The Sage Group plc unaudited results for the six months ended 31 March 2017
Wednesday 3 May 2017

Strong momentum into the second half of FY17

Operating performance

- Achieved:
  - H1 17 *organic*[1] revenue growth of 6.4% (**excluding** North American Payments) with stronger organic revenue growth in Q2 of 7.0% (H1 16: 6.6%);
  - H1 17 *underlying*[1] revenue growth (**including** North American Payments) of 5.7% with underlying growth in Q2 of 6.3% (H1 16: 6.2%);
- Organic recurring revenue growth of 9.9% (H1 2016: 10.0%) and software subscription growth of 30.5% (H1 16: 34.8%), with managed 7.5% decline in SSRS revenue in line with the planned migration to subscription (H1 16: SSRS decline of 6.2%);
- Organic operating margin of 25.2% (H1 16: 25.6%) achieved, in line with front-loading investment into H1 which will support accelerating momentum in H2;
- Underlying cash conversion at 104% (H1 16: 111%), supporting free cash flow of £166m (H1 16: £142m) and the 8.8% increase in interim dividend to 5.22p;
- General and administrative (G&A) expense as a proportion of revenue has reduced to 15.2% (H1 16: 19.7%);
- Non-recurring items (exceptional costs) of £19m (H1 16: £29m) have secured annualised cost savings of £28m in the first six months of the year (H1 16: £17m), to be reinvested into growth, particularly sales and marketing. On track for full year annualised savings in excess of £50m.

1. See full definition of organic revenue and underlying revenue in appendix II on page 17.

FINANCIAL SUMMARY	H1 17	H1 16	Change
Organic revenue	**£838m**	**£787m**	**6.4%**
- Recurring revenue	£647m	£589m	9.9%
- Processing Revenue	£44m	£39m	11.1%
- SSRS Revenue	£147m	£159m	-7.5%
Underlying Revenue	**£912m**	**£863m**	**5.7%**
Organic operating profit	£211m	£201m	5.0%
Organic operating profit margin	25.2%	25.6%	-0.4%
Underlying basic EPS	14.45p	14.17p	2.0%
Underlying cash conversion	104%	111%	-7.0%
Ordinary dividend per share	5.22p	4.80p	8.8%

2. As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.
3. All comparatives are made against H1 16 unless otherwise disclosed.
4. Unless otherwise stated, all revenue growth measures are stated on an organic basis at constant exchange rates. Refer to Appendix II on page 17 for full definitions on non-GAAP measures and note 3 of the financial statements for details of items excluded from underlying operating profit.

STATUTORY SUMMARY – CONTINUING OPERATIONS	H1 17	H1 16	Change
Revenue	£840m	£684m	22.7%
Operating profit	£180m	£137m	31.6%
Profit before tax	£180m	£128m	41.1%
Basic EPS	12.57p	9.11p	38.0%

Statutory performance has been positively impacted by movements in key exchange rates during the year in all major currencies.

Building our business model for accelerating growth

- New customer acquisition is starting to gain traction through the "Cloud First" initiative:
  - Sage One annual recurring revenue (ARR) increased by 88% to £22m with an average annual contract value (ACV) of £70;
  - Sage Live customers at 889 with a March average ACV of £1,800;
  - Sage X3 revenue increased by 17% with 200 new customers added in H1;
  - Rolling out our cloud accounting products in our major geographies, with 52 product launches planned in FY17;
- Acquisitions of Fairsail and Compass announced in H1 17;
- Strategic review of Payments concluded and North American Payments business now classified as an asset held for sale and a discontinued operation. The Sage Pay UK & Ireland and Sage Pay South Africa businesses will be retained as they are delivering integrated solutions core to the strategy.

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

"These are positive results in line with market expectations and there are clear signs our strategy is working, with seven of our nine largest geographies, that collectively generate 95% of our revenues[5], now delivering growth in excess of our revenue guidance. The investments in our go-to-market functions are starting to bear fruit: our cloud-enabled products are growing strongly and we have made progress in our new customer acquisition strategy, driving momentum in Q2 that will continue throughout H2 and as we exit FY17.

Our updated payments and banking strategy and the acquisition of Fairsail, show our commitment to the golden triangle of accounting, people & payroll and payments & banking, reinforced by our cloud capabilities. We are focused on Sage continuing to invest in growth, predominantly through new customer acquisition with cloud-products, and supported by bolt-on acquisitions that accelerate the strategy."

Outlook

The business as defined and constituted at the time of publishing FY17 guidance included North American Payments and excluded the contributions from FY17 acquisitions. On this basis we are very confident of exceeding our full year guidance of 6% revenue growth. In addition we reconfirm our guidance of at least 27% operating margin on an underlying basis with acquisitions having no dilutive impact. We confirm there will be no further transformation-related exceptional charge post FY17 and the exceptional charge for current year is not expected to exceed £75m. We expect our strong Q2 performance to continue into H2 with accelerating momentum as we exit FY17.

About Sage

Sage – the market and technology leader for integrated Accounting, People & Payroll and Payment & Banking solutions, powered by the cloud and supporting the ambition of the world's entrepreneurs and business builders. Because when business builders do well, we all do.
For more information, visit www.sage.com

Enquiries:

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

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

An analyst presentation will be held at 8.30am today at 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, dial-in number +44 (0) 20 3427 1904, pin code: 3583475#. A replay of the call will also be available for two weeks after the event: Tel: +44 (0) 20 3427 0598, pin code: 3583475#

5.The geographies that generate 95% of Sage revenues comprise: Australia; Brazil; Canada; France; Germany; South Africa; Spain; USA and. UK & Ireland,

Chief Executive Officer's review

All commentary refers to organic growth (with underlying in brackets) unless otherwise stated and therefore excludes the contribution of assets held for sale (North American Payments) and acquisitions (Fairsail).

Operating Performance

H1 17 saw Sage continue to deliver on its strategy with revenue growth of 6.4% (5.7% underlying) in line with market expectations for the first six months. We have often stated that progress throughout the transformation would be non-linear, with H1 17 demonstrating this – Q1 was slightly weaker followed by a stronger Q2, growing at 7.0% (6.3% underlying), and we see the momentum from Q2 continuing into H2.

The strategy is working with seven out of our nine core geographies, which collectively generate 95% of our revenue, now growing in excess of revenue guidance. The transition to subscription continues: recurring revenue grew at 10%, underpinned by software subscription growth of 31%, with a managed decline in SSRS of 8%.

Growth in the European regions reflects 8% growth in Northern Europe (UK and Ireland) and 5% growth in Central and Southern Europe (predominately France, Spain, Germany). France had a challenging Q1 with some improvement in Q2. Growth in North America of 5% reflects 9% growth in Canada, balanced by slower growth in the US with recurring revenue below the overall growth rate. The International region grew by 13% in H1 17, driven by growth in Brazil of 23%, with good performance in Australia, balanced by weaker performance in Asia.

Update on our payments and banking strategy

The golden triangle remains integral to our strategy. Earlier in the year we announced a review of our payments and banking capabilities, which has now made significant progress. Today we reconfirm our commitment as a key participant in the global payments and banking services ecosystem, increasing our focus on deeply embedding payments and banking services within our accounting, payroll and people products, to help customers move and manage their money in many more geographies than we do today.

Execution of this strategy involves:

- Leveraging existing payments capability where it is complementary to our core business model and growth aspirations, like in South Africa where payments capabilities are deeply integrated within our software, and in the UK & Ireland, which is growing strongly through e-commerce;
- Evolving and adding to our existing strong and stable partnerships in this area with leading payment and technology companies such as PayPal, Verifone, Elavon, Mastercard, American Express, and major banks in key geographies;
- Exiting those areas where the fit with our core business is not as strong.

We can therefore confirm that our North American payments business is now held for sale but we plan to retain the payments businesses in UK & Ireland and South Africa.

This renewed focus allows us to integrate the latest in innovation and technology into our Sage solutions, speeding up the movement of money for our customers and enabling payments in all of our major geographies.

Strategy and transformation

The Sage business model provides profitable growth, superior margins, operating leverage and strong free cash flow to support progressive dividend and further investment in growth.

The customer for life (C4L) strategy provides the foundation for our growth as we add value both through the subscription model and through our hybrid cloud-line products (Sage 50c and Sage 200c family, with 200c family comprising 100c, 200c, 300c). The C-line product range provides the pathway for our on-premise customers to enjoy the flexibility of the cloud with improved user interface whilst maintaining the familiarity of desktop functionality. Uptake in C-line products has been successful, with Sage 50c growing by 25% in the past six months and the integration of Microsoft's Office 365, launched in H1, gaining strong early momentum.

As we maintain the focus on C4L, phase two of our plan involves driving forward new customer acquisition (NCA) with innovative cloud products developed in the last two years. Throughout the year we have been rolling out our new Cloud Accounting Products into our major geographies, with Sage Live launching in eight countries, Sage One now in 14 countries, of which seven are now on a single code base and the latest version of X3 in 14 countries.

As the roll out of these products continues throughout the year we expect the performance from Q2 to carry into H2, building momentum towards the end of the year, and we are already seeing green shoots of NCA success:

- Sage One is becoming a more significant revenue stream. The product now has over 382k subscriptions with monthly contract values starting to increase as we continue to enhance functionality and integrate more features such as Pegg, inventory and bank feeds;
- Sage Live average contract value also continues to rise as functionality increases, with inventory and fixed asset modules launching in 2017, and as customers appreciate the value of this product: the average ACV increased from £1,200 in November 2016 to £1,800 in March 2017.
- Sage X3 is growing at 17% with customer numbers up 13% in H1 17 and is starting to scale up further into the enterprise market.

We also stated that as part of phase two of the transformation we would identify at least £50m of cost savings in FY17 with a payback of under two years. In H1 17, we have already identified savings of £28m (H1 16: £17m) with further savings in H2, reinvesting in our go to market function.

The strategy is clear, simple and working. For our three million business customers, C4L provides the platform for growth. Addressing the wider total market of over 70m businesses, we have strong conviction that NCA with our award-winning cloud products will accelerate growth and market share. Bolt-on acquisitions that complement the strategy will further supplement profitable growth.

There will be no further exceptional cost from the transformation post FY17, signalling the end of our transformational restructuring, but continuing to drive efficiencies and simplification in the business will become "business as usual" into FY18 and beyond. The exceptional charge for FY17 is not expected to exceed £75m.

Technology Strategy

Accounting is becoming increasingly automated and in future, all businesses will be software enabled – a huge opportunity for Sage. We are using the latest technological innovations to evolve accountancy software into complete cloud solutions, leap-frogging the competition, with products such as Sage Live. Instead of hard to analyse, backwards-looking financial data, Sage Live provides real-time, commercially-focused scoreboards, encouraging both front and back-office use to facilitate managing much more of the business than just accounts – all in the cloud, from the palm of the hand and fully integrated into our golden triangle of Accounting, People & Payroll and Payments.

We are also incorporating the latest technology to increase automation in our products. Sage One now uses AI to automatically perform bank reconciliations, previously an arduous manual task. Pegg, the world's first accounting chatbot and with over 20,000 users, is also now embedded within Sage One, providing a virtual personal assistant to perform admin tasks through chat, voice and camera.

Throughout this digital transformation we are taking our accountants on the cloud and automation journey, working together with them. Our launch of Sage Accounting Cloud at Sage Summit UK in April 2017 will provide the most comprehensive and most connected ecosystem of cloud solutions for accountants and their clients.

Capital allocation

Our disciplined capital allocation involves investing in growth, both organically, through our pure cloud and hybrid cloud solutions, and through targeted investments and bolt-on acquisitions.

In March 2017 we announced the acquisition of Fairsail. The business strengthens our commitment and acceleration to cloud technology and further enhances the golden triangle. Fairsail, now rebranded as Sage People, is integrating into the Sage family and the acquisition has accelerated our People & Payroll offering. Sage People is growing faster than Group rate, and delivering People science with X3, our enterprise accounting solution.

We also announced the acquisition of Compass, the collective intelligence, analytics and benchmarking platform, adding to our IP and technological innovation to be integrated into our suite of Cloud Accounting Products.

Our North American Payments business is now held for sale.

Progress in areas targeted to improve performance

Throughout FY15 and FY16 we highlighted that Enterprise Europe, Payments North America and Small and Medium Business North America were areas targeted for improvement. Of this list, Enterprise Europe is now showing sustained growth, with X3 growing at 11% in the region in H1. We have also announced the disposal of our North American Payments business and in Small and Medium Business North America we are starting to see strong traction in our C-line products, with

Sage 50c, and products within the 200c family achieving triple digit software subscription revenue growth.

Progress of execution

Throughout H1 17 we have continued to execute on our transformation by driving improvements through each of our five strategic pillars, shared at the Capital Markets Day in June 2015, which we use internally to report progress. There is strong evidence that our strategy is working, with continued improvements planned throughout FY17:

1. Customers for Life

- Software subscription contract growth of 48% with over 1.2m software subscription contracts now in place and 2.2m recurring revenue contracts in total.
- Renewal rate of 86% up from 84% in H1 16.
- We are starting to see traction in our cross-sell campaigns. In the US, we have a 57% payroll attach rate for on-plan Sage 50 and Sage 200 customers, and in the UK, the 4Ps campaign of cross-selling pension auto-enrolment with payroll, payslips and payments generated a 41% conversion rate and tripled the value of contracts.

2. Winning in the Market

- Sage One achieved revenue growth of 66%. Sage One single code base is now available in seven countries and the single code base enables rapid roll-out to new geographies.
- Sage Live average ACV in March is now £1,800 with 889 customers signed.
- In FY17 Sage Summit has been rolled out across the globe to seven of our major countries, with focus on local customers, partners and accountants. The April event in London gained over 8,000 registrations with over 100m social media impressions.

3. Revolutionise Business

- The technology innovation accentuates the most noticeable change in Sage with 52 major country product launches planned in FY17.
- The Sage Cloud Ecosystem enables us to develop microservices (e.g. bank feeds, compliance updates) that can be implemented in one step across our entire suite of hybrid and pure cloud solutions, instead of applying individually to each of our products – a huge efficiency.
- We have now signed over 350 ISVs with over 100 applications fully integrated, enabling our customers to customise their solution to allow Sage to manage much more than just accounting.

4. Capacity for growth

- G&A expense as a proportion of revenue has now reduced to 15% (H1 16: 20%) and we are still focused on delivering further efficiencies.
- We continue to transform our organisation, reducing marketing headcount by 11% to enable greater flexibility on variable investment and hiring over 300 new sales heads in H1 17.

5. One Sage

- Throughout the transformation it is imperative that we embed the right culture within our organisation and align our colleagues to Sage's values and strategy. Goal setting and reward is now aligned throughout Sage by our Vision, Strategy, Goals, Measures (VSGM) initiative. Each individual's goals and objectives are aligned to their function and the CEO's VSGM, which ensures colleagues are fully attuned to the strategy.

- The Sage Foundation continues to expand and has proven to be a great way to attract and maintain the right talent, whilst giving back to the community and doing the right thing. We have awarded 188 grants to date and donated 10,000 days by Sage colleagues in H1 17, as well as launching 'botcamp' around the UK, to inspire the next generation of chatbot innovators.

Strategic focus for H2 17

We invested for growth throughout H1, rolling out our pure cloud and hybrid solutions in our major geographies and delivering Sage Summit globally. The focus for H2 is to deliver on these investments to continue to drive momentum throughout the rest of FY17 and beyond, through a combination of building, buying and partnering to access the latest technology, underpinned by rigorous financial discipline.

Chief Financial Officer's review

Group performance

The Group achieved organic revenue growth of 6.4% (5.7% underlying growth) (H1 16: 6.2%) and an organic operating profit margin of 25.2% (H1 16: 25.62).

Higher quality recurring revenue growth continues to drive revenue growth, growing at 9.9% in H1 17 (H1 16: 10.0%) including growth in software subscription revenue of 30.5% (H1 16: 34.8%).

Organic revenue neutralises the impact of foreign currency fluctuations and excludes the contribution from current and prior period acquisitions, discontinued operations, disposals and assets held for sale. Underlying revenue neutralises the impact of foreign currency fluctuations but includes the contribution from current and prior period acquisitions, discontinued operations, disposals and assets held for sale. A reconciliation of operating profit to statutory operating profit is shown on page 13.

Statutory performance has been impacted by favourable movements in key exchange rates during the year in all major currencies. Statutory figures are based on continuing operations and include the impacts of acquisitions and disposals.

Revenue

	STATUTORY			UNDERLYING			ORGANIC		
	H1 17	**H1 16**	**Change**	**H1 17**	**H1 16**	**Change**	**H1 17**	**H1 16**	**Change**
Northern Europe	180	166	**8.8%**	180	166	**7.8%**	180	166	**7.5%**
Central & Southern Europe	282	233	**21.2%**	282	271	**4.5%**	282	271	**4.5%**
North America	241	192	**24.7%**	313	304	**3.0%**	241	230	**4.6%**
International	137	93	**47.1%**	137	122	**12.6%**	135	120	**12.8%**
Group	**840**	**684**	**22.7%**	**912**	**863**	**5.7%**	**838**	**787**	**6.4%**

Operating Profit

	STATUTORY			UNDERLYING			ORGANIC		
	H1 17	**H1 16**	**Change**	**H1 17**	**H1 16**	**Change**	**H1 17**	**H1 16**	**Change**
Group	180	137	32%	229	220	**+4%**	211	201	+5%
Margin	21.4%	20.0%	+140bps	25.1%	25.5%	-40bps	25.2%	25.6%	-40bps

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

Throughout H1 17 we have focused on cost savings with £28m secured in the first six months of the year (H1 16: £17m), mainly relating to people savings, fully reinvested into sales and marketing. An associated exceptional cost of £19m (H1 16: £31m) has been recognised in the period.

Revenue mix

Segmental reporting

Following a change in our regional management structure, we have split our Europe region into Northern Europe, comprising the UK and Ireland with Central & Southern Europe comprising Germany, Switzerland, Poland, France, Spain, and Portugal.

	RECURRING REVENUE			PROCESSING REVENUE			SSRS REVENUE		
ORGANIC	**H1 17**	**H1 16**	**Change**	**H1 17**	**H1 16**	**Change**	**H1 17**	**H1 16**	**Change**
Northern Europe	*£143m*	*£127m*	***+12%***	*£19m*	*£17m*	***+9%***	*£18m*	*£22m*	***-20%***
Central & Southern Europe	*£218m*	*£202m*	***+8%***	*£1m*	*£1m*	***+47%***	*£63m*	*£68m*	***-7%***
Total Europe	£361m	£329m	**+10%**	£20m	£18m	**+11%**	£81m	£90m	**-10%**
North America*	£187m	£174m	**+7%**	£17m	£16m	**+4 %**	£37m	£40m	**-7%**
International	£99m	£86m	**+16%**	£7m	£5m	**+36%**	£29m	£29m	**+0%**
Group	£647m	£589m	**+10%**	£44m	£39m	**+11%**	£147m	£159m	**-8%**
% of total organic revenue	**77%**	**75%**		**5%**	**5%**		**18%**	**20%**	

*excluding North American Payments

Recurring revenue

The Group delivered recurring revenue growth of 10% (H1 16: 10%), driven by the year-on-year increase in subscription revenue of 31% (H1 16: 35%), in line with the transition to a subscription model.

Contract renewal rates have reached 86% (H1 16: 84%) and recurring revenue now represents 77% of organic revenue (H1 16: 75%).

Processing revenue

Processing revenue has grown by 11% (H1 16: 17%), reflecting strong growth in the European regions and International, offset by slower growth in North America. Including North American Payments, processing revenue growth was 2% for the half.

SSRS revenue

SSRS revenue declined by 8% (H1 16: decline of 6%) in line with the continued transition to subscription based revenue, balanced by flat professional services revenue and growth in X3 licences and software related services.

Performance – European regions

ORGANIC REVENUE GROWTH	H1 17	H1 16
Northern Europe	***8%***	***8%***
Germany	7%	6%
France	1%	7%

Spain	8%	6%
Other European countries	10%	-4%
Central & Southern Europe	***5%***	***5%***
Total Europe	***6%***	***7%***

Revenue in the European regions grew by 6% overall in H1 17 (H1 16: 7%). Within Europe all markets excluding France have grown in excess of the organic group growth rate of 6.4%.

Europe achieved recurring revenue growth of 10%, of which software subscription revenue grew by 21% (H1 16: 30%), with strong growth in all markets except France. Europe continues to deliver on the transition to a recurring revenue model driving growth through the installed base. Software subscription now represents 35% of total revenue in Europe (H1 16: 31%).

Processing revenue grew by 11% in Europe (H1 16: 9%) largely due to the growth in Sage Pay in the UK & Ireland.

SSRS revenue declined by 10% (H1 16: decline of 1%) due to the continued planned decline in licences and a slight decline in professional services revenue, offset by the growth in X3.

Northern Europe

UK & Ireland – strong growth driven by C4L

UK & Ireland revenue grew by 8% (H1 16: 8%) in the half, with recurring revenue growth of 12% underpinned by software subscription growth of 26%.

The main growth driver in H1 17 was Sage 50 Accounts, a very popular solution in the UK & Ireland market, with software subscription revenue doubling in H1 17 as customers transition to subscription and benefit from enhanced features and functionality in Sage 50c, our hybrid cloud product.

The UK & Ireland also delivered strong performance on X3 with 34% revenue growth in the half, harvesting a stronger pipeline developed by a strengthened direct sales team. Three transactions over £100k were signed in the first six months for X3.

Sage One paying subscriptions in the UK & Ireland grew by 54%, driven mainly by the Accountants channel.

Processing growth of 9% was driven by the increase in Sage Pay due to growth of e-commerce within the UK & Ireland.

Central and Southern Europe

France – challenges in partners and NCA

In France, revenue grew by 1% (H1 16: 7%), below our ambitions for the country. Recurring revenue growth of 4% is below Group growth, due to a first year premium being charged in prior years as customers were migrated to subscription, and with challenges in driving NCA through the partner channel. The first year premium is now being phased out to align the commercial model in France with the rest of Sage.

SSRS decline of 14% in H1 reflects the transition to subscription and timing of X3 transactions. This decline has recovered somewhat from Q1 as revenue starts to catch up from the delay in training revenue that had been expected in Q1.

We are focused on improving growth in France in H2 with several initiatives implemented:

- Strong push on NCA with the launch of Sage 50c, Sage 200c, Sage One Global Accounting Core (single code base) and Sage Live in the country;
- New sales organisations with partner account managers aligned to key partners in the country to encourage growth through NCA in this channel.

Spain – strong subscription revenue growth

Revenue growth of 8% (H1 16: 6%) was driven by recurring revenue growth of 10%. Spanish local growth products, Contaplus and Murano were the main sources of revenue growth in the country, but X3 is starting to gain significant traction, growing by 43% in the half.

Six new products are being launched in Spain this financial year which we expect will secure sustained revenue growth both through the installed base with hybrid cloud products and in new customer acquisition with pure cloud products.

Germany – strong subscription revenue growth

Germany delivered revenue growth of 7% (H1 16: 6%), driven by strong recurring revenue growth of 15% in the half. Office Line, the flagship local product, continues to deliver double digit revenue growth. The transition to subscription continues to progress well in Germany, with software subscription growth of 39%.

Performance – North American region

ORGANIC REVENUE GROWTH	**H1 17**	**H1 16**
USA (excluding North American Payments)	+4%	+7%
Canada	+9%	+4%
North America	**+5%**	**+7%**

North America delivered revenue growth of 5% (H1 16: 7%) comprising recurring revenue growth of 7% (H1 16: 9%) and processing revenue growth of 4% (H1 16: growth of 30%), offset by a decline in SSRS of 7% (H1 16: decline of 9%).

Recurring revenue growth of 7% is below the Group growth rate. This is a function of success in the on-plan base in the past, where most customers were on the highest tier of support, driving a lower level of value uplift to subscription than other countries. Nevertheless, the transition to subscription is starting to gain traction in North America, with triple digit software subscription revenue growth in the period. Particularly successful growth was seen in Sage 50 and 200 where C-line products are proving popular solutions. Challenges in the partner channel are starting to be addressed in the region, with increased focus on the top 30 partners to drive recurring revenue growth. Software subscription revenue in North America is now 22% of total revenue (H1 16: 12%).

Processing revenue growth of 4% reflects a slowing of payroll processing growth in H1. Plans are in place to improve growth by investing in more quota carrying heads.

The decline in SSRS was driven by the transition to subscription, offset by growth in X3 of 25%, driven by geographical expansion and the hire of quota carrying sales heads.

Canada performed particularly well, growing at 9% in the first six months of the year, driven by success with Sage 50c and Sage 200c.

In H2 the focus for the region will be:

- Improving growth in payroll processing by employing more quota-carrying heads;
- Continuing attention towards top 30 partners;
- Accelerating Sage Live growth;
- Continuing the transition to subscription through C-line products, integrated with Office 365.

North American Payments – held for sale

We have completed the strategic review of North American Payments with the conclusion that the business now held for sale. Revenue in North American Payments declined slightly in H1. The business had experienced some compression in margin and volume, although the decline was less pronounced in Q2 than Q1.

Performance – International region

ORGANIC REVENUE GROWTH	**H1 17**	**H1 16**
Africa and Middle East	+14%	+17%
Brazil	+23%	+8%
Australia	+8%	+7%
Asia	-6%	-35%
International	**+13%**	**+6%**

Organic revenue in the International region grew by 13% year-on-year (H1 16: 6%), with recurring revenue growth of 16% (H1 16: 17%), processing revenue growth of 36% (H1 16: 12%) and flat SSRS (H1 16: decline of 17%). Software subscription revenue in International is now 55% of total revenue (H1 16: 51%).

Growth in the region has been driven by strong performance in Brazil and Africa & Middle East, both of which have had success in new customer acquisition through Sage One and X3, balanced by a slight decline in revenue in Asia.

Africa and Middle East – winning in the market with X3 and Sage One

Growth in Africa and Middle East of 14% reflects growth across recurring, processing and subscription revenue.

Africa's revenue growth is driven by new customer acquisition with a 14% growth in X3 revenue and 64% growth in Sage One revenue with Africa generating the second highest sales value for Sage One, behind UK & Ireland.

Middle East grew 23% driven by strong growth in X3.

Brazil – success in new customer acquisition

Brazil grew at the fastest rate of our major countries at 23% with double digit recurring and SSRS revenue. Brazil continues to attract new Sage One customers at scale, with almost 50,000 paying subscriptions now secured and Sage One revenue increasing by triple digits, thanks to successful marketing campaigns and the legislative environment.

Australia and Asia

In Australia, revenue growth of 8% reflects strong recurring revenue growth of 11%, driven by local growth product, Sage Meridian. Sage One continues to perform well, adding 9,000 contracts in the past twelve months.

Asia revenue (accounting for 1% of total revenue) declined by 6% reflecting a flat performance in Singapore and a 17% decline in Malaysia due to challenges in C4L initiatives.

Financial review

	H1 17			H1 16		
ORGANIC TO STATUTORY RECONCILIATIONS	**Revenue**	**Operating profit**	**Margin**	**Revenue**	**Operating profit**	**Margin**
Organic	£838m	£211m	25.2%	£787m	£201m	25.6%
Organic adjustments[1]	£2m	-		£2m	-	
Underlying – Continuing	£840m	£211m	25.1%	£789m	£201m	25.5%
Discontinued operations	£72m	£18m		£74m	£19m	
Underlying	£912m	£229m	25.1%	£863m	£220m	25.5%
Discontinued operations[2]	(£72m)	(£18m)		(£74m)	(£19m)	
Impact of foreign exchange[3]	-	-		(£105m)	(£27m)	
Underlying (as reported) - Continuing	£840m	£211m		£684m	£174m	
Recurring items[4]	-	(£12m)		-	(£8m)	
Non-recurring items[5]	-	(£19m)		-	(£29m)	
Statutory – Continuing	£840m	£180m	21.4%	£684m	£137m	20.0%

[1]Organic adjustments are as per note 2 of the financial statements.
[2]For the purposes of this reconciliation, FY16 discontinued operations have been retranslated at FY17 average rates.
[3]Impact of retranslating FY16 results at FY17 average rates.
[4]Recurring items comprise amortisation of acquired intangible assets, M&A activity-related items and fair value adjustments.
[5]Non-recurring items comprise items that management judge to be one-off or non-operational including business transformation costs.

Revenue

Statutory revenue grew by 23% to £840m (H1 16: £684m), reflecting organic growth, combined with foreign exchange movements experienced throughout the year. The impact of foreign exchange of £105m in H1 16 reflects a currency tailwind during the period.

Operating profit

Organic operating profit increased by 5% to £211m (H1 16: £201m) in line with organic revenue and the organic operating profit margin was lower by 0.4% at 25.2% as we front-load investment, in line with guidance issued in FY16. Statutory operating profit increased by £43m, with the operating profit margin rising by 1.4% due to the impact of foreign exchange.

Adjustments between underlying and statutory operating profit

Non-recurring items excluded from the underlying operating profit of £211m include £19m costs in relation to the business transformation comprised of people organisation charges of £9m, net property exit costs of £3m and other directly attributable costs of £7m. Recurring items of £12m represents amortisation of acquisition related intangible assets and M&A activity related charges.

Non-recurring item from Fairsail acquisition

A gain of £13m has arisen on remeasurement of the existing investment in Fairsail held prior to the acquisition of the remaining shareholding completed in March 2017.

Net finance cost

The statutory net finance cost for the period was £11m (H1 16: £9m) and the underlying net finance cost was £11m (H1 16: £11m). The difference between underlying and statutory net finance costs for the period reflects a gain of £1m (H1 16: nil) from a valuation adjustment of a financial asset, offset by a fair value adjustment to a debt related instrument charge of £1m (H1 16: income £2m).

Taxation

The Group's underlying effective tax rate for H1 17 is 27% (H1 16: 26% excluding discontinued operations). The effective rate has increased in the period primarily due to a number of one off prior year credits in the prior year in relation to a US tax settlement.

The Group's statutory effective tax rate is 25% (H1 16: 23% excluding discontinued operations). In FY17, the statutory tax rate is lower than the underlying effective tax rate mainly due to a non-taxable gain arising from the Fairsail acquisition.

Earnings per share

Underlying basic earnings per share increased by 2.0% to 14.45p (H1 16: 14.17p) and statutory basic earnings per share increased to 13.54p (H1 16: 9.88p) due to increased operating profit, offset by a higher effective tax rate.

Cash flow and net debt

CASH FLOW	**H1 17**	**H1 16**
Underlying operating profit (as reported)	£229m	£189m
Underlying cash flow from operating activities	£238m	£210m
Underlying cash conversion[1]	**104%**	**111%**

[1] Refer to Appendix II on page 17 for information on Non-GAAP measures
[2.] See note 10 within the financial statements

The Group remains cash generative with underlying cash flows from operating activities of £238m, which represents underlying cash conversion of 104%, down slightly from H1 16, reflecting an increase in working capital.

A total of £101m was returned to shareholders through ordinary dividends paid. Net debt stood at £434m at 31 March 2017 (31 March 2016: £404m).

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 current Group's syndicated bank multi-currency Revolving Credit Facility (RCF), expires in June 2019 with facility levels of £625m (US$551m and €218m tranches). At 31 March 2017, £92m (H1 16: £110m) of the RCF was drawn. Current year RCF drawings was used principally to fund the Fairsail acquisition and USPP note repayment, both in March 2017, with drawings at March 2016 repaid prior to 30 September 2016.

Total USPP loan notes at 31 March 2017 were £551m (US$600m and EUR€85m), (H1 16: £519m (US$650m and €85m). Approximately £40m (US$50m) of USPP borrowings were repaid in March 2017. 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:

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	H1 17	H1 16	Change
Euro (€)	1.16	1.34	-14%
US Dollar ($)	1.24	1.48	-16%
South African Rand (ZAR)	16.82	22.12	-24%
Australian Dollar (A$)	1.65	2.05	-20%
Brazilian Real (R$)	3.99	5.71	-30%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic policy remains an acceleration of growth, both organically and through targeted bolt-on acquisitions. The growth underpins the Board's sustainable, progressive dividend policy with surplus cash being returned to shareholders from time to time. Consistent with this policy, the Board is proposing an 8.8% increase in the interim ordinary dividend per share for the period to 5.22p per share (H1 16: 4.80p per share).

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

STRATEGIC KPIs	KPI DESCRIPTION	H1 17	FY16	H1 16
Customers for life: Contract renewal rate	As we focus on providing exceptional customer experiences, we track the response of our customers by measuring the number of contracts successfully renewed for the last twelve months as a percentage of those that were due for renewal.	86%	86%	84%
Winning in the market: Adoption of Sage One	The number of paying subscriptions for our portfolio of Sage One products.	382,000	313,000	229,000
Winning in the market: Adoption of Sage X3	The percentage increase in underlying revenue derived from Sage X3.	17%	19%	17%
Revolutionise business: Annualised software subscription base (“ASB”)	Our latest technologies are delivered to customers via software subscription relationships which drives growth in the ASB, calculated as the amount of organic software subscription revenue recorded in the last month of the period multiplied by 12.	£618m	£536m	£483m
Capacity for growth: G&A%	Investing for growth is enabled by releasing efficiencies in General and Administrative (“G&A”) expenses. We track progress by expressing G&A as a percentage of revenue (both on an organic basis).	15%	17%	20%
One Sage	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.			

		H1 17	FY16	H1 16
Organic revenue growth	Organic revenue neutralises the impact of foreign exchange in prior period figures and excludes the contribution of current and prior period acquisitions, disposals and products held for sale.	6.4%	6.8%	6.6%
Organic operating profit margin	Organic operating profit excludes: – Recurring items including amortisation of acquired intangible assets, acquisition-related items and fair value adjustments; – Non-recurring items that management judge to be one-off or non-operational; and – The contribution of current and prior period acquisitions, disposals and businesses or products held for sale. The impact of foreign exchange is neutralised in prior period figures.	25.2%	27.1%	25.6%
Underlying basic EPS growth	Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding: – Recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and imputed interest; and – Non-recurring items that management judge to be one-off. All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior period figures.	+2.0%	+9.0%	-1.5%
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.	104%	100%	111%
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.	0.9:1	0.9:1	1.0:1

Appendix II – Non-GAAP measures

MEASURE	DESCRIPTION	WHY WE USE IT
Underlying	Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying operating profit excludes: – Recurring items: · Amortisation of acquired intangible assets; · M&A activity-related items; · Fair value adjustments on non-debt-related financial instruments and foreign currency movements on intercompany debt balances; and – Non-recurring items that management judge are one-off or non-operational. Underlying profit before tax excludes: – All the items above; and – Imputed interest; and – Fair value adjustments on debt-related financial instruments. Underlying profit after tax and earnings per share excludes: – All the items above net of tax.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.	Organic 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. Recurring revenue includes both software subscription revenue and maintenance and service revenue.
Software subscription revenue	Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play').
Software and software related services ("SSRS")	SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.
Processing revenue	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.
Annual contract value	Annual Contact Value (ACV) is the value of bookings that will be generated over the ensuing year under a given contract or contracts.
Annual recurring revenue	Annual recurring revenue (ARR) is the value of all components of recurring revenue, annualised for the ensuing year.

Consolidated income statement
For the six months ended 31 March 2017

	Note	**Six months ended 31 March 2017 (Unaudited) Underlying £m**	**Six months ended 31 March 2017 (Unaudited) Adjustments* £m**	**Six months ended 31 March 2017 (Unaudited) Statutory £m**	Six months ended 31 March 2016 (Unaudited) Underlying as reported Restated £m	Six months ended 31 March 2016 (Unaudited) Adjustments* Restated £m	Six months ended 31 March 2016 (Unaudited) Statutory Restated £m	Year ended 30 September 2016 (Unaudited) Statutory Restated £m
Revenue	2	**840**	**–**	**840**	684	–	684	1,439
Cost of sales		**(54)**	**–**	**(54)**	(42)	–	(42)	(91)
Gross profit		**786**	**–**	**786**	642	–	642	1,348
Selling and administrative expenses		**(575)**	**(31)**	**(606)**	(468)	(37)	(505)	(1,081)
Operating profit	2	**211**	**(31)**	**180**	174	(37)	137	267
Share of loss of an associate		**(1)**	**(1)**	**(2)**	–	–	–	(1)
Gain on remeasurement of existing investment in an associate		**–**	**13**	**13**	–	–	–	–
Finance income		**1**	**1**	**2**	1	2	3	5
Finance costs		**(12)**	**(1)**	**(13)**	(12)	–	(12)	(29)
Profit before income tax		**199**	**(19)**	**180**	163	(35)	128	242
Income tax expense	4	**(54)**	**10**	**(44)**	(42)	12	(30)	(54)
Profit for the period – continuing operations		**145**	**(9)**	**136**	121	(23)	98	188
Profit on discontinued operations	11	**11**	**(1)**	**10**	9	(1)	8	20
Profit for the period		**156**	**(10)**	**146**	130	(24)	106	208

* Adjustments are detailed in note 3 to the accounts.

	Note	**Underlying**	**Adjustments***	**Statutory**	Underlying as reported	Adjustments*	Statutory	Year ended Statutory
Earnings per share attributable to the owners of the parent (pence)								
From continuing operations								
Basic	6	**13.46p**		**12.57p**	11.27p		9.11p	17.43p
Diluted	6	**13.40p**		**12.52p**	11.20p		9.06p	17.33p
From continuing and discontinued operations								
Basic	6	**14.45p**		**13.54p**	12.09p		9.88p	19.28p
Diluted	6	**14.39p**		**13.48p**	12.01p		9.82p	19.16p

Consolidated statement of comprehensive income

For the six months ended 31 March 2017

	Six months ended 31 March 2017 (Unaudited) £m	Six months ended 31 March 2016 (Unaudited) £m	Year ended 30 September 2016 (Audited) £m
Profit for the period	**146**	106	208
Other comprehensive income/(expenses) for the period			
Items that will not be reclassified to profit or loss			
Actuarial loss on post-employment benefit obligations	**1**	–	(2)
Deferred tax credit on actuarial loss on post-employment benefit obligations	**–**	–	1
	1	–	(1)
Items that may be reclassified to profit or loss			
Deferred tax credit on foreign currency movements	**–**	–	2
Exchange differences on translating foreign operations	**15**	37	117
	15	37	119
Other comprehensive income for the period, net of tax	**16**	37	118
Total comprehensive income for the period	**162**	143	326

The notes on pages 23 to 38 form an integral part of this condensed consolidated half-yearly report.

Consolidated balance sheet
As at 31 March 2017

	Note	**31 March 2017 (Unaudited)**	31 March 2016 (Unaudited)	30 September 2016 (Audited)
		£m	£m	£m
Non-current assets				
Goodwill	7	**1,589**	1,520	1,659
Other intangible assets	7	**102**	108	109
Property, plant and equipment	7	**121**	128	123
Investment in associate		**–**	–	9
Other financial assets		**2**	1	3
Deferred income tax assets		**58**	39	58
		1,872	1,796	1,961
Current assets				
Inventories		**3**	2	2
Trade and other receivables		**445**	375	420
Current income tax asset		**5**	–	8
Cash and cash equivalents (excluding bank overdrafts)	10	**309**	356	264
Assets classified as held for sale	11	**265**	–	1
		1,027	733	695
Total assets		**2,899**	2,529	2,656
Current liabilities				
Trade and other payables		**(322)**	(374)	(350)
Current income tax liabilities		**(23)**	(25)	(21)
Borrowings		**(5)**	(35)	(43)
Provisions		**(34)**	(19)	(38)
Deferred income		**(624)**	(523)	(536)
Liabilities classified as held for sale	11	**(51)**	–	–
		(1,059)	(976)	(988)
Non-current liabilities				
Borrowings		**(642)**	(592)	(535)
Post-employment benefits		**(24)**	(22)	(25)
Deferred income tax liabilities		**(19)**	(7)	(13)
Provisions		**(26)**	(11)	(29)
Trade and other payables		**(5)**	–	(8)
Deferred income		**(5)**	(3)	(5)
		(721)	(635)	(615)
Total liabilities		**(1,780)**	(1,611)	(1,603)
Net assets		**1,119**	918	1,053
Equity attributable to owners of the parent				
Ordinary shares	9	**12**	12	12
Share premium	9	**545**	543	544
Other reserves		**202**	104	187
Retained earnings		**360**	259	310
Total equity		**1,119**	918	1,053

Consolidated statement of changes in equity

For the six months ended 31 March 2017

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

	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)	12	541	67	242	862
Profit for the period	–	–	–	106	106
Other comprehensive income					
Exchange differences on translating foreign operations	–	–	37	–	37
Total comprehensive income for the period ended 31 March 2016 (Unaudited)	–	–	37	106	143
Transactions with owners					
Employee share option scheme:					
- Proceeds from shares issued	–	2	–	–	2
- Value of employee services, net of deferred tax	–	–	–	6	6
Purchase of treasury shares	–	–	–	(2)	(2)
Dividends paid to owners of the parent	–	–	–	(93)	(93)
Total transactions with owners for the period ended 31 March 2016 (Unaudited)	–	2	–	(89)	(87)
At 31 March 2016 (Unaudited)	12	543	104	259	918

Consolidated statement of cash flows

For the six months ended 31 March 2017

	Notes	**Six months ended 31 March 2017 (Unaudited) £m**	Six months ended 31 March 2016 (Unaudited) Restated £m	Year ended 30 September 2016 (Unaudited) Restated £m
Cash flows from operating activities				
Cash generated from continuing operations		**217**	199	360
Interest paid		**(12)**	(10)	(21)
Income tax paid		**(39)**	(48)	(92)
Operating cash flows generated from discontinued operations		**13**	14	38
Net cash generated from operating activities		**179**	155	285
Cash flows from investing activities				
Acquisitions of subsidiaries, net of cash acquired	11	**(79)**	(6)	(6)
Purchases of intangible assets	7	**(7)**	(3)	(8)
Purchases of property, plant and equipment	7	**(8)**	(13)	(23)
Purchase of investment in an associate		**–**	–	(10)
Proceeds from sale of property, plant and equipment		**–**	1	–
Interest received		**2**	1	2
Investing cash flows generated from discontinued operations		**–**	–	–
Net cash used in investing activities		**(92)**	(20)	(45)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	9	**1**	2	3
Purchase of treasury shares		**–**	(2)	(2)
Finance lease principal payments		**–**	–	(1)
Proceeds from borrowings		**133**	70	69
Repayments of borrowings		**(80)**	(79)	(189)
Movements in cash held on behalf of customers		**22**	45	(4)
Borrowing costs		**(1)**	–	(2)
Dividends paid to owners of the parent	5	**(101)**	(93)	(145)
Financing cash flows generated from discontinued operations		**7**	(1)	(8)
Net cash used in financing activities		**(19)**	(58)	(279)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (before exchange rate movement and reclassification as held for sale)	10	**68**	77	(39)
Effects of exchange rate movement	10	**4**	16	36
Reclassification as held for sale	10	**(28)**	–	–
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**44**	93	(3)
Cash, cash equivalents and bank overdrafts at 1 October	10	**260**	263	263
Cash, cash equivalents and bank overdrafts at period end	10	**304**	356	260

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Notes to the financial information
For the six months ended 31 March 2017

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 2 May 2017.

The financial information set out above does not constitute the Company's Statutory Accounts. Statutory Accounts for the year ended 30 September 2016 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 2016.

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 2017 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 2016, which have been prepared in accordance with IFRSs as adopted by the EU.

The prior periods consolidated income statement, consolidated statement of cash flows and their related notes have been restated for the presentation of discontinued operations. For further information on discontinued operations see note 11. In line with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations', the statement of financial position has not been restated.

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 2016 as described in those annual financial statements.

Adoption of new and revised IFRSs

The following new accounting standards may have a material impact on the Group. They are currently issued but not effective for the Group for the six-month period ended 31 March 2017:

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

IFRS 16 has not yet been endorsed by the EU. The Group plans to adopt these standards in line with their effective dates, which for IFRS 16 will be confirmed once the standard is endorsed by the EU. Currently, based on the expected timing of that endorsement, IFRSs 9 and 15 will be adopted for the financial year commencing 1 October 2018, and IFRS 16 for the financial year commencing 1 October 2019. The Group is continuing its assessment of the impact that the application of these standards will have on the Group’s financial statements but it remains too early to determine how significant any effect on actual financial results and financial position might be.

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 2016 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 2016 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 2017 can also be found on our website: www.sage.com/investors/investor-downloads

2 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Quarterly Business Reviews chaired by the President and Chief Financial Officer (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.

With effect from 1 October 2016, the Group has been organised into seven key operating segments: Northern Europe, Central Europe, Southern Europe, North America, Africa and the Middle East, Asia (including Australia) and Latin America. The current structure reflects changes made to introduce a flatter, more focussed structure to allow businesses to get closer to their customers. Prior to that date, the organisation structure reflected four operating segments (Europe, North America, Brazil and Africa, Australia, Middle East and Asia) and three reportable segments. For reporting under IFRS 8 for the six months ended 31 March 2017, the Group is divided into three reportable segments. These segments and their main operating territories are as follows:

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

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

The operating segments for Central Europe and Southern Europe have been aggregated into a single reportable segment. These operating segments are considered to share similar economic characteristics because they have similar long term gross margins, operate in similar markets principally within the EU and the majority of their businesses are in countries within the euro area.

Segment information for the six months ended 31 March 2016 has been restated to reflect the above organisation structure and discontinued operations as detailed in note 11.

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 2017	Six months ended 31 March 2017	Six months ended 31 March 2017	Change	Change	Change
	Statutory and underlying £m	**Organic adjustments £m**	**Organic £m**	Statutory %	Underlying %	Organic %
Recurring revenue by segment						
Northern Europe	**143**	**–**	**143**	13.3%	12.4%	12.0%
Central and Southern Europe	**218**	**–**	**218**	25.6%	8.3%	8.3%
North America	**187**	**–**	**187**	28.0%	7.3%	7.3%
International	**100**	**(1)**	**99**	51.7%	15.4%	15.6%
Recurring revenue	**648**	**(1)**	**647**	26.6%	9.9%	9.9%
Software and software related services (“SSRS”) revenue by segment						
Northern Europe	**18**	**–**	**18**	-18.3%	-19.7%	-19.7%
Central and Southern Europe	**63**	**–**	**63**	7.6%	-7.2%	-7.2%
North America	**37**	**–**	**37**	10.9%	-6.9%	-6.9%
International	**30**	**(1)**	**29**	28.8%	0.6%	0.4%
SSRS revenue	**148**	**(1)**	**147**	7.9%	-7.4%	-7.5%
Processing revenue by segment						
Northern Europe	**19**	**–**	**19**	10.7%	9.2%	9.2%
Central and Southern Europe	**1**	**–**	**1**	69.8%	46.5%	46.5%
North America	**17**	**–**	**17**	23.7%	4.0%	4.0%
International	**7**	**–**	**7**	78.5%	36.0%	36.0%
Processing revenue	**44**	**–**	**44**	24.3%	11.1%	11.1%
Total revenue by segment						
Northern Europe	**180**	**–**	**180**	8.8%	7.8%	7.5%
Central and Southern Europe	**282**	**–**	**282**	21.2%	4.5%	4.5%
North America	**241**	**–**	**241**	24.7%	4.6%	4.6%
International	**137**	**(2)**	**135**	47.1%	12.6%	12.8%
Total revenue	**840**	**(2)**	**838**	22.7%	6.5%	6.4%

Revenue by segment (Unaudited) (continued)

	Six months ended 31 March 2016	Six months ended 31 March 2016	Six months ended 31 March 2016	Six months ended 31 March 2016	Six months ended 31 March 2016
	Statutory and underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment					
Northern Europe	127	–	127	–	127
Central and Southern Europe	174	28	202	–	202
North America	146	28	174	–	174
International	66	21	87	(1)	86
Recurring revenue	513	77	590	(1)	589
Software and software related services (“SSRS”) revenue by segment					
Northern Europe	22	–	22	–	22
Central and Southern Europe	58	10	68	–	68
North America	34	6	40	–	40
International	23	7	30	(1)	29
SSRS revenue	137	23	160	(1)	159
Processing revenue by segment					
Northern Europe	17	–	17	–	17
Central and Southern Europe	1	–	1	–	1
North America	12	4	16	–	16
International	4	1	5	–	5
Processing revenue	34	5	39	–	39
Total revenue by segment					
Northern Europe	166	–	166	–	166
Central and Southern Europe	233	38	271	–	271
North America	192	38	230	–	230
International	93	29	122	(2)	120
Total revenue	684	105	789	(2)	787

Operating profit by segment (Unaudited)

	Six months ended 31 March 2017					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory %	Underlying %	Organic %
Operating profit by segment								
Northern Europe	**68**	**4**	**72**	**–**	**72**	34%	19%	19%
Central and Southern Europe	**67**	**8**	**75**	**–**	**75**	86%	24%	24%
North America	**37**	**8**	**45**	**–**	**45**	-3%	-25%	-25%
International	**8**	**11**	**19**	**–**	**19**	-35%	-9%	-9%
Total operating profit	**180**	**31**	**211**	**–**	**211**	31%	5%	5%

	Six months ended 31 March 2016						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
Northern Europe	51	8	59	1	60	–	60
Central and Southern Europe	36	14	50	10	60	–	60
North America	37	12	49	11	60	–	60
International	13	3	16	5	21	–	21
Total operating profit	137	37	174	27	201	–	201

Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2017 (Unaudited) £m	Six months ended 31 March 2016 (Unaudited) £m
North Europe	**72**	60
Central and Southern Europe	**75**	60
North America	**45**	60
Total reportable segments	**192**	180
International	**19**	21
Underlying operating profit	**211**	201
Impact of movement in foreign currency exchange rates	**–**	(27)
Underlying operating profit (as reported)	**211**	174
Amortisation of acquired intangible assets	**(9)**	(8)
Other M&A activity-related items	**(3)**	–
Non-recurring items	**(19)**	(29)
Statutory operating profit	**180**	137

3 Adjustments between underlying profit and statutory profit (Unaudited)

	Six months ended 31 March 2017 Recurring £m	Six months ended 31 March 2017 Non-recurring £m	Six months ended 31 March 2017 Total £m	Six months ended 31 March 2016 Recurring £m	Six months ended 31 March 2016 Non-recurring £m	Six months ended 31 March 2016 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**(9)**	**–**	**(9)**	(8)	–	(8)
Other M&A activity-related items	**(3)**	**–**	**(3)**	–	–	–
Other items						
Business transformation	**–**	**(19)**	**(19)**	–	(31)	(31)
Recovery of litigation costs	**–**	**–**	**–**	–	2	2
Total adjustments made to operating profit	**(12)**	**(19)**	**(31)**	(8)	(29)	(37)
Fair value adjustments	**–**	**–**	**–**	2	–	2
Amortisation of acquired intangibles	**(1)**	**–**	**(1)**	–	–	–
Gain on remeasurement of existing investment in an associate	**–**	**13**	**13**	–	–	–
Total adjustments made to profit before income tax	**(13)**	**(6)**	**(19)**	(6)	(29)	(35)

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 for M&A activity related items comprises the cost of carrying out M&A activities including business combinations in the period.

The fair value adjustment comprises a charge of £1m (H1 16: gain of £2m) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt offset by a £1m credit (H1 16: nil) relating to a fair value adjustment of a financial asset.

Non-recurring items

Charges of £19m (H1 16: £31m) have been incurred as a result of the implementation of the business transformation strategy. This is comprised of people reorganisation charges of £9m (H1 16: £16m), net property exit costs of £3m (H1 16: £11m) and other directly attributable costs, mainly relating to consultancy and contractors of £7m (H1 16: £4m). These charges are one-off in nature and directly linked to the business transformation that is under way.

In H1 16 there was income that arose from recovery of costs relating to the Archer Capital litigation case following its conclusion in 2015.

Total cash paid in relation to the business transformation strategy totalled £23m (H1 16: £12m) in the period.

The gain on remeasurement of existing investment in an associate relates to the acquisition of Fairsail, see note 11.

4 Income tax expense

The effective tax rate on statutory profit before tax was 25% (six months ended 31 March 2016: 23%) whilst the effective tax rate on underlying profit before tax for continuing operations was 27% (six months ended 31 March 2016: 26%). The effective income tax rate represents the best estimate of the average annual effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 31 March 2017.

5 Dividends

	Six months ended 31 March 2017 (Unaudited) £m	Six months ended 31 March 2016 (Unaudited) £m	Year ended 30 September 2016 (Audited) £m
Final dividend paid for the year ended 30 September 2015 of 8.65p per share	–	93	93
Interim dividend paid for the year ended 30 September 2016 of 4.80p per share	–	–	52
Final dividend paid for the year ended 30 September 2016 of 9.35p per share	101	–	–
	101	93	145

The interim dividend of 5.22p per share will be paid on 2 June 2017 to shareholders on the register at the close of business on 12 May 2017.

6 Earnings per share

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

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

	Underlying Six months ended 31 March 2017 (Unaudited)	Underlying as reported Six months ended 31 March 2016 (Unaudited)	Underlying Six months ended 31 March 2016 (Unaudited)	**Statutory Six months ended 31 March 2017 (Unaudited)**	Statutory Six months ended 31 March 2016 (Unaudited)
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the period	**145**	121	141	**136**	98
Number of shares (millions)					
Weighted average number of shares	**1,079**	1,075	1,075	**1,079**	1,075
Dilutive effects of shares	**5**	7	7	**5**	7
	1,084	1,082	1,082	**1,084**	1,082
Earnings per share attributable to owners of the parent – Continuing operations (pence)					
Basic earnings per share	**13.46**	11.27	13.11	**12.57**	9.11
Diluted earnings per share	**13.40**	11.20	13.03	**12.52**	9.06

	Underlying Six months ended 31 March 2017 (Unaudited)	Underlying as reported Six months ended 31 March 2016 (Unaudited)	Underlying Six months ended 31 March 2016 (Unaudited)	**Statutory Six months ended 31 March 2017 (Unaudited)**	Statutory Six months ended 31 March 2016 (Unaudited)
Earnings attributable to owners of the parent – Continuing and discontinued operations (£m)					
Profit for the period	**156**	130	152	**146**	106
Number of shares (millions)					
Weighted average number of shares	**1,079**	1,075	1,075	**1,079**	1,075
Dilutive effects of shares	**5**	7	7	**5**	7
	1,084	1,082	1,082	**1,084**	1,082
Earnings per share attributable to owners of the parent – Continuing and discontinued operations (pence)					
Basic earnings per share	**14.45**	12.09	14.17	**13.54**	9.88
Diluted earnings per share	**14.39**	12.01	14.08	**13.48**	9.82

Reconciliation of earnings – Continuing operations	Six months ended 31 March 2017 (Unaudited) £m	Six months ended 31 March 2016 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**145**	141
Impact of movement in foreign currency exchange rates	**–**	(20)
Underlying earnings attributable to owners of the parent (after exchange movement)	**145**	121
Transformation costs and litigation related items	**(19)**	(29)
Amortisation of acquired intangible assets	**(10)**	(8)
Gain on remeasurement of existing investment in an associate	**13**	–
Fair value adjustments	**–**	2
Other acquisition-related items	**(3)**	–
Taxation on adjustments	**10**	12
Net adjustments	**(9)**	(23)
Earnings statutory profit for period	**136**	98

Reconciliation of earnings – Continuing and discontinued operations	Six months ended 31 March 2017 (Unaudited) £m	Six months ended 31 March 2016 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**156**	152
Impact of movement in foreign currency exchange rates	**–**	(22)
Underlying earnings attributable to owners of the parent (after exchange movement)	**156**	130
Net adjustments - Continuing operations	**(9)**	(23)
Amortisation of acquired intangible assets – discontinued operations	**(1)**	(1)
Net adjustments	**(10)**	(24)
Earnings statutory profit for period	**146**	106

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 2016	**1,659**	**109**	**123**	**1,891**
Additions	**–**	**7**	**8**	**15**
Acquisition	**103**	**–**	**–**	**103**
Transfer to held for sale	**(199)**	**(1)**	**(1)**	**(201)**
Depreciation, amortisation and other movements	**–**	**(15)**	**(12)**	**(27)**
Exchange movement	**26**	**2**	**3**	**31**
Closing net book amount at 31 March 2017	**1,589**	**102**	**121**	**1,812**

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2015	1,446	106	123	1,675
Additions	–	3	13	16
Acquisition	–	6	–	6
Disposals	–	–	(1)	(1)
Depreciation, amortisation and other movements	–	(14)	(10)	(24)
Exchange movement	74	7	3	84
Closing net book amount at 31 March 2016	1,520	108	128	1,756

Goodwill is not subject to amortisation, but is tested for impairment annually at the year-end or whenever there is any indication of impairment. At 31 March 2017, there were no indicators of impairment to goodwill. Full details of the outcome of the 2016 goodwill impairment review are provided in the 2016 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 2017		At 31 March 2016	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long term-borrowing	**551**	**557**	484	495
Short term-borrowing	**–**	**–**	35	36

9 Ordinary shares and share premium

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

	Number of Shares (Unaudited)	Ordinary Shares (Unaudited) £m	Share Premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2015	1,118,298,748	12	541	553
Shares issued/proceeds	551,880	–	2	2
At 31 March 2016	1,118,850,628	12	543	555

In the current period, the Group transferred 1,019,166 of treasury shares to the Employee Benefit Trust in order to satisfy vested PSP awards.

In the prior period, the group purchased 385,000 shares at a cost of £2m through the Employee Benefit Trust.

10 Cash flow and net debt

	Six months ended 31 March 2017 (Unaudited) £m	Six months ended 31 March 2016 (Unaudited) £m
Statutory operating profit – continuing operations	**180**	137
Recurring and non-recurring items	**31**	37
Underlying operating profit – continuing operations	**211**	174
Underlying operating profit – discontinued operations	**18**	15
Underlying operating profit (as reported)	**229**	189
Depreciation/amortisation/impairment/profit on disposal of non-current assets	**17**	15
Share-based payments	**5**	6
Net changes in working capital	**2**	15
Net capital expenditure	**(15)**	(15)
Underlying cash flow from operating activities	**238**	210
Net interest paid	**(10)**	(9)
Income tax paid	**(39)**	(48)
Non-recurring items	**(23)**	(12)
Exchange movement	**–**	1
Free cash flow	**166**	142
Net debt at 1 October	**(397)**	(425)
Acquisitions and disposals of subsidiaries, net of cash	**(79)**	(6)
Reclassification as held for sale	**(8)**	–
Dividends paid to owners of the parent	**(101)**	(93)
Purchase of treasury shares	**–**	(2)
Exchange movement	**(15)**	(19)
Other	**–**	(1)
Net debt at 31 March	**(434)**	(404)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2016 (Audited) £m	Cash flow £m	Acquisitions £m	Reclassification as held for sale £m	Non-cash movements £m	Exchange movement £m	At 31 March 2017 (Unaudited) £m
Cash and cash equivalents	264	**148**	**(79)**	**(28)**	**–**	**4**	**309**
Bank overdrafts	(4)	**(1)**	**–**	**–**	**–**	**–**	**(5)**
Cash, cash equivalents and bank overdrafts	260	**147**	**(79)**	**(28)**	**–**	**4**	**304**
Loans due within one year	(38)	**39**	**–**	**–**	**–**	**(1)**	**–**
Loans due after more than one year	(535)	**(92)**	**–**	**–**	**–**	**(15)**	**(642)**
Cash held on behalf of customers	(84)	**(29)**	**–**	**20**	**–**	**(3)**	**(96)**
Total	(397)	**65**	**(79)**	**(8)**	**–**	**(15)**	**(434)**

Included in cash above is £96m (31 March 2016: £133m, 30 September 2016: £84m) 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 £625m (US$551m and €218m tranches). At 31 March 2017, £92m (H1 2016: £110m) 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 2017 were £551m (US$600m and EUR€85m) (H1 2016: £519m, US$650m and EUR€85m). £41m (US$50m) of USPP borrowings were repaid in March 2017.

11 Acquisitions and disposals

Acquisitions made during the period

On 17 March 2017, the Group obtained control of Fairsail Limited (Fairsail) by acquiring the remaining share capital for a cash consideration of £89m and cost of replacement share based payments of £1m. The Group now holds 100% of Fairsail's share capital. Fairsail is a leading Human Capital Management (HCM) cloud provider to mid-sized, multinational companies. Fairsail is a private entity incorporated in the UK and not listed on any public exchange. The Group became a minority shareholder in Fairsail in 2016 and subsequently launched a shared product, Sage People. Taking full ownership will build on the success of that product, and the resulting combined portfolio provides growth opportunities, particularly through new customer acquisition internationally, and cross-sell to the combined customer base.

Summary of acquisition	£m
Purchase consideration	
Cash	89
Cost of replacement share based payments	1
Fair value of previously held interest	20
	110
Provisional fair value of identifiable net assets	(7)
Goodwill	**103**

Cost of replacement share based payments consists of contingent share awards granted to Fairsail employees under the Sage Group Restricted Share Plan in place of their existing unvested share option arrangements. The amount treated as consideration is the fair value of awards attributable to pre-acquisition service. The Group recognised a gain of £13m on the remeasurement to fair value of its existing investment in an associate. This gain is included on a separate line in the consolidated income statement.

Provisional fair value of acquisition	£m
Cash	10
Trade & other debtors	3
Trade & other creditors	(2)
Deferred revenue	(4)
Provisional fair value of identifiable net assets acquired	**7**
Goodwill	103
Total consideration	**110**

Provisional values have been used as the initial accounting for acquired intangible assets and goodwill is not yet completed with the short period between the acquisition date and the approval of the half-yearly report making this impractical. Pending completion of the fair value exercise, the residual excess of consideration over the net assets acquired has been provisionally recognised entirely as goodwill. Goodwill is expected to reflect benefits from the assembled workforce and growth opportunities through customer acquisition and cross-sell to the combined customer base. No goodwill is expected to be deductible for tax purposes.

The outflow of cash and cash equivalents on the acquisition is as follows:	£m
Cash consideration	89
Cash and cash equivalents acquired	(10)
Net cash outflow	**79**

Costs totalling less than £1m relating to the business combination have been included in selling and administrative expenses in the Consolidated income statement as acquisition-related items and relate to advisory, legal and other professional services.

Immediately prior to the acquisition, the Group had recognised prepaid licences of £1m for Fairsail's products purchased by the Group prior to the acquisition. At the acquisition date, the Group recognised a loss equal to the carrying of the prepaid licences. The loss is included in selling and administrative expenses in the Consolidated income statement.

Arrangements have been put in place for retention and performance related payments to remunerate employees of Fairsail for future services. The costs of these arrangements will be recognised in future periods over the retention and performance periods. No amounts have been recognised to date.

The amounts of revenue and profit or loss reported by Fairsail since the acquisition date are not material in the context of the Group as a whole. The revenue of the Group for the six months ended 31 March 2017 would have increased by £5m and the profit would have reduced by £2m if Fairsail had been included in the Group for the whole of the period.

Disposals made during the period

There were no disposals made in the period.

Discontinued operations and assets and liabilities held for sale

Discontinued operations relate to the subsidiaries forming the Group's North American Payments business. Assets and liabilities held for sale relate to the subsidiaries forming the Group's North America Payments business, the Group's subsidiary Syska GmbH and the Group's subsidiary Sage XRT Brasil Ltda. Bids have been received from prospective buyers for North America Payments business and due diligence is in progress. The North America Payments business was classified as held for sale at 1 March 2017 and its sale is expected to be finalised during the half-year ending 30 September 2017. The business forms part of the Group's North America reportable segment. Syska GmbH was classified as held for sale at 31 March 2017. At that date the sale process with the preferred buyer was at an advanced stage and the sale subsequently completed on 6 April 2017. The business forms part of the Group's Central and Southern Europe reportable segment. See note 13, Events after the balance sheet date, for further details of the disposal transaction. XRT was classified as held for sale in the year ended 30 September 2016. Its sale process continues to progress and is expected to complete by 30 September 2017. The business forms part of the Group's International segment.

At 31 March 2017 assets held for sale comprise goodwill of £199m, cash of £28m, trade and other receivables of £26m and other assets of £12m with liabilities held for sale comprising trade and other payables of £45m and other liabilities of £6m. At 31 March 2016 assets and liabilities held for sale were £nil. At 30 September 2016 assets held for sale comprise trade and other receivables of £1m.

Profit from discontinued operations is analysed as follows:

	Six months ended 31 March 2017 (Unaudited) Underlying £m	**Six months ended 31 March 2017 (Unaudited) Adjustments* £m**	**Six months ended 31 March 2017 (Unaudited) Statutory £m**	Six months ended 31 March 2016 (Unaudited) Underlying as reported £m	Six months ended 31 March 2016 (Unaudited) Adjustments* £m	Six months ended 31 March 2016 (Unaudited) Statutory £m	Year ended 30 September 2016 (Unaudited) Statutory £m
Revenue	**72**	**-**	**72**	62	-	62	130
Cost of sales	**(7)**	**-**	**(7)**	(6)	-	(6)	(12)
Gross profit	**65**	**-**	**65**	56	-	56	118
Selling and administrative expenses	**(47)**	**(1)**	**(48)**	(41)	(1)	(42)	(84)
Operating profit	**18**	**(1)**	**17**	15	(1)	14	34
Finance income	**-**	**-**	**-**	-	-	-	-
Finance costs	**-**	**-**	**-**	-	-	-	(1)
Profit before income tax	**18**	**(1)**	**17**	15	(1)	14	33
Income tax expense	**(7)**	**-**	**(7)**	(6)	-	(6)	(13)
Profit for the period	**11**	**(1)**	**10**	9	(1)	8	20

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

Upon disposal, income in relation to cumulative foreign exchange differences that has been recognised in other comprehensive income relating to the assets and liabilities of the North America Payments business from the date of acquisition to the date of disposal will be recycled to the income statement.

Cash flow from discontinued operations is analysed as follows:

Cash flows from:	**Six months ended 31 March 2017 £m**	Six months ended 31 March 2016 £m	Year ended 30 September 2016 £m
Operating activities	**13**	14	38
Investing activities	**–**	–	–
Financing activities	**7**	(1)	(8)
	20	13	30

12 Related party transactions

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

Key management compensation	**Six months ended 31 March 2017 (Unaudited) £m**	Six months ended 31 March 2016 (Unaudited) £m
Salaries and short-term employee benefits	**4**	4
Post-employment benefits	**-**	-
Share-based payments	**1**	2
	5	6

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 2016. There have been no changes to the Executive Committee since the signing of the Group's Annual Report & Accounts 2016, other than Santiago Solanas who left the Group on 31 March 2017.

13 Events after the balance sheet date

On 3 April 2017, the Group acquired 100% of the equity capital of Startup Compass Inc. (Compass), the provider of a highly innovative analytics and benchmarking platform, for cash consideration of £5m. The provisional value of net assets acquired is £nil, comprising principally working capital balances, resulting in provisional goodwill of £5m. Provisional values have been used as the initial accounting for acquired intangible assets and goodwill is not yet completed due to the short period between the acquisition date and the approval of the interim consolidated condensed financial statements.

On 6 April 2017, the Group sold its subsidiary Syska GmbH for £2m. Net liabilities divested were £1m, resulting in a gain on disposal of £3m.

Managing Risk

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

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

Currently there are ten principal risks which we monitor and report against. These risks are aligned to successful delivery of our Strategy and mapped against the strategic pillars to which they relate. A range of measures are in place to manage and mitigate these risks.

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

Principal Risk	Risk Background	Management and Mitigation
Licensing Model Transition Sage does not successfully manage its ongoing transition to subscription licencing against defined timelines and targets or appropriately adapt its customer approach. *Strategic alignment:* ***Customers for Life***	Sage is transitioning from a perpetual to a subscription based licensing model. In addition to providing additional value for customers, 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.	• An approved licensing model transition strategy is in place • A series of approved subscription revenue targets are defined, which span multiple years and support successful and balanced delivery of our strategy • Ongoing monitoring and review of the approved targets takes place at country, regional and group levels to proactively manage the licence transition, and revenue targets • New products are being offered on a subscription only basis, to support achievement of overall revenue targets • Customer Business Centres (CBCs) are established in North America and Europe to integrate digital marketing, sales and service operations for customers using Software-as-a-Service (SaaS), and support planned growth ambitions In progress: • Additional CBCs are being created, to better manage ongoing customer relationships and the sales cycle

Principal Risk	Risk Background	Management and Mitigation
Market Intelligence Sage fails to understand and anticipate changes in the external environment, including customer needs, emerging market trends, competitor strategies and regulatory/legal requirements *Strategic alignment:* ***Customers for Life*** ***Winning in the Market***	Sage has previously operated as a federated set of operating companies, using local definitions and methodologies to capture market data. The alignment of federated activities allows consolidation of data across geographies and product to provide a single Sage view, and enables trends and white space opportunities to be identified. In order to develop a consolidated understanding of its market and customer needs, Sage is developing its market intelligence capability, and aligning this with competitive positioning and product development activities.	• A Market and Competitive Intelligence team is established, which has Group responsibility for Market Intelligence • Market intelligence surveys are undertaken, to identify market opportunities • Brand health surveys are undertaken in order to understand customer perception of the Sage brand and its products • An approved internal communications plan is delivered, to share market intelligence to build brand awareness • Market data is provided through a Market Data portal, allowing ease of access and improved analysis In progress: • Action to support the increasing awareness and quality of the Market Data portal • Ongoing refinement and improvement of market data through feedback from the business
Competitive Positioning and Product Development Sage is unable to clearly identify the approach to market, or deploy competitive advantage, including product development *Strategic alignment:* ***Winning in the Market*** ***Capacity for Growth***	The competitive environment in which Sage operates continues to see significant developments. Sage must translate market intelligence into effective strategies targeting attractive market segments with appropriate products and continually work to reinforce competitive superiority. During the transition to 'One Sage' products, we continue to manage the local product base and plan and evolve these in line with longer-term aspirations.	• A Product Marketing team is established to oversee competitive positioning and product development • A Product Delivery team is established to develop and deliver products • Battlecards in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • Defined 'customer for life' roadmaps are in place, detailing how products fit together, and any interdependencies • A BattleApp has been released to provide timely information to sales channels In progress: • Prioritised product development based on 'customer for life' roadmaps • Sage-wide standard templates are to be launched for Battlecards to ensure consistent information is provided • Analysis of product investments is being enhanced to further consider anticipated return on investment

Principal Risk	Risk Background	Management and Mitigation
Business Model Delivery Sage does not successfully deliver a global operating model that supports its growth ambitions _Strategic alignment:_ ***Capacity for Growth***	Sage is embedding its global operating model which provides enhanced governance, process harmonisation, efficiencies and scalability. The effective interaction between all parts of the organisation will allow Sage to grow at pace.	• A new Operating Model was implemented in October 2016 • A Transformation Forum is in place, which provides governance over project activity supporting the effective delivery of the operating model • Consolidated operational reporting is in place and provides oversight of progress and supports consistency of direction, and management of potential conflicts. This is overseen by the Programme Management Office (PMO) • A formal gating process through which all projects must pass In progress: • Defined success criteria established for all projects, which align with delivery of the operating model • Ongoing monitoring and management of projects through the Transformation Forum, including monitoring of success factors against defined transition activities
Supporting Control Environment Sage's control environment, business processes and technology infrastructure does not support the efficient and effective operation of the business. _Strategic alignment:_ ***One Sage*** ***Capacity for Growth***	Sage's footprint has developed often through acquisition. Aligning and rationalising these systems and processes, is required to support the 'One Sage' operating model.	• Established Global and Regional Risk Committees oversee the risk and internal control environment, sets the tone-from-the-top • Shared Service Centres are established in Newcastle and Johannesburg, enabling the creation of consistent and consolidated systems and processes • Rationalised Management Committee structures • Policy Approval Committee in place to supervise and approve policies within the Sage-wide policy suite • Customer Business Centres (CBCs) are built around core systems to underpin operational consistency and expansion, including Salesforce CRM and Sage's own X3 for General Ledger activity. As volumes scale, all new customers for CBC supported products are being entered directly into these systems • Shared Service Centres (SSCs) in Newcastle and Johannesburg have installed X3 General Ledger In progress: • Plans for migration of country General Ledgers into X3 is on track with plans • An Excellence in Controls initiative to enhance the supporting control environment has commenced • Deployment of a Governance, Risk and Compliance technology solution is underway

Principal Risk	Risk Background	Management and Mitigation
Information Management and Protection (including cyber) Sage fails to adequately understand, manage and protect information _Strategic alignment:_ ***One Sage***	Sage's 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. Harmonising and rationalising these, as necessary, is required to support the 'One Sage' operating model and to allow a business view on all data being held and processed, including management and protection. During 2016, we have broadened the risk to include all data, both internal Sage related information, and external customer related information.	• Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. OneIT and Product Services report to the Chief Information Officer and Chief Product Delivery Officer respectively • A network of Information Security Officers supports the business • Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance • Secure coding standards are in place for the development of new code • Structured and ad-hoc IT internal audit activity is undertaken by Sage Assurance against an agreed plan, and reported to management and the Audit and Risk Committee • A revised Sage information security policy suite has been launched • The Incident Management framework was revised and updated, to include the rating of incidents and requirements for escalation In progress: • Information Security is being aligned with the existing Governance structures (Global and Regional Risk Committees), to establish clear accountability • Awareness training for Information Management and protection continues to be deployed • Data Governance Committee providing direction around data and Data Protection

Principal Risk	Risk Background	Management and Mitigation
Regulatory and Legal Framework Sage does not understand and operate within the applicable regulatory and legal framework *Strategic alignment:* ***One Sage***	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 ongoing compliance.	• All legal resources across Sage report directly to the General Counsel and Company Secretary • Legal services use internal and external resources to monitor planned and realised changes in legislation • All product contracts are reviewed and approved through Legal Services • An agreed suite of policies is in place which supports key legislation, including Data Protection and anti-bribery • A Code of Conduct is in place across the business which provides clarity over how colleagues are expected to behave. Completion of Code of Conduct training is mandatory for colleagues, and confirmation of understanding is recorded and monitored • Whistleblowing and Incident Management Policies and procedures are in place, which ensure appropriate treatment of identified events, and management visibility • Sage Compliance function to re-enforce the drive towards a 100% compliance culture In progress: • Data Governance Committee providing direction around General Data Protection Regulations (GDPR)

Principal Risk	Risk Background	Management and Mitigation
Sage Brand Sage does not deliver clear and consistent branding to the market Strategic alignment: ***One Sage***	Following several years of acquisition, work continues to develop and harmonise the Sage brand. Whilst it is well recognised and trusted by customers in many core markets, brand awareness remains inconsistent. A clear and consistent brand enables customers to understand Sage values.	• A Brand team is in place which has overall responsibility for developing the Sage Brand • All countries must comply with Sage's Brand Governance and Brand Guidelines, which are designed to execute the Sage Masterbrand Strategy. The timeframes for compliance of all products are defined, and any exceptions must be approved through the Brand team • A Digital Asset Management (DAM) tool is in place which workflows requests and approvals, and acts as a single information repository • Brand Library used as a repository for branded assets, and any exceptions from brand guidelines reported to the Chief Marketing Officer • Ongoing reviews of customer experience are performed (Net Promoter Scores), and output is reviewed across both countries and products to identify variance, and develop improvement plans • Sage Summits completed across four cities in 2017 (Paris, Berlin, Johannesburg, and Melbourne) Brand awareness campaign launched to improve Brand recognition • The Sage Foundation operating across Sage, aligned with our values and behaviours In progress: • Compliance Programme being rolled out, to assess and educate on compliance with Brand Governance and Brand Guidelines • Four Sage Summits taking place between April and June (London, Madrid, Atlanta, and Toronto)
Partners and Alliances Sage fails to identify, build, enable and maintain appropriate partnerships and alliances Strategic alignment: ***Revolutionise Business***	There are instances where leveraging partnerships and alliances can support the growth ambitions of Sage. The governance and control around engagement and use must be defined, as well as management of the ecosystem.	• A Partner and Alliances team is established to oversee the selection and management of Sage's alliances and partners, including accountability for active management of relationships • Definitions are in place to ensure clarity and consistency over alliances and partners, to enable appropriate and consistent management of these arrangements • All contracts for alliances and partners require approval through legal services • Defined legal provisions are required for inclusion in contracts. Any variance in provisions must be recorded as part of the formal contract approval process In progress: • Ongoing review and development of Sage Partner Programme • A financial model for Sage Partner Programme is being developed

Principal Risk	Risk Background	Management and Mitigation
Third Party Reliance Sage does not understand and manage its third party ecosystem *Strategic alignment:* ***Revolutionise Business***	Several Sage customer service offerings are delivered or supported using third parties, whilst Sage remains accountable for quality of performance. The third party ecosystem must be understood and effectively managed, in order to limit Sage's exposure.	• A Procurement function ensures key controls are applied in the selection and on-boarding of third parties • The Procurement function supports the business with the selection of third parties and negotiation of contracts • Legal resources are used in contract negotiation • A Procurement Lifecycle Policy and Procedures are defined, agreed and published. These contain clear roles and responsibilities for colleagues and align with existing processes, including investment approval In progress: • Implementation of the Procurement Lifecycle Procedures continues, including classifying third parties for business criticality, and associated actions • Rationalisation of the third party ecosystem is continuing

Statement of Directors' Responsibilities

The condensed consolidated half-yearly financial report for the six months ended 31 March 2017 includes the following responsibility statement.

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

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

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

The directors of The Sage Group plc are consistent with those listed in the Group's 2016 Annual Report and Accounts subject to the following changes, which took effect from the conclusion of the AGM on 28 February 2017: Ruth Markland and Inna Kuznetsova stepped down from their roles as non-executive directors; and Soni Jiandani was appointed as a non-executive director. A list of current directors is maintained on the Group's website: www.sage.com.

On behalf of the Board

S Hare
Chief Financial Officer
2 May 2017

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 2017 which comprises Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related explanatory notes 1 to 13. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure 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 2017 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
2 May 2017