The Sage Group plc unaudited results for the six months ended 31 March 2014

Thursday 8 May 2014

Revenue growth momentum maintained, with subscription a key driver

FINANCIAL SUMMARY[1]	H1 2014	H1 2013	Change
Organic revenue	£657m	£626m	+4.9%
- **Organic recurring revenue**	£472m	£441m	+6.9%
- **Organic software and software-related services revenue ("SSRS")**	£185m	£185m	+0.1%
Organic operating profit	£180m	£165m	+8.9%
Organic operating profit margin	27.4%	26.4%	+100bps
Underlying[2] basic earnings per share ("EPS")	11.12p	10.27p	+8.3%
Underlying[2] cash conversion	110%	112%	n/a
Ordinary interim dividend per share ("DPS")	4.12p	3.88p	+6.2%

STATUTORY[2]	H1 2014	H1 2013	Change
Revenue	£657m	£708m	-7%
Operating profit/(loss)	£174m	(£1m)	n/a
Profit/(loss) before income tax	£165m	(£8m)	n/a
Basic EPS	10.58p	(6.28p)	n/a

[1] *Refer to Appendix II on page 13 for information on Non-GAAP measures.*
[2] *Prior period statutory and underlying figures include the contribution of non-core products disposed of in March and April 2013. The prior period statutory operating loss is due to an exceptional item of £180m relating to these disposals.*

Financial highlights – higher organic revenue growth momentum maintained

- Organic revenue growth of 5% maintains the higher growth established in H2 2013 and represents good acceleration against the same period last year (H1 2013: 3%);
- Growth in software subscription revenue has been the main driver behind a 7% increase in organic recurring revenue (H1 2013: 6%). Recurring revenue now accounts for 72% of Group revenue;
- Organic SSRS revenue growth in North America and AAMEA was offset by continued contraction in Europe, leaving SSRS revenue flat overall (H1 2013: 3% contraction); and
- The increase in organic operating profit margin to 27.4% primarily reflects a reduction in overheads that previously supported disposed non-core products, alongside disciplined cost management and revenue growth. This has returned organic operating margin to the underlying trend of 27%.

Strategic highlights – good progress with software subscription transition

- Annualised value of software subscriber base increased 24% to £201m (H1 2013: £162m), representing good growth that builds on a significant base of over 400,000 software subscription contracts across the Group;
- High quality nature of software subscription revenue evidenced by the increase in the recurring contract renewal rate to 83% (H1 2013: 81%);
- Strong market position established in the UK & Ireland with Sage One, our cloud solution for smaller businesses, where paying subscriptions in that market have almost trebled to 33,000 over the last 12 months;
- 7% organic revenue growth for Sage ERP X3 (H1 2013: 8%), our global ERP solution for mid-market customers, with good growth of 22% outside of France; and
- 15% increase in the number of integrated payments customers to 15,200 (H1 2013: 13,200), with good adoption in the UK, building on a more established base in North America.

Guy Berruyer, Chief Executive Officer, said: "This is a good set of results, with the increase in organic recurring revenue growth demonstrating that the strategy is working well. Sage is changing, with greater focus, investment in technology to address customer needs and the move to subscription all delivering results. We remain confident that the good first half performance will be carried through to the full year, and of achieving our target of 6% organic revenue growth in 2015."

Enquiries:

The Sage Group plc +44 (0) 191 294 3068
Guy Berruyer, Chief Executive Officer
Steve Hare, Chief Financial Officer
Murdo Montgomery, Investor Relations

Tulchan Communications +44 (0) 20 7353 4200
David Shriver
Jonathan Sibun

An analyst presentation will be held at 8.45am today at the London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on www.sage.com/investors, dial-in number +44 (0) 20 3139 4830, pin code: 10769950#. A replay of the call will also be available for two weeks after the event: Tel: +44 (0) 20 3426 2807, pin code: 647353#

Non-GAAP measures

Unless stated otherwise, growth rates in the Chief Executive Officer's review and Chief Financial Officer's review are on an organic basis. For information on the calculation of Non-GAAP measures and why they are used, please see Appendix II on page 13.

Rounding

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

Chief Executive Officer's review

Revenue growth momentum maintained, with subscription a key driver

Organic revenue growth of 5% (H1 2013: 3%) maintains the momentum of 5% organic revenue growth established in the second half of 2013 and represents a strong acceleration over the same period last year. The acceleration in recurring revenue growth, supported by subscription, shows our strategy to accelerate growth is working and we reiterate our confidence in meeting our 2015 organic revenue growth target of 6%.

We are committed to delivering on our strategic priorities to accelerate growth, which are to drive business model change through subscription and to bring the benefits of cloud, mobility and connected services to our customers. We are doing this by working differently and targeting investment to our most significant growth opportunities.

It is worth reflecting on where the business has come from since we communicated our strategy for growth in July 2012. Almost two years on, I am pleased to report significant progress against our plans.

Subscription growth drives stronger recurring revenue

We have delivered good growth in subscription revenue. During the period, the annualised value of the software subscriber base grew by 24% to £201m (H1 2013: £162m). Subscription has been a primary driver of the acceleration in organic recurring revenue to 7% (H1 2013: 6%). This is high quality revenue, evidenced by the increase in the contract renewal rate to 83% (H1 2013: 81%). This growth builds on a significant subscription base, with over 400,000 subscription contracts for software products across the Group.

We have established a strong market position with Sage One in the UK

We continue to make good progress with Sage One in the UK & Ireland ("UKI"). Over the last 12 months we have almost trebled the number of paying subscriptions in UKI to 33,000 at the end of March 2014.

Sage One is available in nine countries across Europe and North America, with progress outside of UKI at an early stage. We are well placed to see growth as cloud adoption accelerates in markets where we have a leadership position more generally. Our progress in the US has been slow, but we continue to invest for growth and have strengthened the product portfolio with the launches of Sage One Invoicing and Sage One Accountant Edition.

We have a significant number of small businesses using our cloud products globally. Our portfolio of Software-as-a-Service ("SaaS") solutions for start-up and small businesses includes Sage One and other cloud products in Germany, France and South Africa. Adoption of these products is scaling well, with almost 60,000 paying subscription contracts at the end of the period, an increase of over 160% in the last 12 months.

We offer small to medium-sized businesses a clear migration path to the cloud

For businesses with existing systems, the benefits of the cloud must be weighed against the constraints. Our hybrid cloud solutions make this assessment simpler by offering the advantages of a cloud environment, including outsourced infrastructure, mobility and more flexible pricing models, without compromising on customisation and control over data.

Sage 200 Online in UKI and Sage Murano Online in Spain are the first of our hybrid cloud small to medium sized-business ("SMB") products to become commercially available. We have seen how the availability of a cloud version gives customers the confidence to invest in ERP solutions, either by moving directly to the cloud or by investing in the on-premise solution with confidence in the product's future capability. The next few months completes the hybrid cloud launch of our leading ERP products in five of our largest markets, with Sage 100 Online already available in France, Sage 300 Online launching in North America next month and Sage Office Online launching later this year in Germany.

Good international performance by Sage ERP X3, our global solution for the mid-market

Overall organic revenue growth for Sage ERP X3 for the period of 7% (H1 2013: 8%) is below our expectations for double-digit growth, with the market environment in France acting as a constraint on growth. The product continues to perform very well internationally, growing organically by 22% outside of its home market of France, and non-French revenue now accounts for 52% of global Sage ERP X3 revenue. Overall, I remain confident that Sage ERP X3 will sustain the double-digit revenue growth that reflects our ambitions for this product going forward.

Next week we are announcing the global launch of Sage ERP X3 version 7, which is a major update that introduces an entirely redesigned user experience with mobility and web access at its core.

We have a significant growth opportunity with connected services

Our connected services strategy includes payments solutions that are integrated with the core application, mobility, and connected features that perform a specific function and complement the core application. These offerings are typically only available on subscription and represent a significant opportunity to increase our "share of wallet" by offering greater value to our customers.

We continue to see good growth in the number of Sage accounting customers using an integrated payments solution, with 15% growth in the period to 15,200 customers (H1 2013: 13,200). This cross-sell generates annual revenue in excess of £20m.

We are excited about the opportunities offered by mobility. In North America, a suite of Sage mobile apps are commercially available, which run on tablets and smartphones and connect users to on-premise core application data.

We are also excited about our opportunity with connected features, and the launch of an Auto-enrolment module in UKI represents a good example of how we intend to deliver these to our customers going forward. Whilst it remains early days for the adoption of mobility and connected features, we believe this could be a significant opportunity over the medium to long-term.

Sage is changing in response to an evolving market and is in a strong position

We understand that businesses make informed decisions when investing in their infrastructure and will typically appraise the merits of changing their business software and the pricing model that best suits their needs. We have transformed the products and services we offer our customers over the last two years in response to the insight we have over the evolving trends in our markets. This is why we offer customers choice; choice of deployment in the cloud, on-premise or connected on-premise, and choice of subscription or perpetual licence.

We are supporting our transformation through increased investment in our highest growth opportunities, which we categorise as our Invest products. Research and development and sales and marketing expenditure on Invest products has increased by 15% compared to the same period last year. This disciplined approach to resource allocation allows us to both accelerate revenue growth and support profitability, which is reflected in the margin target we set out in July 2012 for 100 to 200 basis points of improvement by 2015. Our current investment plans, which are designed to capture the significant opportunities offered by mobility, connected services and the cloud, mean we will be targeting the lower end of this range for 2015.

The Board

During the period, we announced the appointment of Steve Hare to the Board as Chief Financial Officer, effective from 3 January 2014. We also announced the appointment of two new non-executive directors to the Board, namely Drummond Hall and Inna Kuznetsova, effective from 1 January 2014 and 6 March 2014 respectively. In November 2013, Mark Rolfe and Ian Mason retired from their roles on the Board as non-executive directors.

Summary and outlook

This is a good set of results, with the increase in organic recurring revenue growth demonstrating that the strategy is working well. Sage is changing, with greater focus, investment in technology to address customer needs and the move to subscription all delivering results. We remain confident that the good first half performance will be carried through to the full year, and of achieving our target of 6% organic revenue growth in 2015.

Guy Berruyer
Chief Executive Officer

Chief Financial Officer's review

Operating review

Group performance

The Group delivered organic revenue growth of 5% (H1 2013: 3%), and increased organic operating profit margin to 27.4% (H1 2013: 26.4%).

Organic revenue growth has been driven by success with subscription initiatives, supported by the up-sell of software and support to existing customers. Organic operating profit growth reflects a reduction in overheads that previously supported the non-core products disposed of in March and April 2013, alongside improved operating leverage resulting from revenue growth in the period and disciplined cost management.

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from acquisitions, disposals and products held for sale to aid comparability. A reconciliation of organic operating profit to the underlying operating profit reported in H1 2013 is shown on page 9.

Statutory performance has been impacted by material movements in key exchange rates during the period, particularly in South Africa, North America and Brazil. Statutory figures also include the contribution of acquisitions, disposals and products held for sale at 31 March 2013. The prior period statutory operating loss included an £180m exceptional item relating to the non-core product disposals.

Revenue

	STATUTORY			ORGANIC		
	H1 2014	**H1 2013**	**Change**	**H1 2014**	**H1 2013**	**Change**
Europe	£382m	£403m	-5%	£382m	£370m	+3%
Americas	£206m	£230m	-11%	£206m	£194m	+6%
AAMEA	£69m	£75m	-8%	£69m	£62m	+12%
Group	**£657m**	**£708m**	**-7%**	**£657m**	**£626m**	**+5%**

Operating profit

	STATUTORY			ORGANIC		
	H1 2014	**H1 2013**	**Change**	**H1 2014**	**H1 2013**	**Change**
Europe	£104m	£100m	+4%	£108m	£102m	+6%
Americas	£53m	(£121m)	n/a	£54m	£46m	+17%
AAMEA	£17m	£20m	-14%	£18m	£17m	+3%
Group	**£174m**	**(£1m)**	**n/a**	**£180m**	**£165m**	**+9%**
Margin	**26.5%**	**(0.1%)**		**27.4%**	**26.4%**	

Revenue mix

	RECURRING REVENUE			SSRS REVENUE		
ORGANIC	**H1 2014**	**H1 2013**	**Change**	**H1 2014**	**H1 2013**	**Change**
Europe	£265m	£250m	+6%	£117m	£120m	-3%
Americas	£167m	£156m	+7%	£39m	£38m	+2%
AAMEA	£40m	£35m	+14%	£29m	£27m	+9%
Group	**£472m**	**£441m**	**+7%**	**£185m**	**£185m**	**-**
% of total organic revenue	**72%**	**71%**		**28%**	**29%**	

Recurring revenue

The Group has achieved an improvement in organic recurring revenue growth to 7% (H1 2013: 6%), which is evidence of the encouraging progress the business has made transitioning to subscription. Almost two-thirds of recurring revenue growth in the period is derived from subscription. This has resulted in an improved contract renewal rate of 83% (H1 2013: 81%). Recurring revenue represents 72% of the Group's total revenue, which represents a shift in mix of 1%, which highlights the ongoing strategic shift to higher quality and less cyclical revenue.

SSRS revenue

Organic SSRS revenue, which tends to be more volatile, was flat in the period (H1 2013: 3% contraction). This is the result of a recovery in the rate of contraction in Europe, and good growth in the mid-market in North America and AAMEA.

Regional performance - Europe

ORGANIC REVENUE GROWTH	H1 2014	H1 2013
France	+3%	-1%
UKI	+4%	+5%
Spain	-	-4%
Germany	+3%	-1%
Sage Pay	+10%	+32%
Rest of Europe	-	+7%
Europe	**+3%**	**+2%**

The European business grew organic revenue by 3%, with organic recurring revenue up 6% (H1 2013: 5%) and organic SSRS revenue contracting by 3% (H1 2013: 5% contraction).

France – subscription revenue strength offsets mid-market weakness

France grew organic revenue by 3%, driven by progress with subscription. Subscription is well established in France, contributing over 40% of recurring revenue. Key recent subscription initiatives have included the migration of customers to Sage 100 i7, and driving new and existing customer adoption of Ciel Flex.

Around half of the 13,000 Ciel Flex subscription contracts secured are with existing customers who were not previously on a support plan. The reactivation of existing off-plan customers is an important opportunity because it secures additional revenue without the displacement of existing support contract revenue.

In the mid-market, businesses in France remain wary about committing to significant levels of IT expenditure, which is a constraint on growth.

UKI – legislative change fuelling strong performance

The UKI business has grown organic revenue by 4%, and has successfully delivered on two rounds of legislative change in the last 18 months. The UKI business led customers through the launch of Auto-enrolment legislation, with the new pension module being made available only on a subscription basis. This has driven the performance of Sage 50 Payroll and Sage 200, with both products displaying double-digit revenue growth. The business has secured over 6,000 subscriptions for the Auto-enrolment module.

This performance has been partially offset by a decline in software-related training, which was boosted by legislative change in the prior period.

Spain – up-selling success stops contraction

The Spanish business reported flat organic revenue in a market that remains weak. The Spanish business has focused on existing customer upgrades, and has delivered good growth in the Accountant segment through the up-sell of Sage Despachos, and in the SMB segment with upgrades to Sage Murano. The availability of subscription on key product lines in Spain has also proved attractive to businesses that remain cautious whilst continuing to invest in their ERP infrastructure.

Germany – mid-market boosts return to growth

The German business has grown revenue organically by 3%. The business delivered an improved performance in H2 2013 after a difficult first half, and has continued this momentum into the current period, led by better performances from certain mid-market products.

Sage Pay – rate of growth slows, cross-sell a strategic priority

Sage Pay delivered organic revenue growth of 10%. The price increase made in the second half of 2012 is now fully represented in the comparator and was the primary driver of the high level of growth reported last year. The rate of new customer acquisition has slowed as competition in the UK payments sector has increased.

Rest of Europe

Portuguese organic revenue contracted by 2% (H1 2013: 19% growth) as the legislative catalyst that boosted performance in the prior year ended. The business has, however, succeeded in up-selling maintenance and support services to the customers captured last year, leading to a 25% increase in recurring revenue.

The Swiss business was flat organically (H1 2013: 2% growth), whilst Poland reported organic revenue growth of 3% (H1 2013: 4%).

Organic operating profit

Organic operating profit in Europe increased to £108m (H1 2013: £102m), representing a margin of 28.3% (H1 2013: 27.5%), primarily as a result of revenue growth improving operating leverage. The European business continues to invest in support of growth, particularly across R&D, sales and marketing and customer support, whilst reducing the overhead base that supported non-core products that were disposed last year.

Regional performance - Americas

ORGANIC REVENUE GROWTH	H1 2014	H1 2013
Sage Business Solutions ("SBS")	+5%	+5%
Sage Payment Solutions ("SPS")	+6%	+3%
North America	**+6%**	**+4%**
Brazil	**+9%**	**n/a**
Americas	**+6%**	**+4%**

The Americas, where results from the Brazilian business are recorded in organic revenue for the first time, delivered organic revenue growth of 6%. Organic recurring revenue grew 7% (H1 2013: 7%) and organic SSRS revenue grew 2% (H1 2013: 4% contraction). The overall acceleration in growth is partly due to the inclusion of Brazil, and to stronger SSRS organic revenue growth in North America. Performance was underpinned by continued progress around the North American business' established premium support up-selling initiative.

SBS – continued progress with premium support up-selling

SBS grew organic revenue by 5%. The North American small business segment delivered double-digit revenue growth as a result of strength in premium contract adoption, with particular success in converting Sage 50 payroll tax customers. SSRS revenue returned to growth after a challenging H1 2013, with Sage ERP X3 driving much of the improvement.

SPS – non-recurring item benefits payments business

SPS grew organic revenue by 6%. SPS performance was boosted by a one-off, non-recurring income relating to the termination of a contract with an independent sales organisation ("ISO"). Organic revenue growth for SPS would have been 3% without the termination fee, which is consistent with growth in the prior period.

Brazil – accounting and payroll software delivers double-digit growth despite economic slowdown

The Brazilian business grew organic revenue by 9%. The accounting and payroll software business has grown in excess of 20% during the period. The technical content business delivered low growth, with weaker demand from new customers, although the existing customer renewal rate improved.

Organic operating profit

Organic operating profit in Americas increased to £54m (H1 2013: £46m), representing a margin of 26.4% (H1 2013: 23.9%). The North American business in particular has taken a disciplined approach to cost management by focusing on resource reallocation, which has resulted in most of the organic revenue growth in the period falling through to profit. North America has also reduced non-core product-related overheads and benefited from synergies through the centralisation of its R&D function.

Regional performance - AAMEA

ORGANIC REVENUE GROWTH	H1 2014	H1 2013
South Africa	+16%	+14%
Australia	+5%	+2%
Middle East and Asia	+10%	+1%
AAMEA	**+12%**	**+9%**

The AAMEA business has achieved strong organic revenue growth of 12%, with organic recurring revenue growing 14% (H1 2013: 12%) and organic SSRS revenue growing 9% (H1 2013: 4%). South Africa has led with a strong mid-market performance and good growth in the wider African continent. This was supported by an improved performance from the rest of AAMEA.

South Africa – double-digit growth continues

South African organic revenue growth increased to 16%. The South African mid-market business has grown strongly, with double-digit organic revenue growth in both SSRS and recurring revenue. This growth was underpinned by the application of an annual price increase that is typically around the rate of inflation.

The performance from the wider African continent continues to be important, with organic revenue growth of 22% (H1 2013: 20%). This element of the business now constitutes 13% of overall South African revenue, up from 12% in the prior period.

Australia, Middle East and Asia

Australia delivered organic revenue growth of 5%, with price increases on key products Micropay and Handisoft responsible for the majority of this growth.

The Middle East and Asia grew organically by 10%, with good growth in the Middle East and Malaysia driving performance.

Organic operating profit

AAMEA organic operating profit has increased to £18m (H1 2013: £17m), although this represents a decrease in margin to 25.6% (H1 2013: 27.9%). The South Africa business continues to deliver high levels of organic revenue growth, which reflects the level of opportunity in this region, particularly in the wider African continent. During the period, the business invested in its sales and marketing capability, particularly in support of the expansion into Africa. Profitability in AAMEA was largely unaffected by the non-core product disposals.

Financial review

Revenue

Statutory revenue contracted by 7% to £657m (H1 2013: £708m). The decline mainly reflects the inclusion of £53m of revenue from disposals in the prior period, and adverse foreign exchange movements. These factors offset organic revenue growth in the core business.

STATUTORY TO ORGANIC REVENUE RECONCILIATION	H1 2014	H1 2013	Change
Statutory revenue	£657m	£708m	-7%
Impact of foreign exchange	-	(£29m)	-
Contribution from acquisitions, disposals and products held for sale	-	(£53m)	-
Organic revenue	**£657m**	**£626m**	**+5%**

The average exchange rates used to translate the Consolidated income statement for the period are set out on page 11.

Operating profit

Statutory operating profit increased to £174m (H1 2013: £1m loss). Statutory operating profit in the prior period included an exceptional loss on the disposal of non-core products of £180m.

STATUTORY TO ORGANIC OPERATING PROFIT RECONCILIATION	H1 2014	H1 2013	Change
Statutory operating profit	£174m	(£1m)	n/a
Other adjustments*	£6m	£192m	
Impact of foreign exchange	-	(£8m)	
Contribution from acquisitions, disposals and products held for sale	-	(£17m)	
Organic operating profit	**£180m**	**£165m**	**+9%**
Organic operating profit margin	**27.4%**	**26.4%**	**+100bps**

**Other adjustments comprise amortisation of acquired intangible assets, acquisition-related items, goodwill impairment and fair value adjustments, and exceptional items.*

Organic operating profit increased by 9% to £180m (H1 2013: £165m), and organic operating profit margin increased to 27.4% (H1 2013: 26.4%). The increase is primarily due to a reduction in overheads that previously supported the non-core products, which has returned organic operating profit margin to the pre-disposal level of around 27%. Operating profit margin has also benefited from an improvement in operating leverage as a result of revenue growth, and from a disciplined approach to managing the cost base.

Organic operating profit margin in the prior period excludes the contribution from non-core products disposed in March and April 2013. A reconciliation of the previously reported H1 2013 margin of 27.0% to the 26.4% margin shown above is set out below:

H1 2013	Revenue	Operating profit	Operating profit margin
Organic (excluding non-core products)	£626m	£165m	26.4%
Contribution from non-core products	£53m	£17m	-
Including non-core products	**£680m**	**£183m**	**26.9%**
Impact of foreign exchange	£29m	£8m	-
Underlying (as reported)	**£708m**	**£191m**	**27.0%**

Research and development ("R&D") expenditure

Total R&D expenditure was £63m, which represents 10% of total organic revenue. During the period R&D expenditure on Invest products increased 11% organically on the same period last year as resources have been reallocated from Sunset and Harvest products. R&D expenditure is expensed as it is incurred.

Earnings per share

Underlying basic earnings per share increased by 8% to 11.12p (H1 2013: 10.27p) due to an improved effective tax rate and a reduction in the average number of shares in issue to 1,097.9m (H1 2013: 1,208.3m) following share repurchases and a share consolidation effected in June 2013. These factors were partly offset by an increase in net interest cost.

Statutory basic earnings per share increased to 10.58p (H1 2013: 6.28p loss), which reflects the factors set out above and the inclusion of an exceptional loss on disposal of non-core products in the prior period.

Net finance cost

Net finance costs increased to £10m (H1 2013: £7m). This was due to an increase in gross debt following the raising of US$400m of US private placement ("USPP") loan notes in May 2013 as the Group moved towards its leverage target of 1x net debt to EBITDA. The average interest rate on borrowings during the year increasing to 3.74% (H1 2013: 3.46%), as the 2013 USPP succeeded in extending debt maturities at fixed rates.

Taxation

The income tax expense of £47m (H1 2013: £67m), represents an underlying effective tax rate of 28% (H1 2013: 29%). This is in excess of the standard rate of UK tax due to the higher tax rates applicable in the other jurisdictions in which we operate. The prior period expense includes an exceptional tax charge of £16m on the disposal of the non-core products.

Cash flow and net debt

CASH FLOW	H1 2014	H1 2013
Statutory operating profit	£174m	(£1m)
Exceptional items	-	£180m
Depreciation/amortisation/profit on disposal	£21m	£26m
Share-based payments	£3m	£3m
Working capital movements	£9m	(£4m)
Exchange rate and other movements	(£10m)	£5m
Cash flow from operating activities	**£197m**	**£209m**
Net interest	(£9m)	(£5m)
Tax paid	(£55m)	(£42m)
Net capital expenditure	(£12m)	(£3m)
Free cash flow	**£120m**	**£159m**

The Group remains highly cash generative with cash flows from operating activities of £197m, which represents strong underlying cash conversion of 110% (H1 2013: 112%). After interest, tax and net capital expenditure, free cash flow was £120m.

A total of £105m (H1 2013: £258m) was returned to shareholders through ordinary dividends paid of £81m (H1 2013: £79m) and shares repurchased of £24m (H1 2013: £179m). Net debt stood at £361m at 31 March 2014 (31 March 2013: £231m; 30 September 2013: £384m) which is equivalent to 0.9x rolling 12-month EBITDA.

Approximately £120m of borrowings are due for repayment within the next 12 months, which relate to an element of the 2010 USPP loan notes that fall due in March 2015.

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. No significant additional financing was raised in H1 2014. Total USPP loan notes at 31 March 2014 were £420m (US$700m) (H1 2013: £198m, US$300m). Syndicated bank multi-currency revolving credit facilities totalled £339m (H1 2013: £360m) (US$271m and €214m tranches) and expire in 2015. At 31 March 2014 £17m of these facilities were drawn (H1 2013: £101m).

Foreign exchange

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

The average rates used to translate the Consolidated income statement and to neutralise foreign exchange in prior period figures are as follows:

AVERAGE EXCHANGE RATES (EQUAL TO GBP1)	H1 2014	H1 2013	Change
Euro (€)	1.20	1.20	-
US Dollar ($)	1.65	1.58	+4%
South African Rand (ZAR)	17.33	13.96	+24%
Australian Dollar (A$)	1.82	1.52	+20%
Brazilian Real (R$)	3.83	3.20	+20%

Capital structure and dividend

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

Consistent with this policy, the Board has declared a 6% increase in the interim dividend per share for the period to 4.12p per share (H1 2013: 3.88p per share on a post-share consolidation basis). The H1 2013 interim dividend was 3.69p per share on a pre-share consolidation basis.

Archer Capital

On 14 November 2011, the Group reported a claim for damages made by Archer Capital ("Archer") following the termination of discussions between the Group and Archer relating to the potential purchase of MYOB. The Group strongly rejects the claim, which is alleged to be in the region of £105m (A$188m). The claim was heard by the Court in late 2013 and judgment is pending.

Events after the reporting date

On 31 March 2014 the Group appointed Citigroup Global Markets Limited to manage an irrevocable buyback programme during the close period that commenced on 1 April 2014 and ran up to 7 May 2014.

Steve Hare
Chief Financial Officer

Appendix I – Key Performance Indicators (“KPIs”)

STRATEGIC DRIVERS	KPI DESCRIPTION	H1 2014	FY 2013	H1 2013
Focusing our business				
Research and development resource optimisation	Resource optimisation is captured by reporting on the resource allocation in our business. Research and development and sales and marketing spend in the period is divided into three categories of product – Invest:Harvest:Sunset. Our strategy is to focus our investment towards the Invest products in our portfolio.	58:38:04	50:43:07	41:47:12
Sales and marketing resource optimisation		59:38:03	49:46:05	47:46:07
Capturing the technology opportunity				
Adoption of Sage One	The number of paying subscriptions at the end of the period for our portfolio of Sage One products.	35,000	22,400	11,500
Adoption of hybrid cloud	The number of paying subscriptions at the end of the period for hybrid cloud products.	850	750	500
Integration of payments	The number of customers at the end of the period who are using a Sage core accounting system, a Sage payments solution, and the integration of the two is provided or owned by Sage.	15,200	13,800	13,200
Sage ERP X3 organic revenue growth	The percentage increase in organic revenue derived from Sage ERP X3 in the period compared to the prior period.	7%	12%	8%
The benefits of subscription				
Organic annualised value of the software subscriber base	The amount of organic software subscription revenue recorded in the last month of the period multiplied by 12. Software subscription is defined as any contract where customers may no longer use their software product if they cease to pay.*	£201m	£178m	£162m

FINANCIAL DRIVERS	KPI DESCRIPTION	H1 2014	FY 2013	H1 2013
Financial performance				
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.	4.9%	4.3%	3.2%
Organic operating profit margin	Organic operating profit excludes amortisation of acquired intangible assets, acquisition-related items, goodwill impairment and fair value adjustments, exceptional items and the contribution of current and prior period acquisitions, disposals and products held for sale. The impact of foreign exchange is neutralised in prior period figures.	27.4%	27.2%	26.4%
Underlying basic EPS growth	Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding amortisation of acquired intangible assets, acquisition-related items, goodwill impairment and fair value adjustments, exceptional items and imputed interest. All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior period figures.	8.3%	12.0%	14.8%
Underlying cash conversion	Underlying cash conversion is calculated as cash flows from operating activities, adjusted for cash acquisition-related items and cash exceptional items of £1m (H1 2013: £4m), divided by underlying operating profit.	110%	112%	112%
Financial strength				
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, goodwill impairment and fair value adjustments and exceptional items.	0.9:1	1.0:1	0.6:1
Interest cover	Statutory operating profit for the period excluding exceptional items, expressed as a multiple of finance costs excluding imputed interest for the same period.	19x	24x	29x

CUSTOMER LOYALTY	KPI DESCRIPTION	H1 2014	FY 2013	H1 2013
Recurring contract renewal rate	The number of contracts successfully renewed in the period as a percentage of those that were due for renewal.	83%	82%	81%

*The organic annualised value of the software subscriber base in prior periods has been restated to reflect a revised definition. A software subscription contract is now defined as any contract where a customer may no longer use their software product if they cease to pay. This broadens the contracts captured by this KPI to include mandatory maintenance and support arrangements. Payments contracts and non-software subscription contracts are excluded from this measure.

Appendix II – Non-GAAP measures

MEASURE	DESCRIPTION	WHY WE USE IT
Underlying	Prior period underlying measures are retranslated at the current period exchange rates to neutralise the effect of currency fluctuations. Underlying operating profit excludes: • Amortisation of acquired intangible assets; • Acquisition-related items; • Goodwill impairment and fair value adjustments; and • Exceptional items. Underlying profit before tax excludes: • All the items above; and • Imputed interest. 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 items that are not under the operational control of the business. By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth is clearer.
Organic	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale in the current and prior period.	Organic measures allow management and investors to understand the like-for-like performance of the business.
Underlying cash conversion	Cash flows from operating activities, adjusted for cash acquisition-related items and cash exceptional items, divided by underlying operating profit.	Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is turned into cash.

Consolidated income statement
For the six months ended 31 March 2014

	Note	**Six months ended 31 March 2014 (Unaudited) £m**	Six months ended 31 March 2013 (Unaudited) £m	Year ended 30 September 2013 (Audited) £m
Revenue	1	**656.5**	708.1	1,376.1
Cost of sales		**(37.5)**	(41.8)	(80.2)
Gross profit		**619.0**	666.3	1,295.9
Selling and administrative expenses		**(444.9)**	(487.1)	(929.5)
Loss on disposal of non-core products and impairment of non-current assets held for sale	2	**–**	(180.2)	(185.9)
Operating profit/(loss)	1	**174.1**	(1.0)	180.5
Finance income		**0.9**	0.5	1.4
Finance costs		**(10.5)**	(7.2)	(17.8)
Finance costs – net		**(9.6)**	(6.7)	(16.4)
Profit/(loss) before income tax		**164.5**	(7.7)	164.1
Income tax expense	4	**(47.4)**	(66.9)	(116.6)
Profit/(loss) for the period		**117.1**	(74.6)	47.5
Profit/(loss) attributable to:				
– Owners of the parent		**116.2**	(75.9)	46.4
– Non-controlling interest		**0.9**	1.3	1.1
		117.1	(74.6)	47.5
Earnings per share attributable to the owners of the parent (pence)				
– Basic	6	**10.58p**	(6.28p)	3.97p
– Diluted	6	**10.56p**	(6.27p)	3.96p

The notes on pages 20 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Consolidated statement of comprehensive income
For the six months ended 31 March 2014

	Six months ended 31 March 2014 (Unaudited) £m	Six months ended 31 March 2013 (Unaudited) £m	Year ended 30 September 2013 (Audited) £m
Profit/(loss) for the period	**117.1**	(74.6)	47.5
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations	**(0.4)**	0.6	1.1
Deferred tax credit/(charge) on actuarial loss/gain on post-employment benefit obligations	**0.1**	1.0	(0.4)
	(0.3)	1.6	0.7
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	**(19.6)**	63.5	28.4
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	**–**	(38.8)	(44.5)
	(19.6)	24.7	(16.1)
Other comprehensive (expense)/income for the period, net of tax	**(19.9)**	26.3	(15.4)
Total comprehensive income/(expense) for the period	**97.2**	(48.3)	32.1
Total comprehensive income/(expense) for the period attributable to:			
– Owners of the parent	**96.3**	(49.6)	31.0
– Non-controlling interest	**0.9**	1.3	1.1
	97.2	(48.3)	32.1

The notes on pages 20 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Consolidated balance sheet
As at 31 March 2014

	Note	**31 March 2014 (Unaudited) £m**	31 March 2013 (Unaudited) £m	30 September 2013 (Audited) £m
Non-current assets				
Goodwill	7	**1,483.9**	1,602.3	1,515.2
Other intangible assets	7	**102.7**	128.4	113.5
Property, plant and equipment	7	**126.2**	130.6	128.8
Deferred income tax assets		**16.5**	18.2	18.7
		1,729.3	1,879.5	1,776.2
Current assets				
Inventories		**2.0**	2.5	2.2
Trade and other receivables		**350.5**	345.4	311.2
Cash and cash equivalents (excluding bank overdrafts)	10	**111.5**	87.6	100.8
		464.0	435.5	414.2
Non-current assets classified as held for sale	11	**–**	39.3	–
Total assets		**2,193.3**	2,354.3	2,190.4
Current liabilities				
Trade and other payables		**(285.2)**	(260.7)	(287.6)
Current income tax liabilities		**(29.6)**	(60.8)	(35.7)
Borrowings		**(123.2)**	(3.4)	(21.0)
Other financial liabilities		**(100.5)**	(40.0)	(30.0)
Deferred consideration		**(2.7)**	(12.6)	(8.2)
Deferred income		**(448.8)**	(467.0)	(406.8)
		(990.0)	(844.5)	(789.3)
Liabilities directly associated with non-current assets classified as held for sale	11	**–**	(4.3)	–
Non-current liabilities				
Borrowings		**(315.2)**	(297.3)	(440.6)
Other financial liabilities		**–**	(73.7)	(54.2)
Post-employment benefits		**(13.8)**	(15.4)	(12.9)
Deferred income tax liabilities		**(20.9)**	(31.4)	(23.1)
		(349.9)	(417.8)	(530.8)
Total liabilities		**(1,339.9)**	(1,266.6)	(1,320.1)
Net assets		**853.4**	1,087.7	870.3
Equity attributable to owners of the parent				
Ordinary shares	9	**11.7**	12.1	11.7
Share premium	9	**534.5**	528.5	532.2
Other reserves		**40.9**	101.2	60.4
Retained earnings		**266.5**	446.7	267.0
Total equity attributable to owners of the parent		**853.6**	1,088.5	871.3
Non-controlling interest		**(0.2)**	(0.8)	(1.0)
Total equity		**853.4**	1,087.7	870.3

The notes on pages 20 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Consolidated statement of cash flows
For the six months ended 31 March 2014

	Note	**Six months ended 31 March 2014 (Unaudited) £m**	Six months ended 31 March 2013 (Unaudited) £m	Year ended 30 September 2013 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	10	**196.7**	208.9	417.4
Interest paid		**(10.2)**	(5.8)	(12.6)
Income tax paid		**(55.3)**	(41.8)	(118.6)
Net cash generated from operating activities		**131.2**	161.3	286.2
Cash flows from investing activities				
Acquisitions of subsidiaries, net of cash acquired	12	**(4.3)**	(9.3)	(14.7)
Disposal of subsidiaries, net of cash disposed	12	–	56.0	(6.0)
Purchases of intangible assets	7	**(3.8)**	(2.7)	81.4
Purchases of property, plant and equipment	7	**(8.1)**	(0.4)	(9.6)
Purchases of other assets		**–**	(6.6)	(14.1)
Proceeds from sale of property, plant and equipment		**0.1**	–	4.7
Interest received		**0.9**	0.5	1.4
Net cash generated from investing activities		**(15.2)**	37.5	43.1
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	9	**2.3**	4.0	7.7
Purchase of treasury shares and related expenses	9	**(23.7)**	(179.0)	(251.0)
Finance lease principal payments		**(0.4)**	(0.7)	(1.1)
Proceeds from borrowings		**45.2**	170.0	514.1
Repayments of borrowings		**(38.0)**	(84.8)	(256.5)
Movement in cash collected from customers		**9.3**	(0.4)	9.5
Dividends paid to owners of the parent	5	**(81.2)**	(79.3)	(320.8)
Net cash used in financing activities		**(86.5)**	(170.2)	(298.1)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)	10	**29.5**	28.6	31.2
Effects of exchange rate movement	10	**(2.9)**	2.4	(2.7)
Net increase in cash, cash equivalents and bank overdrafts		**26.6**	31.0	28.5
Cash, cash equivalents and bank overdrafts at 1 October	10	**82.9**	54.4	54.4
Cash, cash equivalents and bank overdrafts at period end	10	**109.5**	85.4	82.9

The notes on pages 20 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Consolidated statement of changes in equity
For the six months ended 31 March 2014

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

The notes on pages 20 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Consolidated statement of changes in equity (continued)
For the six months ended 31 March 2014

	Attributable to owners of the parent						
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 October 2012 (Audited)	13.3	524.5	76.5	760.8	1,375.1	(2.1)	1,373.0
(Loss)/profit for the period	–	–	–	(75.9)	(75.9)	1.3	(74.6)
Other comprehensive (expense)/income:							
Exchange differences on translating foreign operations	–	–	63.5	–	63.5	–	63.5
Exchange differences recycled to the income statement in respect of the disposal of foreign operations	–	–	(38.8)	–	(38.8)	–	(38.8)
Actuarial gain on post-employment benefit obligations	–	–	–	0.6	0.6	–	0.6
Deferred tax credit on actuarial loss on post-employment benefit obligations	–	–	–	1.0	1.0	–	1.0
Total comprehensive income/(expense) for the period ended 31 March 2013 (Unaudited)	–	–	24.7	(74.3)	(49.6)	1.3	(48.3)
Transactions with owners:							
Employee share option scheme:							
– Proceeds from shares issued	–	4.0	–	–	4.0	–	4.0
– Value of employee services	–	–	–	2.8	2.8	–	2.8
Purchase of treasury shares	–	–	–	(182.0)	(182.0)	–	(182.0)
Expenses related to purchase of treasury shares	–	–	–	(1.3)	(1.3)	–	(1.3)
Cancellation of treasury shares	(1.2)	–	–	–	(1.2)	–	(1.2)
Close period share buyback programme	–	–	–	20.0	20.0	–	20.0
Dividends paid to owners of the parent	–	–	–	(79.3)	(79.3)	–	(79.3)
Total transactions with owners for the period ended 31 March 2013 (Unaudited)	(1.2)	4.0	–	(239.8)	(237.0)	–	(237.0)
At 31 March 2013 (Unaudited)	12.1	528.5	101.2	446.7	1,088.5	(0.8)	1,087.7

The notes on pages 20 to 32 form an integral part of this condensed consolidated half-yearly financial report.

Notes to the financial information
For the six months ended 31 March 2014

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 and medium sized companies.

This condensed consolidated half-yearly financial report was approved for issue by the Board of directors on 8 May 2014.

This condensed consolidated half-yearly financial report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2013 were approved by the Board of directors on 5 December 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

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

This condensed consolidated half-yearly financial report for the six months ended 31 March 2014 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 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated half-yearly financial report.

Accounting policies

Other than as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2013, as described in those annual financial statements.

Income taxes

Taxes on income in interim periods are accrued using the tax rate that would be applicable to the full year.

Adoption of new and revised IFRSs

The following amendments to standards were effective during the period to 31 March 2014 and have been adopted in this condensed consolidated half-yearly financial report.

- IAS 1, "Presentation of Financial Statements"
- Amendment to IAS 12, "Income Taxes" on deferred tax
- Amendment to IAS 19, "Employee Benefits"
- IFRS 13, "Fair Value Measurement"

There is no material impact of the adoption of these standards in this condensed consolidated half-yearly financial report.

Group accounting policies (continued)

New and amended accounting standards

The directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments that are currently endorsed but not yet effective. Except where noted below, none are considered material to the financial statements.

- Amendment to IAS 36, "Impairment of Assets"
- IFRS 9, "Financial Instruments"
- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosure of Interests in Other Entities"

Critical accounting estimates and judgements

In preparing this condensed consolidated half-yearly financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those of the annual financial statements for the year ended 30 September 2013.

Website

This condensed consolidated half-yearly financial report for the six months ended 31 March 2014 can also be found on our website:

www.sage.com/investors/investor-downloads

Notes to the financial information
For the six months ended 31 March 2014

1 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker as the Committee is responsible for the allocation of resources to operating segments and assessing their performance. The Executive Committee use organic and underlying data to monitor business performance. Refer to the definitions on page 13 for more information on these measures. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

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

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

Revenue by segment (Unaudited)

	Six months ended 31 March 2014			Six months ended 31 March 2013					Change		
	Statutory	**Organic revenue adjustment[1]**	**Organic**	Statutory	Impact of foreign exchange	Underlying	Organic revenue adjustment[1]	Organic	Statutory	Underlying	Organic
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	%	%	%
Recurring revenue by segment											
Europe	**265.2**	**–**	**265.2**	271.4	(1.6)	269.8	(19.5)	250.3	-2%	-2%	+6%
Americas	**166.8**	**–**	**166.8**	181.6	(11.9)	169.7	(13.5)	156.2	-8%	-2%	+7%
AAMEA	**39.5**	**–**	**39.5**	42.2	(7.2)	35.0	(0.3)	34.7	-6%	+13%	+14%
Recurring revenue	**471.5**	**–**	**471.5**	495.2	(20.7)	474.5	(33.3)	441.2	-5%	-1%	+7%
Software and software-related services ("SSRS") revenue by segment											
Europe	**116.9**	**–**	**116.9**	131.8	0.6	132.4	(12.3)	120.1	-11%	-12%	-3%
Americas	**38.8**	**–**	**38.8**	48.7	(3.1)	45.6	(7.7)	37.9	-20%	-15%	+2%
AAMEA	**29.3**	**–**	**29.3**	32.4	(5.4)	27.0	(0.1)	26.9	-10%	9%	+9%
SSRS revenue	**185.0**	**–**	**185.0**	212.9	(7.9)	205.0	(20.1)	184.9	-13%	-10%	0%
Total revenue by segment											
Europe	**382.1**	**–**	**382.1**	403.2	(1.0)	402.2	(31.8)	370.4	-5%	-5%	+3%
Americas	**205.6**	**–**	**205.6**	230.3	(15.0)	215.3	(21.2)	194.1	-11%	-5%	+6%
AAMEA	**68.8**	**–**	**68.8**	74.6	(12.6)	62.0	(0.4)	61.6	-8%	11%	+12%
Total revenue	**656.5**	**–**	**656.5**	708.1	(28.6)	679.5	(53.4)	626.1	-7%	-3%	+5%

[1] Organic revenue adjustment includes the contributions of current and prior period acquisitions, disposals and products held for sale.

Notes to the financial information
For the six months ended 31 March 2014

1 Segment information (continued)

Operating profit by segment (Unaudited)

	Six months ended 31 March 2014					Six months ended 31 March 2013						
	Statutory £m	Adj[1] £m	Underlying £m	Organic adj[2] £m	Organic £m	Statutory £m	Adj[1] £m	Underlying previously reported £m	Impact of foreign exchange £m	Underlying £m	Organic adj[2] £m	Organic £m
Operating profit by segment												
Europe	103.9	4.2	108.1	–	108.1	100.2	13.7	113.9	(1.2)	112.7	(10.9)	101.8
Americas	53	1.3	54.3	–	54.3	(121.2)	178.2	57.0	(4.4)	52.6	(6.2)	46.4
AAMEA	17.2	0.4	17.6	–	17.6	20.0	–	20.0	(2.8)	17.2	–	17.2
Total	174.1	5.9	180.0	–	180.0	(1.0)	191.9	190.9	(8.4)	182.5	(17.1)	165.4

[1] Adjustment includes the effects of amortisation of acquired intangible assets, acquisition-related items, goodwill impairment and fair value adjustments and exceptional items.

[2] Organic adjustment includes the contributions of current and prior period acquisitions, disposals and products held for sale.

Reconciliation of underlying operating profit to statutory operating profit/(loss)

	Six months ended 31 March 2014 (Unaudited) £m	Six months ended 31 March 2013 (Unaudited) £m
Organic operating profit	180.0	165.4
Impact of acquisitions and disposals	–	17.1
Underlying operating profit	180.0	182.5
Impact of movements in foreign currency exchange rates	–	8.4
Underlying operating profit (as previously reported)	180.0	190.9
Amortisation of acquired intangible assets	(7.4)	(10.5)
Acquisition-related items	0.9	(0.1)
Goodwill impairment and fair value adjustments	2.0	–
Exceptional items	(1.4)	(181.3)
Statutory operating profit/(loss)	174.1	(1.0)

2 Exceptional items

An exceptional charge of £1.4m (31 March 2013: £1.1m) has been included in selling and administrative expenses. These costs were incurred in relation to the defence of the Archer litigation case. During the period ended 31 March 2013, a £180.2m operating loss on disposal and impairment of non-current assets held for sale was incurred primarily as a result of the disposal of non-core products.

Notes to the financial information
For the six months ended 31 March 2014

3 Reconciliation of statutory revenue and profit before income tax

Reconciliation of revenue	**Six months ended 31 March 2014 (Unaudited) £m**	Six months ended 31 March 2013 (Unaudited) £m	Change %
Organic revenue	**656.5**	626.1	+5%
Contribution from acquisitions, disposals and products held for sale	**–**	53.4	
Underlying revenue	**656.5**	679.5	-3%
Impact of movements in foreign currency exchange rates	**–**	28.6	
Statutory revenue	**656.5**	708.1	-7%

Reconciliation of profit before income tax	**Six months ended 31 March 2014 (Unaudited) £m**	Six months ended 31 March 2013 (Unaudited) £m	Change %
Underlying profit before income tax	170.9	176.6	-3%
Impact of movements in foreign currency exchange rates	–	8.3	
	170.9	184.9	-8%
Amortisation of acquired intangible assets	(7.4)	(10.5)	
Acquisition-related items	0.9	(0.1)	
Goodwill impairment and fair value adjustments	2.0	–	
Exceptional items	(1.4)	(181.3)	
Imputed interest on put arrangement to acquire non-controlling interest	(0.5)	(0.7)	
Statutory profit/(loss) before income tax	164.5	(7.7)	n/a

4 Income tax expense

The underlying effective income tax rate for the six months ended 31 March 2014 (Unaudited) is 28% (six months ended 31 March 2013 (Unaudited): 29%; year ended 30 September 2013 excluding exceptional charges (Audited): 29%), representing the best estimate of the average annual effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 31 March 2014.

5 Dividends

	Six months ended 31 March 2014 (Unaudited) £m	Six months ended 31 March 2013 (Unaudited) £m	Year ended 30 September 2013 (Audited) £m
Final dividend paid for the year ended 30 September 2012 of 6.67p per share	**–**	79.3	79.3
Interim dividend paid for the year ended 30 September 2013 of 3.69p per share	**–**	–	42.8
Special dividend paid of 17.1p per share	**–**	–	198.7
Final dividend paid for the year ended 30 September 2013 of 7.44p per share	**81.2**	–	–
	81.2	79.3	320.8

The interim dividend of 4.12p per share will be paid on 6 June 2014 to shareholders on the register at the close of business on 16 May 2014.

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 two classes of dilutive potential ordinary shares: those 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 and the contingently issuable shares under the Group's long-term incentive plan. For performance-related share plans, a calculation is performed to determine the satisfaction, or otherwise, of the forecast performance conditions at the end of the reporting period, and the number of shares which would be issued based on the forecast status at the end of the reporting period.

	Underlying Six months ended 31 March 2014 (Unaudited)	Underlying Six months ended 31 March 2013 (Unaudited)	**Statutory Six months ended 31 March 2014 (Unaudited)**	Statutory Six months ended 31 March 2013 (Unaudited)
Earnings attributable to owners of the parent (£m)				
Profit/(loss) for the period	**122.1**	124.1	**116.2**	(75.9)
Number of shares (millions)				
Weighted average number of shares	**1,097.9**	1,208.3	**1,097.9**	1,208.3
Dilutive effects of shares	**1.9**	2.8	**1.9**	2.8
	1,099.8	1,211.1	**1,099.8**	1,211.1
Earnings per share attributable to owners of the parent (pence)				
Basic earnings per share	**11.12**	10.27	**10.58**	(6.28)
Diluted earnings per share	**11.10**	10.24	**10.56**	(6.27)

Reconciliation of earnings	**Six months ended 31 March 2014 (Unaudited) £m**	Six months ended 31 March 2013 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**122.1**	124.1
Impact of movements in foreign currency exchange rates	**–**	5.9
	122.1	130.0
Amortisation of acquired intangible assets	**(7.4)**	(10.5)
Acquisition-related items	**0.9**	(0.1)
Goodwill impairment and fair value adjustments	**2.0**	–
Exceptional items	**(1.4)**	(197.6)
Imputed interest on put arrangement to acquire non-controlling interest	**(0.5)**	(0.7)
Taxation on adjustments	**0.5**	3.0
Statutory earnings attributable to owners of the parent	**116.2**	(75.9)

Notes to the financial information
For the six months ended 31 March 2014

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 2013	**1,515.2**	**113.5**	**128.8**	**1,757.5**
Additions	**–**	**3.8**	**8.1**	**11.9**
Disposals	**–**	**(0.1)**	**(0.2)**	**(0.3)**
Depreciation, amortisation and other movements	**–**	**(12.0)**	**(9.3)**	**(21.3)**
Exchange movement	**(31.3)**	**(2.5)**	**(1.2)**	**(35.0)**
Closing net book amount at 31 March 2014	**1,483.9**	**102.7**	**126.2**	**1,712.8**

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment annually. At 31 March 2014, there was no indication of impairment for non-financial assets with indefinite lives. Financial assets were reviewed for impairment as at 31 March 2014. There was no indication of impairment.

Other intangible assets additions include £nil (31 March 2013: £0.4m) of acquired customer relationships and £3.8m (31 March 2013: £2.3m) of computer software.

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2012	1,814.4	139.8	142.2	2,096.4
Acquisitions of subsidiaries	11.9	–	–	11.9
Reclassification to non-current assets held for sale	(72.2)	(7.3)	(0.1)	(79.6)
Additions	–	2.7	4.1	6.8
Disposals	(249.2)	–	(7.6)	(256.8)
Depreciation, amortisation and other movements	–	(14.6)	(10.5)	(25.1)
Exchange movement	97.4	7.8	2.5	107.7
Closing net book amount at 31 March 2013	1,602.3	128.4	130.6	1,861.3

8 Financial instruments

For financial assets and liabilities other than borrowings, the carrying amount of the financial instrument approximates the fair value of the instruments. At 31 March 2014, borrowings with a carrying value of £434.8m had a fair value of £422.9m due to bearing interest at fixed rates which are currently higher than floating rates.

Other financial liabilities include a put and call arrangement to acquire the remaining non-controlling interest 25% share in Folhamatic in Brazil during 2015. The liability is estimated at £50.5m after discounting to present value of the estimated redemption amount. The redemption amount is calculated based on a multiple of expected EBITDA for the year ending 31 December 2014.

The following table shows the movements in the carrying value of the liability during the period.

	Total (Unaudited) £m
Opening carrying value at 1 October 2013	**54.2**
Imputed interest recognised in the Consolidated income statement within finance costs	**0.5**
Gain recognised in the income statement within selling and administrative expenses	**(2.0)**
Exchange movement	**(2.2)**
Closing carrying value at 31 March 2014	**50.5**

Notes to the financial information
For the six months ended 31 March 2014

9 Ordinary shares and share premium

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

	Number of shares (Unaudited)	Ordinary shares (Unaudited) £m	Share premium (Unaudited) £m	Total (Unaudited) £m
At 1 October 2012	1,329,517,570	13.3	524.5	537.8
Shares issued/proceeds	1,868,125	–	4.0	4.0
Shares cancelled	(124,525,800)	(1.2)	–	(1.2)
At 31 March 2013	1,206,859,895	12.1	528.5	540.6

During the period, the Group purchased 5,717,000 shares at a cost of £19.1m and a cash outflow of £23.7m. In the same period in the prior period, the Group purchased 57,612,625 shares at a cost of £182.0m and a cash outflow of £179.0m.

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

10 Cash flow and net debt

	Six months ended 31 March 2014 (Unaudited) £m	Six months ended 31 March 2013 (Unaudited) £m
Operating profit	**174.1**	(1.0)
Depreciation/amortisation/profit on disposal of intangible assets and property, plant and equipment	**21.3**	25.9
Fair value movements on financial instruments	**(2.7)**	–
Share-based payments	**3.3**	2.8
Exceptional items	**–**	180.0
Changes in working capital	**(40.8)**	(54.4)
Increase in deferred income	**49.8**	50.6
Exchange movement	**(8.3)**	5.0
Cash flows from operating activities	**196.7**	208.9
Net interest paid	**(9.3)**	(5.3)
Income tax paid	**(55.4)**	(41.8)
Net capital expenditure	**(11.6)**	(3.1)
Free cash flow	**120.4**	158.7
Net debt at 1 October	**(384.3)**	(161.5)
Acquisitions and disposals of subsidiaries, net of cash	**(4.3)**	46.7
Dividends paid to owners of the parent	**(81.2)**	(79.3)
Purchase of treasury shares and related expenses	**(23.7)**	(179.0)
Exchange movement	**10.3**	(14.1)
Other	**1.8**	(2.3)
Net debt at 31 March	**(361.0)**	(230.8)

10 Cash flow and net debt (continued)

	At 1 October 2013 (Audited) £m	Cash flow £m	Non-cash movements £m	Exchange movement £m	At 31 March 2014 (Unaudited) £m
Cash and cash equivalents	**100.8**	**13.7**	**–**	**(3.0)**	**111.5**
Bank overdrafts	**(17.9)**	**15.8**	**–**	**0.1**	**(2.0)**
Cash, cash equivalents and bank overdrafts	**82.9**	**29.5**	**–**	**(2.9)**	**109.5**
Loans due within one year	**–**	**–**	**(120.0)**	**–**	**(120.0)**
Finance leases due within one year	**(1.1)**	**(0.1)**	**–**	**–**	**(1.2)**
Loans due after more than one year	**(442.0)**	**(7.1)**	**119.6**	**14.5**	**(315.0)**
Finance leases due after more than one year	**(0.7)**	**0.5**	**(0.1)**	**–**	**(0.3)**
Cash collected from customers	**(23.4)**	**(9.3)**	**–**	**(1.3)**	**(34.0)**
Total	**(384.3)**	**13.5**	**(0.5)**	**10.3**	**(361.0)**

Included in cash above is £34.0m (31 March 2013: £17.7m, 30 September 2013: £23.4m) relating to cash collected from customers, which the Group is contracted to pay onto another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

11 Non-current assets and liabilities classified as held for sale

There are no non-current assets and liabilities classified as held for sale in the current period. In the prior period, non-current assets of £39.3m and associated liabilities of £4.3m classified as held for sale were related to four European non-core products including C&I, ATL and Automotive in France and Aytos in Spain to Argos Soditic and the UK Construction business to Eque2Limited. Both deals completed on 30 April 2013.

The held for sale assets and liabilities in the prior period were carried at their fair value less cost to sell resulting in an impairment to goodwill of £46.7m. The impairment was reflected in the loss on disposal of non-core products and impairment of non-current assets held for sale in the Consolidated income statement.

12 Acquisitions and disposals

Acquisitions made during the period

There were no acquisitions in the current period. The cash outflow from investing activities relate to the deferred consideration paid on the acquisition of EBS. In the same period in the prior year, the Group made acquisitions for cash consideration of up to £11.9m. The fair value of the assets acquired was £nil resulting in goodwill of £11.9m.

Disposals made during the period

There were no disposals in the current period. In the same period in the prior year, the Group disposed of non-core products in North America and France for cash consideration of up to £56m.

13 Contingent liabilities

The Group had no contingent liabilities at 31 March 2014 (31 March 2013 and 30 September 2013: none).

14 Related party transactions

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

Key management compensation	**Six months ended 31 March 2014 (Unaudited) £m**	Six months ended 31 March 2013 (Unaudited) £m
Salaries and short-term employee benefits	**2.9**	3.2
Post-employment benefits	**0.3**	0.4
Share-based payments	**0.6**	0.5
	3.8	4.1

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 2013.

Supplier transactions occurred during the period between Softline (Pty) Ltd, one of the Group's subsidiary companies, and Ivan Epstein Chief Executive Officer, AAMEA. These transactions relate to the lease of three properties in which Ivan Epstein has a minority and indirect shareholding. During the period £1.2m (31 March 2013: £0.6m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the period ended 31 March 2014 (31 March 2013: £nil).

Supplier transactions occurred during the period between Sage SP, S.L., one of the Group's subsidiary companies and Álvaro Ramírez, Chief Executive Officer, Europe. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the period £0.7m (31 March 2013: £0.1m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the period ended 31 March 2014 (31 March 2013: £nil).

These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

15 Group risk factors

Risks can materialise and impact on both the achievement of business strategy and the successful running of our business. A key element in achieving our strategy and maintaining services to our customers is the management of risks. Our risk management strategy is therefore to support the successful running of the business by identifying and managing risks to an acceptable level and delivering assurances on this.

In addition to the principal risks and uncertainties set out below, we have reviewed our plans in light of potential risks to achieving our strategic objectives. Principal risks and uncertainties reflect high level strategic risks. Lower level strategic risks are analysed and mitigated via the normal embedded risk management process.

Risk	Potential impact	Principal mitigations
Transformation There is a risk that we do not successfully transform our business in relation to technology initiatives and our business model.	• We do not meet market expectations or compete effectively with rival providers; • Negative impact on future revenue and damage to future growth potential; • Loss of existing customers and inability to attract new customers; and • Negative reputational impact.	• Individual initiatives are monitored by the Group Executive Committee and Group Project Management Office .Targets, milestones and timelines are tracked and progress is regularly reported and reviewed; • Strategic opportunities are regularly reviewed by the Group Board; • The Technology Advisory Group reviews specific key technology initiatives on a regular basis; and • Evolution of our business model is monitored by the Group Board.
Loss of data There is a risk in relation to the accidental or malicious loss of data, whether it is our customers' data or our business data.	• Damage to reputation and future growth potential; • Data breach, corruption or loss of customers' data, leading to potential regulatory penalties; • Impact on current and future revenues; and • Loss of customers.	• Framework to control the risks associated with the provision of online services and the protection of data; and • On-going monitoring of availability and security of IT systems.
Online solutions There is a risk that we do not provide highly available and secure online solutions.	• Negative reputational impact; • Breach, corruption, or loss, leading to potential regulatory penalties or financial loss; • Negative impact on current and future revenue and damage to future growth potential; and • Loss of existing customers and inability to attract new customers.	• Detailed product and services release and quality control procedures; • Thorough quality assurance processes and initiatives relating to the level of service provided to customers; • Framework to control the risks associated with the provision of online services and the protection of data; and • On-going monitoring of availability and security incidents for online solutions.
Skills and resources There is a risk that we do not have and are unable to attract and retain the required skills and resources for strategic and business delivery.	• Potential to create key person dependencies; • Capacity issues and inability to focus sufficient management attention where required; and • Inability to execute strategy and achieve business deliverables.	• Detailed talent programme in place to identify skills, talent and potential within the employees; • Key person dependency review processes in place; and • Well established recruitment processes in place.

Notes to the financial information
For the six months ended 31 March 2014

15 Group risk factors (continued)

Resource allocation There is a risk that we do not appropriately allocate resources to key priorities and do not balance short-term delivery needs with long-term business objectives.	• Short-term financial results, including budgets and KPIs, are not achieved; and • Strategic initiatives are not completed and our potential is not realised.	• Detailed business planning and budget processes to allocate resource and review results on a regular basis.
Regulatory and compliance failure There is a risk that we suffer a significant compliance or regulatory failure.	• Negative reputational impact; • Data breach, corruption, or loss leading to potential regulatory penalties or financial loss; • Impact on current and future revenues and damage to future growth potential; • Loss of existing customers and inability to attract new customers; and • Loss of shareholder confidence.	• Group-wide compliance programme which seeks to ensure that all local, national and international regulatory and compliance requirements are identified and complied with.
Traditional products There is a risk that we suffer a major quality issue with a significant traditional, on-premise product.	• Negative reputational impact; • Impact on current and future revenues and damage to future growth potential; and • Loss of existing customers and inability to attract new customers.	• Detailed product and services release and quality control procedures; and • Thorough quality assurance processes and initiatives relating to the level of service provided to customers.
Source code and intellectual property There is a risk that we do not appropriately protect our source code and intellectual property.	• Unauthorised copies of our software, leading to loss of revenue and/or customers; • Negative reputational impact; and • Impact on current and future revenues and damage to future growth potential.	• Continual policing of unauthorised use of our products; • Secure storage and protection of source code and intellectual property throughout the Group; and • Reliance on laws and regulations.

Notes to the financial information
For the six months ended 31 March 2014

Statement of Directors' Responsibilities

The directors' confirm that this condensed consolidated half-yearly financial report has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

On behalf of the Board

G S Berruyer	**S Hare**
Chief Executive Officer	Chief Financial Officer
8 May 2014	8 May 2014

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 2014, which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and related notes. 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.

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. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 2014 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
8 May 2014