payroll and payments solutions. Consistent with the cloud strategy in Europe, we have driven success with the Sage 50 Cloud throughout the period in Canada and more recently in the US, following launch in February. The availability of our very latest technology on subscription has contributed to triple digit software subscription revenue growth and around 25,000 additional subscription units for Sage 50. In addition to a significant number of migrations from traditional maintenance and support (M&S) to subscription, around one third of the unit growth was driven by new customer acquisition or reactivation.

The performance of our products suited to medium business (SMB products) improved, with revenue growth nearly doubling to 5% for the half. We are targeting a better performance in the second half with the cloud version of our leading business management solutions, Sage 100C and Sage 300C, through increased engagement and support for our partner network.

Processing revenue growth of 6% was driven by a modest uptick in the payments business to 2% growth (H1 2015: Flat) and strong growth from the payroll processing business. Cross-sell of both payroll and payments into the accounts base is a top priority and specific sales teams have been established to target this opportunity and accelerate in H2.

**Regional performance - International**

<b>ORGANIC REVENUE GROWTH</b>	<b>H1 2016</b>	<b>H1 2015</b>
Africa	+17%	+16%
Brazil	+7%	+7%
Australia	+7%	+5%
Middle East and Asia	-29%	+63%
<b>International</b>	<b>+5%</b>	<b>+16%</b>

Organic revenue growth was below our ambition in the International region at 5% (H1 2015: 16%). Organic recurring revenue growth of 17% (H1 2015: 12%) and processing revenue growth of 12% (H1 2015: 21%) were highlights, balanced by SSRS revenue declining by 19%. The prior year H1 result benefitted from non-repeating revenue in Malaysia, indicated at the time of the H1 2015 results.

The performance of Sage X3 was encouraging for the region, delivering in excess of 60% revenue growth. Africa led the performance, registering success in the oil, gas and mining sector and adding to the partner network.

*Africa – double-digit growth performance maintained*

Organic revenue of £44m for Africa represents sustained organic growth of 17% (H1 2015: 16%), supported by strong recurring revenue growth of 26% (H1 2015: 17%). Growth is being achieved with both Sage X3 and local growth products. Strong regional leadership is being developed to grow the African business more quickly outside of South Africa.

*Brazil – resilient software growth despite tough economic conditions*

Organic revenue in Brazil grew by 7% (H1 2015: 7%) to £20m. Double digit revenue growth was maintained in accounting and payroll software, but sales of technical learning materials in the content business were subdued. The focus for Brazil is new customer acquisition and early success has been achieved following the launch of Sage One, which has delivered over 10,000 paying subscriptions as at March 2016.

### Australia, Middle East and Asia

In Australia, organic revenue growth of 7% (H1 2015: 5%) to £19m was driven by local growth products. We have also made a good start with Sage One in Australia, adding over 1,000 paying subscriptions in the peak month since launch.

Organic revenue in the Middle East and Asia declined by 29% (H1 2015: growth of 63%) to £10m. The key factor contributing to the decline is the prior year one-off revenue delivered by Malaysia, where a goods and sales tax was introduced in the prior year, driving software uptake and generating £3.5m of non-repeating revenue. Our newly recruited manager for Asia is currently focussed on building pipeline to deliver an improved H2.

## Financial review

ORGANIC TO STATUTORY RECONCILIATIONS	H1 2016			H1 2015		
	Revenue	Operating profit	Margin	Revenue	Operating profit	Margin
<b>Organic</b>	£747m	£189m	25.4%	£703m	£186m	26.4%
Organic adjustments <sup>1</sup>	-	-		-	-	
Underlying	£747m	£189m	25.4%	£703m	£186m	26.4%
Impact of foreign exchange <sup>2</sup>	-	-		£14m	£3m	
<b>Underlying (as reported)</b>	£747m	£189m	25.4%	£717m	£189m	26.3%
Recurring items <sup>3</sup>	-	(£8m)		-	(£10m)	
Non-recurring items <sup>4</sup>	-	(£29m)		-	-	
<b>Statutory</b>	<b>£747m</b>	<b>£152m</b>	<b>20.3%</b>	<b>£717m</b>	<b>£179m</b>	<b>24.9%</b>

<sup>1</sup>Organic adjustments comprise contributions from acquisitions, disposals and products held for sale.

<sup>2</sup>Impact of retranslating H1 2015 results at H1 2016 average rates.

<sup>3</sup>Recurring items comprise amortisation of acquired intangible assets, acquisition-related items and fair value adjustments.

<sup>4</sup>Non-recurring items comprise items that management judge to be one-off or non-operational including business transformation costs.

### Revenue

Statutory revenue grew by 4% to £747m, reflecting organic growth, offset by adverse foreign exchange movements experienced during H1. The average exchange rates used to translate the consolidated income statement for the year are set out on page 14.

### Operating profit

Organic operating profit increased by 2% to £189m and the organic operating profit margin decreased to 25.4% due to the planned and indicated strategic investment bias towards the first half. We remain confident in our full year organic margin guidance of at least 27%, as identified savings are realised during the second half. Statutory operating profit declined by 15% to £152m due primarily to non-recurring costs related to business transformation.

Progress has been made in implementing the sequenced transformation outlined at the time of the FY15 results. We are undergoing this transition in order to concentrate our resources on delivering for customers with innovative technology and outstanding levels of support. Annualised G&A savings of £17m relating to people and facilities have been secured by the actions taken during the half, to be fully realised in future periods. Within the total exceptional charge of £31m incurred in H1, £22m relates to G&A functions. 46 lease notices have been served thus far, which will reduce total offices to fewer than 100 and create a better office footprint to serve our customers.

Looking forward, we are confident of securing £50m of annualised G&A savings by the end of FY16, to be fully realised in future periods and reinvested in market-facing functions. The total exceptional cost related to business transformation is anticipated to around £100m for the full year, including actions relate to restructuring the G&A functions. The remaining non-G&A exceptional charge relates to restructuring other market-facing functions, in order to align them with our target global operating model. Net spending in sales and marketing functions is projected to increase.

#### *Adjustments between underlying and statutory operating profit*

Non-recurring items separated from underlying operating profit of £29m include £31m of non-recurring costs in relation to the Business Transformation, offset by £2m in respect of the recovery of litigation costs shown as non-recurring consistent with the treatment of the associated costs in prior years. Recurring items of £8m represents amortisation of acquisition related intangible assets and other acquisition related charges.

#### **Net finance cost**

The statutory net finance cost for the period was £10m (H1 2015: £10m) and the underlying net finance cost was £11m (H1 2015: £11m). The difference between underlying and statutory net finance costs for the period reflects a fair value adjustment to a debt related instrument of £1m (H1 2015: £1m).

#### **Taxation**

The statutory income tax expense was £36m (H1 2015: £44m). The effective tax rate on statutory profit before tax was 25% (H1 2015: 26%). The effective tax rate on underlying profit before tax was 27% (H1 2015: 25%). This increase is due to a number of non-recurring benefits in the prior period.

#### **Earnings per share**

Underlying basic earnings per share decreased by 1.5% to 12.09p (H1 2015: 12.28p) due to the higher effective tax rate experienced during the period. Statutory basic earnings per share decreased to 9.88p (H1 2015: 11.65p), which reflects the decrease in statutory operating profit and higher effective tax.

#### **Cash flow and net debt**

<b>CASH FLOW</b>	<b>H1 16</b>	<b>H1 15</b>
<b>Underlying operating profit</b>	<b>£189m</b>	<b>£186m</b>
Exchange rate translation movements	-	£3m
<b>Underlying operating profit (as reported)</b>	<b>£189m</b>	<b>£189m</b>
Non-recurring items	(£12m)	(£1m)
Depreciation/amortisation/profit on disposal	£15m	£15m
Share-based payments	£6m	£5m
Working capital and balance sheet movements	£15m	£18m
Exchange rate translation movements	£1m	£20m
<b>Statutory cash flow from operating activities</b>	<b>£214m</b>	<b>£246m</b>
Net interest	(£9m)	(£10m)
Tax paid	(£48m)	(£60m)
Net capital expenditure	(£15m)	(£11m)
<b>Free cash flow</b>	<b>£142m</b>	<b>£165m</b>

<b>Statutory cash flow from operating activities</b>	£214m	£246m
Non-recurring cash items	£12m	£1m
Net capital expenditure	(£15m)	(£11m)
Eliminate exchange rate translation movements	(£1m)	(£20m)
<b>Underlying cash flow from operating activities</b>	£210m	£216m
<b>Underlying cash conversion<sup>1</sup></b>	<b>111%</b>	<b>114%</b>

<sup>1</sup> Refer to Appendix II on page 16 for information on Non-GAAP measures.

The Group remains highly cash generative with underlying cash flows from operating activities of £210m, representing strong underlying cash conversion of 111% (H1 2015: 114%).

A total of £93m (H1 2015: £86m) was returned to shareholders through ordinary dividends. Net debt stood at £404m at 31 March 2016 (31 March 2015: £510m), which is equivalent to 1.0 times rolling 12-month EBITDA.

### Treasury management

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group's current syndicated bank multi-currency Revolving Credit Facility ("RCF"), with a facility level of £555m (US\$551m and €218m tranches) expires in June 2019. At 31 March 2016, £110m (H1 2015: £156m) of the RCF was drawn. Higher RCF drawings in the prior year were due to funding the US Paychoice acquisition in October 2014.

Total US Private Placement ("USPP") loan notes outstanding at 31 March 2016 were £519m (US\$650m and €85m) (H1 2015: £533m, US\$700m and €85m). Approximately £35m (US\$50m) of USPP loan notes were repaid in March 2016. This repayment was funded by free cash flow and RCF drawings.

### 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:

<b>AVERAGE EXCHANGE RATES (EQUAL TO GBP1)</b>	<b>H1 2016</b>	<b>H1 2015</b>	<b>Change</b>
Euro (€)	1.34	1.32	+2%
US Dollar (\$)	1.48	1.54	-4%
South African Rand (ZAR)	22.12	17.75	+25%
Australian Dollar (A\$)	2.05	1.90	+8%
Brazilian Real (R\$)	5.71	4.22	+35%

### Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic priority remains an acceleration of growth, both organically and through targeted acquisitions. This growth underpins the Board's sustainable, progressive dividend policy, with surplus capital being returned to shareholders from time to time. Consistent with this policy, the Board is proposing an 8% increase in the interim ordinary dividend per share for the period to 4.80p per share (H1 2015: 4.45p per share).

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

		H1 2016	FY15	H1 2015
<b>STRATEGIC KPIs</b>	<b>KPI DESCRIPTION</b>			
<b>Customers for life:</b> Contract renewal rate	As we focus on providing exceptional customer experiences, we track the response of our customers by measuring the number of contracts successfully renewed for the last twelve months as a percentage of those that were due for renewal.	84%	84%	84%
<b>Winning in the market:</b> Adoption of Sage One	The number of paying subscriptions for our portfolio of Sage One products.	230,000	173,000	115,000
<b>Winning in the market:</b> Adoption of Sage X3	The percentage increase in underlying revenue derived from Sage X3.	17%	11%	10%
<b>Revolutionise business:</b> Annualised software subscription base (“ASB”)	Our latest technologies are delivered to customers via software subscription relationships which drives growth in the ASB, calculated as the amount of organic software subscription revenue recorded in the last month of the period multiplied by 12.	£425m	£351m	£314m
<b>Capacity for growth:</b> G&A%	Investing for growth is enabled by releasing efficiencies in General and Administrative (“G&A”) expenses. We track progress by expressing G&A as a percentage of revenue (both on an organic basis).	19%	19%	19%
<b>One Sage</b>	We use multiple measures to track progress in areas such as employee engagement, social responsibility and brand strength. One Sage supports our entire strategy and enables all other strategic pillars, therefore does not have association with any single measure in the KPI suite.			
<b>FINANCIAL DRIVERS</b>	<b>KPI DESCRIPTION</b>	<b>H1 2016</b>	<b>FY15</b>	<b>H1 2015</b>
Organic revenue growth	Organic revenue neutralises the impact of foreign exchange in prior period figures and excludes the contribution of current and prior period acquisitions, disposals and products held for sale when required.	6.2%	6.0%	5.0%
Organic operating profit margin	Organic operating profit excludes: <ul style="list-style-type: none"> <li>– Recurring items including amortisation of acquired intangible assets, acquisition-related items and fair value adjustments;</li> <li>– Non-recurring items that management judge to be one-off or non-operational; and</li> <li>– The contribution of current and prior period acquisitions, disposals and businesses or products held for sale.</li> </ul> The impact of foreign exchange is neutralised in prior period figures.	25.4%	27.0%	26.4%
Underlying basic EPS growth	Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding: <ul style="list-style-type: none"> <li>– Recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and imputed interest; and</li> <li>– Non-recurring items that management judge to be one-off</li> </ul> All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior period figures.	-1.5%	12.6%	8.3%
Underlying cash conversion	Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items. In the prior year, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 110% in FY15 (FY14: 106%).	111%	106%	114%
Net debt leverage	The net value of cash less borrowings expressed as a multiple of rolling 12-month EBITDA. EBITDA is defined as earnings before interest, tax, depreciation, amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and non-recurring items that management judge to be one-off or non-operational.	1.0:1	1.0:1	1.2:1
Interest cover	Statutory operating profit for the last twelve months excluding non-recurring items that management judge to be one-off or non-operational, expressed as a multiple of finance costs excluding imputed interest for the same period.	17x	17x	16x



## Appendix II – Non-GAAP measures

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

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

## Consolidated income statement

### For the six months ended 31 March 2016

		Six months ended 31 March 2016 (Unaudited) Underlying	Six months ended 31 March 2016 (Unaudited) Adjustments*	Six months ended 31 March 2016 (Unaudited) Statutory	Six months ended 31 March 2015 (Unaudited) Underlying as reported (Restated)	Six months ended 31 March 2015 (Unaudited) Adjustments*	Six months ended 31 March 2015 (Unaudited) Statutory (Restated)	Year ended 30 September 2015 (Audited) Statutory
	Note	£m	£m	£m	£m	£m	£m	£m
Revenue	2	746.6	–	746.6	717.3	–	717.3	1,435.5
Cost of sales		(47.6)	–	(47.6)	(44.1)	–	(44.1)	(86.7)
Gross profit		699.0	–	699.0	673.2	–	673.2	1,348.8
Selling and administrative expenses		(509.7)	(37.5)	(547.2)	(484.3)	(10.2)	(494.5)	(1,051.6)
Operating profit	2	189.3	(37.5)	151.8	188.9	(10.2)	178.7	297.2
Finance income		1.0	1.4	2.4	1.0	1.0	2.0	2.2
Finance costs		(12.1)	–	(12.1)	(12.3)	–	(12.3)	(23.6)
Finance costs – net		(11.1)	1.4	(9.7)	(11.3)	1.0	(10.3)	(21.4)
Profit before income tax		178.2	(36.1)	142.1	177.6	(9.2)	168.4	275.8
Income tax expense	4	(48.2)	12.4	(35.8)	(44.2)	0.6	(43.6)	(81.5)
Profit for the period		130.0	(23.7)	106.3	133.4	(8.6)	124.8	194.3

\* Adjustments are detailed in note 3 to the accounts.

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

Basic	6	12.09p		9.88p	12.45p		11.65p	18.11p
Diluted	6	12.01p		9.82p	12.42p		11.62p	18.00p

## Consolidated statement of comprehensive income

### For the six months ended 31 March 2016

	<b>Six months ended 31 March 2016 (Unaudited)</b>	Six months ended 31 March 2015 (Unaudited) (Restated)	Year ended 30 September 2015 (Audited)
	<b>£m</b>	£m	£m
Profit for the period	<b>106.3</b>	124.8	194.3
Other comprehensive income/(expenses) for the period:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	<b>(0.6)</b>	(0.7)	(4.8)
Deferred tax credit on actuarial loss on post-employment benefit obligations	<b>0.2</b>	0.3	0.6
	<b>(0.4)</b>	(0.4)	(4.2)
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	<b>37.1</b>	4.7	(23.2)
	<b>37.1</b>	4.7	(23.2)
Other comprehensive expense for the period, net of tax	<b>36.7</b>	4.3	(27.4)
<b>Total comprehensive income for the period</b>	<b>143.0</b>	129.1	166.9

The notes on pages 23 to 36 form an integral part of this condensed consolidated half-yearly report.

## Consolidated balance sheet

### As at 31 March 2016

	Note	31 March 2016 (Unaudited) £m	31 March 2015 (Unaudited) (Restated) £m	30 September 2015 (Audited) £m
<b>Non-current assets</b>				
Goodwill	7	1,520.1	1,540.7	1,446.0
Other intangible assets	7	108.1	120.6	105.5
Property, plant and equipment	7	127.4	126.0	122.7
Deferred income tax assets		38.8	34.7	34.2
Other financial assets	3	1.4	1.0	–
		<b>1,795.8</b>	<b>1,823.0</b>	<b>1,708.4</b>
<b>Current assets</b>				
Inventories		2.1	2.2	2.0
Trade and other receivables		374.7	345.1	320.9
Cash and cash equivalents (excluding bank overdrafts)	10	356.2	268.0	263.4
		<b>733.0</b>	<b>615.3</b>	<b>586.3</b>
<b>Total assets</b>		<b>2,528.8</b>	<b>2,438.3</b>	<b>2,294.7</b>
<b>Current liabilities</b>				
Trade and other payables		(374.2)	(313.0)	(311.2)
Current income tax liabilities		(24.7)	(11.7)	(31.4)
Borrowings		(35.1)	(34.5)	(33.6)
Provisions		(19.1)	(11.0)	(9.9)
Deferred income		(522.7)	(488.4)	(436.5)
		<b>(975.8)</b>	<b>(858.6)</b>	<b>(822.6)</b>
<b>Non-current liabilities</b>				
Borrowings		(592.0)	(651.9)	(571.4)
Post-employment benefits		(21.8)	(14.0)	(18.7)
Deferred income tax liabilities		(7.6)	(34.4)	(7.3)
Provisions		(11.3)	(10.9)	(10.4)
Deferred income		(2.8)	(2.8)	(2.2)
		<b>(635.5)</b>	<b>(714.0)</b>	<b>(610.0)</b>
<b>Total liabilities</b>		<b>(1,611.3)</b>	<b>(1,572.6)</b>	<b>(1,432.6)</b>
<b>Net assets</b>		<b>917.5</b>	<b>865.7</b>	<b>862.1</b>
<b>Equity attributable to owners of the parent</b>				
Ordinary shares	9	11.8	11.7	11.8
Share premium	9	542.6	538.0	541.2
Other reserves		104.0	94.8	66.9
Retained earnings		259.1	221.2	242.2
<b>Total equity</b>		<b>917.5</b>	<b>865.7</b>	<b>862.1</b>

## Consolidated statement of changes in equity

### For the six months ended 31 March 2016

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2015 (Audited)	11.8	541.2	66.9	242.2	862.1
Profit for the period	-	-	-	106.3	106.3
Other comprehensive income/(expense):					
Exchange differences on translating foreign operations	-	-	37.1	-	37.1
Actuarial loss on post-employment benefit obligations	-	-	-	(0.6)	(0.6)
Deferred tax credit on actuarial loss on post-employment obligations	-	-	-	0.2	0.2
Total comprehensive income for the period ended 31 March 2016 (Unaudited)	-	-	37.1	105.9	143.0
Transactions with owners:					
Employee share option scheme:					
- Proceeds from shares issued	-	1.4	-	-	1.4
- Value of employee services, net of deferred tax	-	-	-	6.4	6.4
Purchase of treasury shares	-	-	-	(2.4)	(2.4)
Dividends paid to owners of the parent	-	-	-	(93.0)	(93.0)
Total transactions with owners for the period ended 31 March 2016 (Unaudited)	-	1.4	-	(89.0)	(87.6)
At 31 March 2016 (Unaudited)	11.8	542.6	104.0	259.1	917.5

Attributable to owners of the parent (restated)

	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2014 (Audited)	11.7	535.9	90.1	130.2	767.9
Profit for the period	–	–	–	124.8	124.8
Other comprehensive income/(expense):					
Exchange differences on translating foreign operations	–	–	4.7	–	4.7
Actuarial loss on post-employment benefit obligations	–	–	–	(0.7)	(0.7)
Deferred tax credit on actuarial gain on post-employment obligations	–	–	–	0.3	0.3
<b>Total comprehensive income for the period ended 31 March 2015 (unaudited)</b>	–	–	4.7	124.4	129.1
Transactions with owners:					
Employee share option scheme:					
- Proceeds from shares issued	–	2.1	–	–	2.1
- Value of employee services, net of deferred tax	–	–	–	4.8	4.8
Purchase of treasury shares	–	–	–	(12.5)	(12.5)
Close period share buyback programme	–	–	–	60.0	60.0
Dividends paid to owners of the parent	–	–	–	(85.7)	(85.7)
<b>Total transactions with owners for the period ended 31 March 2015 (Unaudited)</b>	–	2.1	–	(33.4)	(31.3)
At 31 March 2015 (Unaudited)	11.7	538.0	94.8	221.2	865.7

## Consolidated statement of cash flows

### For the six months ended 31 March 2016

	Notes	Six months ended 31 March 2016 (Unaudited) £m	Six months ended 31 March 2015 (Unaudited) (Restated) £m	Year ended 30 September 2015 (Audited) £m
<b>Cash flows from operating activities</b>				
Cash generated from continuing operations	10	213.8	246.3	418.6
Interest paid		(10.2)	(11.2)	(19.2)
Income tax paid		(48.5)	(60.1)	(84.6)
<b>Net cash generated from operating activities</b>		<b>155.1</b>	<b>175.0</b>	<b>314.8</b>
<b>Cash flows from investing activities</b>				
Acquisitions of subsidiaries, net of cash acquired	11	(6.3)	(97.5)	(47.3)
Purchases of intangible assets	7	(2.6)	(3.1)	(6.0)
Purchases of property, plant and equipment	7	(12.9)	(8.9)	(16.4)
Proceeds from sale of property, plant and equipment		1.0	0.8	2.1
Interest received		1.0	1.0	2.2
<b>Net cash used in investing activities</b>		<b>(19.8)</b>	<b>(107.7)</b>	<b>(65.4)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares	9	1.4	2.1	5.4
Purchase of treasury shares		(2.4)	(15.5)	(17.7)
Finance lease principal payments		(0.3)	(1.5)	(1.4)
Proceeds from borrowings		70.1	456.4	481.2
Repayments of borrowings		(78.2)	(354.6)	(474.5)
Movements in cash collected from customers		43.9	47.6	12.5
Borrowing costs		–	–	(1.3)
Dividends paid to owners of the parent	5	(93.0)	(85.7)	(133.5)
<b>Net cash generated from/(used in) financing activities</b>		<b>(58.5)</b>	<b>48.8</b>	<b>(129.3)</b>
<b>Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)</b>	10	<b>76.8</b>	<b>116.1</b>	<b>120.1</b>
Effects of exchange rate movement	10	16.0	8.2	(0.4)
<b>Net increase in cash, cash equivalents and bank overdrafts</b>		<b>92.8</b>	<b>124.3</b>	<b>119.7</b>
Cash, cash equivalents and bank overdrafts at 1 October	10	263.4	143.7	143.7
<b>Cash, cash equivalents and bank overdrafts at period end</b>	10	<b>356.2</b>	<b>268.0</b>	<b>263.4</b>



# Notes to the financial information

## For the six months ended 31 March 2016

### 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 4 May 2016.

The financial information set out above does not constitute the Company’s Statutory Accounts. Statutory Accounts for the year ended 30 September 2015 have been delivered to the Registrar of Companies. The auditor’s report was unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2015.

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 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, “Interim Financial Reporting” as adopted by the European Union, (“EU”). The condensed consolidated half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2015, which have been prepared in accordance with IFRSs as adopted by the EU.

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

#### Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2015 as described in those annual financial statements. During the financial year 30 September 2015 the Group simplified the definition of revenue categories to enable stakeholders to clearly and transparently track performance. This led to a change in revenue recognition policy to certain products.

The most significant change is to separately disclose the revenue from our payments and payroll processing businesses, which is driven by the volume of transactions. In addition a small amount of revenue from software and software related services (“SSRS”) and associated discounts, was reclassified to recurring revenue, relating to products which are time-limited and require an on-going active maintenance contract to function as designed. This has had an impact on the phasing of revenue. Consequently the prior period comparative

revenue split shown in the segmental note has been revised, along with the associated impact on deferred revenue to align with the revenue recognition policy adopted in the year ended 30 September 2015.

The impact of reclassifying and rephasing of those products moved from SSRS to recurring revenue was to reduce revenue and operating profit by £4.2m in the six months to 31 March 2015. The balance sheet impact of this change has been to increase deferred revenue at 31 March 2015 by £26.6m representing the SSRS revenue being deferred with an associated deferred tax asset of £8.8m. The foreign exchange retranslation impact of this deferral as at 31 March 2015 of £2.4m is taken to other reserves.

During the year ended 30 September 2015, management also considered the accounting for its arrangements with Business Partners who refer customers to the Group, such as Independent Sales Organisations (“ISOs”) in the US Payments business, and concluded that payments made to those business partners are better reflected as costs and not as deductions to revenue. This has had the impact of increasing revenue and costs by £22.3m for the six month period ended 31 March 2015.

In addition to this change in the application of the revenue recognition policy, two other changes were made to the presentation of items on the balance sheet at 30 September 2015. Firstly, the presentation of provisions was revised to show them as a separate line item on the face of the balance sheet having previously been included within trade and other payables. The impact of this change within current liabilities in the comparative period at 31 March 2015 is £11.0m and between current and non-current liabilities is £10.9m. Secondly, the presentation of deferred consideration was changed to include the balance within trade and other payables having previously been a separate line item on the balance sheet. The impact of this change in the comparative period is £2.3m.

The impact of the change in the application of the revenue recognition policy in the March 2015 presentation has been disclosed below, along with the impact of the change in the presentation of provisions and deferred consideration.

	As previously reported £m	Restatement adjustment £m	As restated £m
Revenue	699.2	18.1	717.3
Cost of sales	(44.1)	–	(44.1)
Gross profit	655.1	18.1	673.2
Selling and administrative expenses	(472.2)	(22.3)	(494.5)
Operating profit	182.9	(4.2)	178.7
Finance income	2.0	–	2.0
Finance costs	(12.3)	–	(12.3)
Finance costs – net	(10.3)	–	(10.3)
Profit before income tax	172.6	(4.2)	168.4
Income tax expense	(44.9)	1.3	(43.6)
Profit for the period	127.7	(2.9)	124.8

	As previously reported £m	Restatement adjustment £m	As restated £m
Deferred income tax assets	25.9	8.8	34.7
<b>Total non-current assets</b>	<b>1,814.2</b>	<b>8.8</b>	<b>1,823.0</b>
Trade and other receivables	344.5	0.6	345.1
<b>Total current assets</b>	<b>614.7</b>	<b>0.6</b>	<b>615.3</b>
<b>Total assets</b>	<b>2,428.9</b>	<b>9.4</b>	<b>2,438.3</b>
Trade and other payables	(332.0)	19.0	(313.0)
Provisions	-	(11.0)	(11.0)
Deferred consideration	(2.3)	2.3	-
Deferred income	(461.8)	(26.6)	(488.4)
<b>Total current liabilities</b>	<b>(842.3)</b>	<b>(16.3)</b>	<b>(858.6)</b>
Provisions	-	(10.9)	(10.9)
<b>Total non-current liabilities</b>	<b>(703.1)</b>	<b>(10.9)</b>	<b>(714.0)</b>
<b>Total liabilities</b>	<b>(1,545.4)</b>	<b>(27.2)</b>	<b>(1,572.6)</b>
<b>Net assets</b>	<b>883.5</b>	<b>(17.8)</b>	<b>865.7</b>
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	11.7	-	11.7
Share premium	538.0	-	538.0
Other reserves	92.4	2.4	94.8
Retained earnings	241.4	(20.2)	221.2
<b>Total equity</b>	<b>883.5</b>	<b>(17.8)</b>	<b>865.7</b>

### Adoption of new and revised IFRSs

The following new accounting standards may have a material impact on the Group. They are currently issued but not yet endorsed by the EU and not effective for the Group for the six-month period ended 31 March 2016:

- IFRS 15 “Revenue from Contracts with Customers” – effective financial year commencing 1 October 2018
- IFRS 16 “Leases” – effective financial year commencing 1 October 2019

The Group is in the process of assessing the impact that the application of these standards will have on the Group’s financial statements.

### Critical accounting estimates and judgements

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

#### Revenue recognition

Approximately 30% of the company’s revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. An additional area of judgement is the recognition

and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract.

The full revenue recognition policy is disclosed in the 30 September 2015 financial statements.

### Goodwill impairment

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

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2015 financial statements.

### Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot be finally determined until a resolution has been reached by the relevant tax authority. 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.

### Website

This condensed consolidated half-yearly financial report for the six month ended 31 March 2016 can also be found on our website: [www.sage.com/investors/investor-downloads](http://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 Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The Executive Committee use organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

In May 2015, following the departure of the CEO of Sage Americas there was a change in the reporting segments with the Brazilian business being moved out of the Americas segment. For reporting purposes Brazil was combined with AAMEA, to form the new International segment and the Americas segment was renamed to North America. The 2015 comparatives have been updated to align with the new segmental reporting.

The Group is organised into four operating segments, with Brazil being aggregated with AAMEA with which there are similar economic characteristics to form the International reporting segment. The UK is the home country of the parent. The reporting segments and their main operating territories are as follows:

- Europe (France, UK & Ireland including Sagepay, Spain, Germany, Switzerland, Poland and Portugal)
- North America (US and Canada)
- International (Brazil, Africa, Australia, Middle East and Asia)

The Africa operations are principally based in South Africa; the Middle East and Asia operations are principally based in Singapore, Malaysia and UAE.

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

### Revenue by segment (Unaudited)

	Six months ended 31 March 2016	Six months ended 31 March 2016	Six months ended 31 March 2016	Change	Change	Change
	Statutory and underlying £m	Organic adjustments £m	Organic £m	Statutory %	Underlying %	Organic %
<b>Recurring revenue by segment</b>						
Europe	300.5	-	300.5	7.7%	8.8%	8.8%
North America	146.2	-	146.2	12.1%	9.4%	9.4%
International	65.8	-	65.8	-3.2%	17.1%	17.1%
Recurring revenue	512.5	-	512.5	7.4%	10.0%	10.0%
<b>Software and software related services ("SSRS") revenue by segment</b>						
Europe	80.2	-	80.2	-2.2%	-0.9%	-0.9%
North America	33.5	-	33.5	-6.2%	-8.5%	-8.5%
International	23.3	-	23.3	-30.2%	-18.5%	-18.5%
SSRS revenue	137.0	-	137.0	-9.3%	-6.3%	-6.3%
<b>Processing revenue by segment</b>						
Europe	17.4	-	17.4	8.1%	8.5%	8.5%
North America	75.9	-	75.9	10.8%	6.0%	6.0%
International	3.8	-	3.8	-9.5%	12.2%	12.2%
Processing revenue	97.1	-	97.1	9.3%	6.6%	6.6%
<b>Total revenue by segment</b>						
Europe	398.1	-	398.1	5.6%	6.7%	6.7%
North America	255.6	-	255.6	9.0%	5.7%	5.7%
International	92.9	-	92.9	-12.0%	5.4%	5.4%
Total revenue	746.6	-	746.6	4.1%	6.2%	6.2%

	Six months ended 31 March 2015 (Restated)	Six months ended 31 March 2015 (Restated)	Six months ended 31 March 2015 (Restated)	Six months ended 31 March 2015 (Restated)	Six months ended 31 March 2015 (Restated)
	Statutory and underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
<b>Recurring revenue by segment</b>					
Europe	279.0	(2.8)	276.2	-	276.2
North America	130.4	3.2	133.6	-	133.6
International	68.0	(11.8)	56.2	-	56.2
Recurring revenue	477.4	(11.4)	466.0	-	466.0
<b>Software and software related services ("SSRS") revenue by segment</b>					
Europe	82.0	(1.1)	80.9	-	80.9
North America	35.7	0.9	36.6	-	36.6
International	33.4	(4.7)	28.7	-	28.7
SSRS revenue	151.1	(4.9)	146.2	-	146.2
<b>Processing revenue by segment</b>					
Europe	16.1	(0.1)	16.0	-	16.0
North America	68.5	3.2	71.7	-	71.7
International	4.2	(0.8)	3.4	-	3.4
Processing revenue	88.8	2.3	91.1	-	91.1
<b>Total revenue by segment</b>					
Europe	377.1	(4.0)	373.1	-	373.1
North America	234.6	7.3	241.9	-	241.9
International	105.6	(17.3)	88.3	-	88.3
Total revenue	717.3	(14.0)	703.3	-	703.3

The 2015 comparatives have been restated in line with the changes in accounting policy (see note 1).

### Operating profit by segment

	Six months ended 31 March 2016					Change		
	Underlying		Organic		Organic	Statutory	Underlying	Organic
	Statutory adjustments	Underlying	adjustments	Organic				
£m	£m	£m	£m	£m	%	%	%	
Operating profit by segment								
Europe	88.5	22.6	111.1	-	111.1	-13%	7%	7%
North America	50.2	12.2	62.4	-	62.4	-7%	4%	4%
International	13.1	2.7	15.8	-	15.8	-44%	-28%	-28%
<b>Total operating profit</b>	<b>151.8</b>	<b>37.5</b>	<b>189.3</b>	<b>-</b>	<b>189.3</b>	<b>-15%</b>	<b>2%</b>	<b>2%</b>

	Six months ended 31 March 2015 (restated)							
	Statutory	Underlying	Underlying	Impact of	Underlying	Organic	Organic	Organic
£m	£m	£m	£m	£m	£m	£m	£m	
Operating profit by segment								
Europe	101.7	3.1	104.8	(0.9)	103.9	-	103.9	
North America	53.7	4.3	58.0	2.2	60.2	-	60.2	
International	23.3	2.8	26.1	(4.3)	21.8	-	21.8	
<b>Total operating profit</b>	<b>178.7</b>	<b>10.2</b>	<b>188.9</b>	<b>(3.0)</b>	<b>185.9</b>	<b>-</b>	<b>185.9</b>	

### Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2016 (Unaudited) £m	Six months ended 31 March 2015 (Unaudited) (Restated) £m
Underlying operating profit	189.3	185.9
Impact of movement in foreign currency exchange rates	-	3.0
<b>Underlying operating profit (as reported)</b>	<b>189.3</b>	<b>188.9</b>
Amortisation of acquired intangible assets	(8.4)	(9.5)
Other acquisition-related items	(0.1)	(0.7)
Non-recurring items	(29.0)	-
<b>Statutory operating profit</b>	<b>151.8</b>	<b>178.7</b>



### 3 Adjustments between underlying profit and statutory profit

	Six months ended 31 March 2016	Six months ended 31 March 2016 Non- recurring	Six months ended 31 March 2016 Total	Six months ended 31 March 2015 Recurring	Six months ended 31 March 2015 Non- recurring	Six months ended 31 March 2015 Total
	Recurring £m	£m	£m	£m	£m	£m
<b>Acquisition related items</b>						
Amortisation of acquired intangibles	(8.4)	–	(8.4)	(9.5)	–	(9.5)
Other acquisition related items	(0.1)	–	(0.1)	(0.7)	–	(0.7)
<b>Other items</b>						
Business transformation	–	(31.2)	(31.2)	–	–	–
Recovery of litigation costs	–	2.2	2.2	–	–	–
<b>Total adjustments made to operating profit</b>	<b>(8.5)</b>	<b>(29.0)</b>	<b>(37.5)</b>	<b>(10.2)</b>	<b>–</b>	<b>(10.2)</b>
Fair value adjustments to debt related financial instruments	–	1.4	1.4	–	1.0	1.0
<b>Total adjustments made to profit before income tax</b>	<b>(8.5)</b>	<b>(27.6)</b>	<b>(36.1)</b>	<b>(10.2)</b>	<b>1.0</b>	<b>(9.2)</b>

#### Recurring items

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

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

#### Non-recurring items

Charges of £31.2m have been incurred in the current year as a result of the implementation of the business transformation strategy. This is comprised of people exit charges of £16.3m, net property exit costs of £10.7m and other directly attributable costs of £4.2m. These charges are one-off in nature and directly linked to the business transformation that is under way.

In addition, there has been income in the year arising from recovery of costs relating to the Archer Capital litigation case following its conclusion in 2015.

The fair value adjustment relates to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt. This has been recognised on the face of the balance sheet as a non-current other financial asset.

#### 4 Income tax expense

The effective tax rate on statutory profit before tax was 25% (six months ended 31 March 2015 (restated): 26%) whilst the effective tax rate on underlying profit before tax was 27% (six months ended 31 March 2015 (restated): 25%). 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 2016.

#### 5 Dividends

	<b>Six months ended 31 March 2016 (Unaudited) £m</b>	Six months ended 31 March 2015 (Unaudited) £m	Year ended 30 September 2015 (Audited) £m
<b>Final</b> dividend paid for the year ended 30 September 2014 of 8.00p per share	–	85.7	85.7
<b>Interim</b> dividend paid for the year ended 30 September 2015 of 4.45p per share	–	–	47.8
<b>Final</b> dividend paid for the year ended 30 September 2015 of 8.65p per share	93.0	–	–
	<b>93.0</b>	<b>85.7</b>	<b>133.5</b>

The interim dividend of 4.80p per share will be paid on 3 June 2016 to shareholders on the register at the close of business on 13 May 2016.

## 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.

	<b>Underlying Six months ended 31 March 2016 (Unaudited)</b>	Underlying as reported Six months ended 31 March 2015 (Unaudited) (Restated)	Underlying Six months ended 31 March 2015 (Unaudited) (Restated)	<b>Statutory Six months ended 31 March 2016 (Unaudited)</b>	Statutory Six months ended 31 March 2015 (Unaudited) (Restated)
<b>Earnings attributable to owners of the parent (£m)</b>					
Profit for the period	<b>130.0</b>	133.4	131.6	<b>106.3</b>	124.8
<b>Number of shares (millions)</b>					
Weighted average number of shares	<b>1,075.5</b>	1,071.7	1,071.7	<b>1,075.5</b>	1,071.7
Dilutive effects of shares	<b>6.6</b>	2.1	2.1	<b>6.6</b>	2.1
	<b>1,082.1</b>	1,073.8	1,073.8	<b>1,082.1</b>	1,073.8
<b>Earnings per share attributable to owners of the parent (pence)</b>					
Basic earnings per share	<b>12.09</b>	12.45	12.28	<b>9.88</b>	11.65
Diluted earnings per share	<b>12.01</b>	12.42	12.26	<b>9.82</b>	11.62

The prior period weighted average share base has been restated to include shares held by the Employee Benefit Trust as treasury shares.

	<b>Six months ended 31 March 2016 (Unaudited)</b>	Six months ended 31 March 2015 (Unaudited) (Restated)
	£m	£m
<b>Reconciliation of earnings</b>		
Underlying earnings attributable to owners of the parent	<b>130.0</b>	131.6
Impact of movement in foreign currency exchange rates	<b>–</b>	1.8
Underlying earnings attributable to owners of the parent (after exchange movement)	<b>130.0</b>	133.4
Non-recurring items	<b>(29.0)</b>	–
Amortisation of acquired intangible assets	<b>(8.4)</b>	(9.5)
Goodwill impairment and fair value adjustments	<b>1.4</b>	1.0
Other acquisition-related items	<b>(0.1)</b>	(0.7)
Taxation on adjustments	<b>12.4</b>	0.6
Net adjustments	<b>(23.7)</b>	(8.6)
Earnings statutory profit for period	<b>106.3</b>	124.8

## 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 2015	<b>1,446.0</b>	<b>105.5</b>	<b>122.7</b>	<b>1,674.2</b>
Additions	–	2.6	12.9	15.5
Acquisition	–	6.5	–	6.5
Disposals	–	–	(1.0)	(1.0)
Depreciation, amortisation and other movements	–	(14.0)	(10.3)	(24.3)
Impairment	–	–	–	–
Exchange movement	74.1	7.5	3.1	84.7
Closing net book amount at 31 March 2016	<b>1,520.1</b>	<b>108.1</b>	<b>127.4</b>	<b>1,755.6</b>

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2014	1,433.0	98.1	126.7	1,657.8
Additions	–	3.1	8.9	12.0
Acquisition	77.0	33.5	1.0	111.5
Disposals	–	(0.1)	(0.8)	(0.9)
Depreciation, amortisation and other movements	–	(14.9)	(9.0)	(23.9)
Impairment	–	–	(0.6)	(0.6)
Exchange movement	30.7	0.9	(0.2)	31.4
Closing net book amount at 31 March 2015	1,540.7	120.6	126.0	1,787.3

Goodwill is not subject to amortisation, but is tested for impairment annually at 30 June or whenever there is any indication of impairment. At 31 March 2016, there were no indicators of impairment to goodwill. Full details of the outcome of the 2015 goodwill impairment review are provided in the 2015 financial statements.

Detail of the current period acquisition has been provided in note 11.

## 8 Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US senior loan notes due to these bearing interest at fixed rates which are currently higher than floating 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 2016		At 31 March 2015	
	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
Long term-borrowing	<b>484.0</b>	<b>494.5</b>	499.3	509.0
Short term-borrowing	<b>34.7</b>	<b>35.8</b>	33.7	34.8

## 9 Ordinary shares and share premium

	Number of shares (Unaudited)	Ordinary Shares (Unaudited) £m	Share premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2015	1,118,298,748	11.8	541.2	553.0
Shares issued/proceeds	551,880	–	1.4	1.4
At 31 March 2016	1,118,850,628	11.8	542.6	554.4

  

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

In the current period, the group purchased 385,000 shares at a cost of £2.4m through the Employee Benefit Trust.

During the prior period, the Group purchased 3,457,020 shares at a cost of £12.4m and a cash outflow of £15.5m. Shares purchased under the Group's buyback programme are initially retained in issue as treasury shares and represent a deduction from equity. Treasury shares are subsequently cancelled on a periodic basis.

## 10 Cash flow and net debt

	Six months ended 31 March 2016 (Unaudited) £m	Six months ended 31 March 2015 (Unaudited) (Restated) £m
Statutory operating profit	151.8	178.7
Depreciation/amortisation/impairment/profit on disposal of non-current assets	24.3	24.2
Share-based payments	6.0	4.8
Changes in working capital	(30.1)	(42.9)
Increase in deferred income	60.9	61.4
Exchange movement	0.9	20.1
Cash generated from continuing operations	213.8	246.3
Net interest paid	(9.2)	(10.2)
Income tax paid	(48.5)	(60.1)
Net capital expenditure	(14.5)	(11.2)
Free cash flow	141.6	164.8
Net debt at 1 October	(425.4)	(437.2)
Acquisitions and disposals of subsidiaries, net of cash	(6.3)	(97.5)
Dividends paid to owners of the parent	(93.0)	(85.7)
Purchase of treasury shares	(2.4)	(15.5)
Exchange movement	(18.9)	(38.9)
Other	0.9	0.1
Net debt at 31 March	(403.5)	(509.9)

	At 1 October 2015 (Audited) £m	Cash flow £m	Acquisitions £m	Non-cash movements £m	Exchange movement £m	At 31 March 2016 (Unaudited) £m
<b>Analysis of change in net debt (inclusive of finance leases)</b>						
Cash and cash equivalents	263.4	83.1	(6.3)	–	16.0	356.2
Bank overdrafts	–	–	–	–	–	–
Cash, cash equivalents and bank overdrafts	263.4	83.1	(6.3)	–	16.0	356.2
Finance leases due within one year	(0.6)	0.6	–	(0.4)	–	(0.4)
Loans due within one year	(33.0)	34.7	–	(34.7)	(1.7)	(34.7)
Loans due after more than one year	(571.0)	(26.6)	–	34.2	(28.3)	(591.7)
Finance leases due after more than one year	(0.4)	(0.3)	–	0.4	–	(0.3)
Cash held on behalf of customers	(83.8)	(43.9)	–	–	(4.9)	(132.6)
<b>Total</b>	<b>(425.4)</b>	<b>47.6</b>	<b>(6.3)</b>	<b>(0.5)</b>	<b>(18.9)</b>	<b>(403.5)</b>

Included in cash above is £132.6m (31 March 2015: £91.5m, 30 September 2015: £83.8m) 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 June 2019 with facility levels of £555m (US\$551m and €218m tranches). At 31 March 2016, £110m (H1 2015: £156m) of the multi-currency revolving debt facility was drawn, with the decrease due to ongoing repayments funded from free cash flows.

Total US private placement ("USPP") loan notes at 31 March 2016 were £519m (US\$650m and EUR€85m) (H1 2015: £533m, US\$700m and EUR€85m). Approximately £35m (US\$50m) of USPP borrowings were repaid in March 2016.

## 11 Acquisitions and disposals

### *Acquisitions made during the period*

On 2 November 2015 the Group acquired trade and business from People's United Bank, a provider of payroll services for small and medium sized business in North America, for a total consideration of £6.5m. The transaction price included deferred consideration of £2.0m. As at March 2016, deferred consideration payable amounted to £0.2m. The acquisition strengthens Sage's position in the large and growing US payroll market.

The acquisition resulted in the recognition of intangible assets of £6.5m, consisting of customer lists. No goodwill was recognised.

### *Disposals made during the period*

There were no disposals made in the period.

## 12 Related party transactions

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

	<b>Six months ended 31 March 2016 (Unaudited) £m</b>	Six months ended 31 March 2015 (Unaudited) £m
<b>Key management compensation</b>		
Salaries and short-term employee benefits	<b>3.6</b>	3.4
Post-employment benefits	<b>0.3</b>	0.3
Share-based payments	<b>2.4</b>	1.8
	<b>6.3</b>	5.5

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee and are defined in the Group's Annual Report & Accounts 2015.

Supplier transactions occurred during the period between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies and Ivan Epstein, Chief Executive Officer, International. These transactions relate to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the period £1.9m (2015: £2.2m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the period ended 31 March 2016 (31 March 2015: £nil).

Supplier transactions occurred during the period between Sage SP, S.L., one of the Group's subsidiary companies and Álvaro Ramírez, former Chief Executive Officer, Europe, who is still a Director in some of the Group's subsidiaries. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the period £0.5m (31 March 2015: £0.5m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the period ended 31 March 2016 (31 March 2015: £nil). These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

### Balancing risks and rewards

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

We have continued to review our Principal Risks, and in line with our multi-year strategy, these remain broadly consistent with those identified during FY15, and are detailed below. In the course of this review, we have enhanced the measure of capability within each Principal Risk, reflecting the importance of Sage colleagues in delivering our objectives. All revisions have been approved through the Audit and Risk Committee.

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

Risk	Risk Background	Management and Mitigation
<p><b>#1 Business Model Transition</b></p> <p>Sage does not successfully manage its transition to a global operating model against defined timeframes.</p> <p><i>Strategic Alignment:</i> <b>Capacity for Growth</b></p>	<p>Sage has operated as a federated set of Operating Companies. The move to a global model provides enhanced governance, process harmonisation, efficiencies and scalability.</p>	<ul style="list-style-type: none"> <li>• Functional reporting established to a global level to allow consistency of direction, and removal of any global / local conflicts</li> <li>• An approved global Business Model Transition Strategy in place, supported by an overarching plan which details the goal, overall time plan, and scheduled adoption by countries</li> <li>• Clear governance around strategy and overarching plan through Executive Committee and programme steering committee</li> <li>• Programme lead with delegated authority managing the transition</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• Country / function transitions are in progress in line with overarching plan</li> <li>• On-going monitoring of implementation through the programme management office, and application of lessons learnt in each successive transition</li> </ul>



Risk	Risk Background	Management and Mitigation
<p><b>#2 Licensing Model Transition</b></p> <p>Sage does not successfully manage its transition to subscription licencing against defined timelines and targets or appropriately adapt its customer approach.</p> <p><u>Strategic Alignment:</u> <b>Customers for Life</b></p>	<p>Sage is moving from a perpetual to a subscription based licencing model. This transition assists with cash flow; offers a platform for cross selling; and lowers attrition rates, which in turn aids revenue forecasting. It also provides regular customer engagement and enhanced opportunities to develop these relationships. The speed of transition needs to be balanced against any reduction in short term revenues.</p>	<ul style="list-style-type: none"> <li>• An approved licensing model transition strategy is in place, with defined targets and timescales</li> <li>• New products are being offered on a subscription only basis</li> <li>• A series of approved targets are defined, which span multiple years and support successful delivery of our strategy</li> <li>• Ongoing monitoring and review of the approved targets is taking place at country, regional and global levels in order to proactively manage the licence transition, and revenue figures</li> <li>• Customer Business Centres (CBCs) established in North America and Europe to integrate digital marketing, sales and service operations for customers using global products</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• Creation of additional CBCs, with staged adoption of global products, to better manage ongoing customer relationships and the sales cycle</li> </ul>
<p><b>#3 Market Intelligence</b></p> <p>Sage fails to understand and anticipate changes in the external environment, including customer needs, emerging market trends, competitor strategies and regulatory / legal requirements.</p> <p><u>Strategic Alignment:</u> <b>Customers for Life</b> <b>Winning in the Market</b></p>	<p>Sage has operated as a federated set of Operating Companies, each using local definitions and methodologies to capture market data.</p> <p>The alignment of federated activities allows consolidation of data across geographies and product to provide a single Sage wide view, and enable trends and white space opportunities to be identified.</p>	<ul style="list-style-type: none"> <li>• A Market and Competitive Intelligence team established, which has overall responsibility for Market Intelligence</li> <li>• Global market intelligence surveys, to identify market opportunities</li> <li>• Brand health surveys to understand customer perception of the Sage brand and its products</li> <li>• Maintenance of a Market Data portal through which global market data is provided</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• Definition and delivery of an approved internal communications plan, to share Market Intelligence</li> <li>• Alignment of win / loss data with Market Intelligence collected and shared</li> </ul>

Risk	Risk Background	Management and Mitigation
<p><b>#4 Competitive Positioning and Product Development</b></p> <p>Sage is unable to clearly identify the approach to market, or deploy competitive advantage, including product development</p> <p><u>Strategic Alignment:</u> <b>Winning in the Market</b> <b>Capacity for Growth</b></p>	<p>The competitive environment in which Sage operates has seen significant developments. New players include venture capital funded organisations whose primary goal is to attain market share irrespective of profit, while cloud products and digital sales and marketing strategies are reducing barriers to entry.</p> <p>Sage must translate market intelligence into effective strategies targeting attractive market segments with appropriate products and continually work to reinforce competitive superiority.</p> <p>During the transition to global Sage products, we continue to manage the local product base and plan and evolve these in line with longer-term aspirations.</p>	<ul style="list-style-type: none"> <li>• A global Product Marketing team established to oversee competitive positioning and product development</li> <li>• A global Product Delivery team established to develop and deliver products</li> <li>• Governance is established around the creation of global products, to ensure effective prioritisation of resources</li> <li>• Accountability for the maintenance of documented strengths and weaknesses is defined, and for global products this resides with global Product Marketing</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• Assessment of all competitors and documentation of their strengths and weaknesses</li> <li>• Defined 'Customer for Life' roadmaps to detail how all products fit together</li> <li>• Prioritised development based on 'Customer for Life' roadmaps</li> </ul>
<p><b>#5 Sage Brand</b></p> <p>Sage does not deliver clear and consistent branding to the market</p> <p><u>Strategic Alignment:</u> <b>One Sage</b></p>	<p>Following several years of acquisitions, work continues to develop the Sage brand. Whilst it is well recognised and trusted by customers in many core markets, at global level brand awareness remains inconsistent.</p> <p>A clear and consistent brand enables customers to understand Sage values.</p>	<ul style="list-style-type: none"> <li>• A global Brand team is in place which has overall responsibility for developing the global Brand</li> <li>• All countries must comply with Sage's Brand Governance and Brand Guidelines, which is designed to execute the Sage Masterbrand Strategy. Timeframes for compliance of all products are defined, and any exceptions must be approved through global Brand</li> <li>• Ongoing review of customer experience is performed (Net Promoter Scores), and output reviewed across countries and products to identify variance, and develop improvement plans</li> <li>• Where no specific brand guidance is provided by global Brand, a defined approval route is in place through the team, and approval must be obtained in advance of publication</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• All branded assets must be uploaded to the Brand Library, and any exceptions from brand guidelines reported to the Chief Marketing Officer</li> <li>• Implementation of a Digital Asset Management (DAM) tool to workflow requests, and act as a single information repository</li> <li>• Creation of the Sage Foundation, with launches by country across FY16, demonstrating our commitment to philanthropic leadership</li> </ul>

Risk	Risk Background	Management and Mitigation
<p><b>#6 Strategic Partnerships</b></p> <p>Sage fails to identify, build and maintain strategic partnerships</p> <p><u>Strategic Alignment:</u> <b>Revolutionise Business</b></p>	<p>There are increasing instances where developing strategic partnerships will benefit Sage. The governance and control around engagement and use must be defined, as well as management of the ecosystem.</p>	<ul style="list-style-type: none"> <li>• A Partner Management team is established to oversee the selection and management of Strategic Partners, including individual accountability for active management of each relationship</li> <li>• Definitions are in place to ensure clarity over what constitutes a Strategic Partner</li> <li>• All contracts must comply with the Material Contracts policy, and be approved through legal</li> <li>• Inclusion of defined legal provisions is required. Any variance from such provisions must be recorded as part of the formal contract approval process</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• On-going review and development of Strategic Partner network</li> </ul>
<p><b>#7 3<sup>rd</sup> Party Reliance</b></p> <p>Sage does not understand and manage its 3<sup>rd</sup> party ecosystem</p> <p><u>Strategic Alignment:</u> <b>Revolutionise Business</b></p>	<p>Several Sage customer service offerings are delivered or supported using 3<sup>rd</sup> parties, whilst Sage remains accountable for any (non) performance.</p> <p>The 3<sup>rd</sup> party ecosystem must be understood and effectively managed, in order to limit Sage's exposure.</p>	<ul style="list-style-type: none"> <li>• A global procurement function is in place to ensure key controls are applied in the selection and on-boarding of third parties</li> <li>• The business is responsible for defining its needs and requirements</li> <li>• The global procurement function supports the business with the selection of third parties and negotiation of contracts</li> <li>• Legal resources are used in contract negotiation</li> <li>• Management review and control is applied through the Investment Approval Process, and appropriate approval is required before any expenditure can be authorised</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• As part of the transition to the global operating model, and an Excellence in Governance initiative to support this transition, a global Third Party Lifecycle Governance Framework is in final stages of development, and will be implemented during the financial year</li> </ul>

Risk	Risk Background	Management and Mitigation
<p><b>#8 Supporting Control Environment</b></p> <p>Sage's control environment, business processes and technology infrastructure does not support the efficient and effective operation of the business</p>	<p>Sage's global footprint has developed through acquisition. Aligning and rationalising these systems and processes, is required to support the 'One Sage' operating model.</p>	<ul style="list-style-type: none"> <li>Global and Regional Risk Committees are established, and membership drives the tone-from-the-top</li> <li>CBCs are built around core systems to underpin operation and expansion, including Salesforce CRM and Sage's own X3 for General Ledger activity</li> <li>All new customers for CBC supported products are being entered directly into these systems</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>The implementation of Sage's X3 General Ledger, and associated migration of systems, is progressing in line with plans</li> <li>New global finance organisational model is being implemented in line with plans</li> <li>Excellence in Governance initiative will deliver a Sage policy suite and management committee structure during the financial year</li> </ul>
<p><b>#9 Information Management and Protection (including cyber)</b></p> <p>Sage fails to adequately understand, manage and protect information</p>	<p>Sage's global footprint has developed through a process of acquisition, each arriving with its own processes and activities appropriate to a smaller business, but which did not develop in line with Sage's growth.</p> <p>Harmonising and rationalising these, as necessary, is required to support the 'One Sage' operating model and to allow a global view on all internal and external data being held and processed, including how this is managed and protected.</p>	<ul style="list-style-type: none"> <li>Accountability defined within 'OneIT' and 'Product' for all internal and external data being processed by Sage. OneIT and Product report to the Chief Information Officer and Chief Product Delivery Officer respectively</li> <li>A network of Information Security Officers oversees compliance with the IT Controls Framework, which defines the key controls which are required</li> <li>Maintenance of formal certification schemes, such as PCI, across specific parts of the business, with internal and external validation of compliance</li> <li>Ongoing assurance activities are performed across the estate by Internal Audit against the IT Controls Framework. Results are tracked and reported to the Audit and Risk Committee</li> <li>Global Incident Management framework is defined, including rating of incidents and required escalation</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>Excellence in Governance initiative being undertaken across revised ways of working and policies to enhance effectiveness, and initial policies under review</li> <li>Information Management and protection awareness training being rolled out</li> </ul>

Risk	Risk Background	Management and Mitigation
<p><b>#10 Regulatory and Legal Framework</b></p> <p>Sage does not understand and operate within the applicable regulatory and legal framework</p>	<p>Sage's services operate within a complex regulatory and legal environment. Monitoring this evolving regulatory and legal environment enables timely and appropriate steps to ensure on-going compliance.</p> <p><i>The approach initiated during FY15 is being continued and enhanced.</i></p>	<ul style="list-style-type: none"> <li>• All legal resources across Sage report directly to the global Legal Director</li> <li>• The legal function uses internal and external resources to monitor planned and realised changes in legislation</li> <li>• All product contracts are reviewed and approved through the global legal function</li> <li>• A suite of policies are in place to support key legislation, including Data Protection and anti-Bribery</li> <li>• A Code of Ethics policy is in place across the business which provides clarity over how colleagues are expected to behave. Completion of training and associated understanding is recorded and monitored</li> <li>• A Whistleblowing facility is in operation, to allow colleagues to raise issues without fear of recrimination, and to provide early oversight of issues</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>• Creation of a Compliance function to re-enforce the drive towards a 100% compliance culture</li> <li>• Review of all legal and regulatory policies underway as part of the defined Excellence in Governance initiative</li> <li>• Update of the Whistleblowing policy to reflect the revisions made to the Incident Management Policy, and ensure alignment</li> </ul>

## Statement of Directors' Responsibilities

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

The condensed consolidated half-yearly financial report for the six months ended 31 March 2016 includes the following responsibility statement.

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

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

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

On behalf of the Board

**S Hare**

Chief Financial Officer

4 May 2016

## **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 2016 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related explanatory notes 1 to 12. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### **Directors' Responsibilities**

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

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

### **Our Responsibility**

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

### **Scope of Review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP  
London  
4 May 2016