The Sage Group plc
Results for the six months to 31 March 2023 (unaudited)

Consistent execution drives strong momentum

Steve Hare, Chief Executive Officer, commented:

"Sage performed strongly in the first half, accelerating revenue growth, increasing profitability and making further progress against our strategic priorities. Our investments in technology and in sales and marketing are continuing to drive results, as small and mid-sized businesses increasingly choose Sage as a valued partner to transform the way they work.

"Our purpose is to knock down barriers so everyone can thrive. We are committed to delivering innovative, AI-powered services that make our customers' lives easier and their organisations more productive and resilient. Sage's global platform, centred on our expanding digital network, is enabling us to leverage our scale and collective expertise to maximise the significant opportunities we see across our markets.

"Small and mid-sized businesses are continuing to digitise, despite the macroeconomic uncertainty, and through our trusted technology and human approach Sage is well positioned to support them. I am confident that our proven strategy will enable us to deliver further efficient growth."

Underlying Financial APMs[1]	**H1 23**	**H1 22**[2]	**Change**	**Organic Change**
Annualised Recurring Revenue (ARR)	£2,100m	£1,878m	+12%	+12%
Underlying Total Revenue	£1,087m	£989m	+10%	+10%
Underlying Recurring Revenue	£1,039m	£925m	+12%	+12%
Underlying Operating Profit	£227m	£199m	+14%	+19%
% Operating Profit Margin	*20.8%*	*20.2%*	*+0.6 ppts*	*+1.6 ppts*
EBITDA	£275m	£243m	+13%	
% EBITDA Margin	*25.2%*	*24.6%*	*+0.6 ppts*	
Underlying Basic EPS (p)	15.68p	13.83p	+13%	
Underlying Cash Conversion	117%	120%	-3 ppts	
Statutory Measures	**H1 23**	**H1 22**	**Change**	
Revenue	£1,087m	£934m	+16%	
Operating Profit	£157m	£204m	-23%	
% Operating Profit Margin	*14.4%*	*21.8%*	*-7.4ppts*	
Basic EPS (p)	9.78p	14.84p	-34%	
Dividend Per Share (p)	6.55p	6.30p	+4%	

Please note that tables may not cast and change percentages may not calculate precisely due to rounding.

Financial highlights

- Underlying recurring revenue increased by 12% to £1,039m, underpinned by strong Sage Business Cloud growth of 29% to £787m. Underlying total revenue grew by 10% to £1,087m.
- Underlying operating profit increased by 14% to £227m, with margin increasing by 60 basis points to 20.8% driven by operating efficiencies as we scale the Group.
- EBITDA increased by 13% to £275m, with margin increasing by 60 basis points to 25.2%.
- Statutory operating profit decreased by 23% to £157m due to the change in recurring and non recurring items, including a £49m one-off gain in the prior period relating to the disposal of Sage Switzerland.[3]

[1] See Appendix 1 for full definitions and guidance on the usage of the Alternative Performance Measures.

[2] To aid comparability, underlying and organic measures for the prior period have been retranslated at current period exchange rates, while organic measures also adjust for the impact of acquisitions and disposals. A reconciliation of underlying and organic measures to statutory measures is set out on pages 6 and 9. In line with Sage's financial reporting changes announced on 8th December 2022, all references to revenue, profit and margin are on an underlying basis unless otherwise stated.

[3] See page 9 for further details.

- Underlying basic EPS up 13% to 15.68p, reflecting the growth in underlying operating profit.
- Continued strong cash performance, with cash conversion of 117% reflecting growth in subscription revenue and continued good working capital management.
- Robust balance sheet, with £1.2bn of cash and available liquidity and net debt to EBITDA of 1.3x.
- Interim dividend up 4% to 6.55p, in line with our progressive policy.

Strategic and operational highlights

- Underlying annualised recurring revenue (ARR) up 12% to £2,100m (H1 22: £1,878m), reflecting a strong performance across all regions, with growth balanced between new and existing customers.
- £190m of ARR added through new customer acquisition on an organic basis since H1 22, up from £150m in the prior year.
- Cloud native ARR up 30% to £612m (H1 22: £470m), driven by new customers and supported by migrations from cloud connected and desktop products.
- Renewal rate by value of 101%, ahead of last year (H1 22: 100%), with continued good retention rates and strong sales to existing customers.
- Sage Business Cloud penetration of 82% (H1 22: 72%), enabling more customers to connect to Sage's cloud services and ecosystem via Sage's digital network.
- Subscription penetration of 78% (H1 22: 73%), reflecting continued focus on attracting new customers and migrating existing customers to subscription contracts.
- Strong strategic progress, as we expand the availability of global solutions across the Group and scale Sage's digital network to power innovative features and AI-enabled services.

Outlook

Building on strong momentum in the first half, we now expect organic recurring revenue growth for FY23 to be in the region of 11%, driven by continued strength in Sage Business Cloud. We continue to expect other revenue (SSRS) to decline, in line with our strategy. Operating margins are expected to trend upwards in FY23 and beyond, as we focus on efficiently scaling the Group.

About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses (SMBs) served by us, our partners and accountants. Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, technology and experience to tackle digital inequality, economic inequality and the climate crisis.

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A presentation for investors and analysts will be held at 8.30am UK time. The webcast can be accessed via sage.com/investors or directly via the following link: https://edge.media-server.com/mmc/p/phr76hz5. To join the conference call, please register via https://register.vevent.com/register/BIe70cc49034ad4da4a1888cdaa81177a1.

Business Review

Sage delivered a strong first half, with revenue growth accelerating compared to the prior year, and underlying and organic operating margins trending upwards, driven by consistent strategic execution.

Overview of results

The Group achieved underlying recurring revenue growth of 12% to £1,039m (H1 22: £925m) in the first half, underpinned by a 29% increase in Sage Business Cloud revenue to £787m, and underlying total revenue growth of 10% to £1,087m (H1 22: £989m). Regionally, North America increased recurring revenue by 17% to £467m, with a strong performance from Sage Intacct and cloud connected solutions, while UKIA[4] grew recurring revenue by 11% to £303m, driven by a strong cloud native performance together with growth in Sage 50 cloud. In Europe, recurring revenue increased by 6% to £269m, with growth across the Sage Business Cloud portfolio partly offset by the disposal of the Swiss business in FY22.

Organic recurring revenue also grew by 12% to £1,039m (H1 22: £931m), while organic total revenue grew by 10% to £1,087m (H1 22: £992m).

Our focus on growing cloud revenues has increased Sage Business Cloud penetration to 82%, up 10 percentage points compared to H1 22. We have also continued to grow software subscription revenues, leading to a rise in subscription penetration of 5 percentage points to 78%. As a result of the evolving business mix, 96% of the Group's revenue is now recurring.

Revenue growth by portfolio

The portfolio view breaks down Sage's underlying recurring revenue by strategic product portfolio. Our principal focus is to grow Sage Business Cloud, by attracting new customers and migrating existing customers and products to cloud native and cloud connected solutions. Sage Business Cloud customers can connect to a range of cloud services as part of Sage's digital network, leading to deeper customer relationships and higher lifetime values.

Underlying Recurring Revenue by Portfolio[5]	**H1 23**	**H1 22**	**Change**	**Organic Change**
Cloud native[6]	£285m	£206m	*+38%*	*+32%*
Cloud connected[7]	£502m	£403m	*+25%*	*+25%*
Sage Business Cloud	**£787m**	**£609m**	***+29%***	***+27%***
Products with potential to migrate	£177m	£241m	*-27%*	*-25%*
Future Sage Business Cloud Opportunity[8]	**£964m**	**£850m**	***+13%***	***+13%***
Non-Sage Business Cloud[9]	£75m	£75m	-	*+1%*
Underlying Recurring Revenue	**£1,039m**	**£925m**	***+12%***	***+12%***
Sage Business Cloud Penetration	***82%***	***72%***		

Underlying recurring revenue from cloud native solutions grew by 38% to £285m, driven by Sage Intacct together with other solutions including Sage Accounting, Sage Payroll and Sage HR, largely through new customer acquisition and supported by migrations. Organic cloud native recurring revenue growth, which is adjusted for the contribution from last year's acquisitions of Brightpearl, Futrli and Lockstep, was 32%.

[4] United Kingdom & Ireland, Africa and APAC.

[5] The portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS 8.

[6] Recurring revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product runs in a cloud-based environment enabling customers to access full, updated functionality at any time, from any location, over the Internet.

[7] Recurring revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is normally deployed on-premise, and for which a substantial part of the value proposition is linked to functionality delivered in or through the cloud.

[8] Recurring revenue from customers using products that are part of, or that management believe have a clear pathway to, Sage Business Cloud.

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

Underlying recurring revenue from cloud connected solutions increased by 25% to £502m, reflecting good growth in the Sage 50 and Sage 200 franchises driven by existing and new customers, together with significantly faster migration of products to Sage Business Cloud through the integration of cloud functionality. Overall, the Future Sage Business Cloud Opportunity, which represents products in or with a clear pathway to Sage Business Cloud, has performed strongly with recurring revenue growth of 13%.

The revenue performance of the Non-Sage Business Cloud portfolio is in line with expectations and reflects the ongoing strategy to focus on solutions with a clear pathway to Sage Business Cloud.

ARR growth

Sage's underlying ARR increased by 12% to £2,100m (H1 22: £1,878m), reflecting strong growth balanced between new and existing customers. This was underpinned by cloud native ARR growth of 30% to £612m (H1 22: £470m), with a continued strong performance from Sage Intacct together with other solutions including Sage Accounting, Sage Payroll and Sage HR. Organic ARR also increased by 12% to £2,100m (H1 22: £1,883m).

Renewal rate by value of 101% (H1 22: 100%) is ahead of last year reflecting good retention rates and strong sales to existing customers, including a good performance in customer add-ons and targeted price rises.

In total, Sage has added £190m of ARR through new customer acquisition on an organic basis over the last 12 months, up from £150m[10] a year earlier.

Progress towards our strategic priorities

Sage focuses on five strategic priorities that help us create long-term value for our stakeholders, as part of our strategic framework for growth. Our progress towards these priorities is outlined below.

- **Scale Sage Intacct**: Sage Intacct continues to grow strongly, supported by our focus on product enhancements and sales and marketing optimisation. We have further extended Sage Intacct's reach into new geographies and verticals, including launching Sage Intacct in continental Europe, starting with France. Sage Intacct Construction is making good progress in the US, complemented by the recent acquisition of Corecon, a cloud native project management solution for the construction industry, while Sage Intacct Manufacturing is now available in six countries across the Group. Reflecting this progress, Sage Intacct's ARR grew by 30% in the US over the last year, while outside the US it doubled.

- **Expand medium beyond financials**: We also aim to drive growth by delivering benefits for mid-sized businesses beyond core accounting. Our AI-powered service to automate accounts payable processes, significantly reducing invoice handling costs and data entry error, has now been launched and is gaining traction with customers on Sage Intacct in the US, Sage 50 in France and Sage Accounting in the UK, with further expansion planned. Following rapid growth in the US and Canada, Sage Intacct Planning, our budgeting and planning tool, is now also available in the UK, South Africa and Australia.

- **Build the small business engine**: Sage continues to achieve good levels of growth from its small business solutions, including Sage Accounting, Sage HR and Sage 50. In the UK, the number of accountants adopting Sage for Accountants, our accountancy practice management suite, has more than doubled over the last six months to almost 5,000, and building on this success we have now launched Sage for Accountants in Canada. We have also launched a new tier of Sage Accounting in the UK, initially provided through Sage for Accountants, to help those taxpayers with the simplest of tax affairs to digitise their record keeping and tax submissions.

- **Scale the network:** Sage's digital network enables us to connect organisations to their accountants, tax authorities, customers and suppliers. Scaling the network creates a virtuous circle, with more data powering AI solutions that enable richer customer experiences. We are growing the network by connecting more existing products, expanding the availability of global solutions including Sage Intacct, and developing new solutions such as Sage Active, our cloud-native, multi-legislation business management solution for SMBs, that was built for the European market and recently launched in France. The acquisition of Lockstep has also accelerated our strategy by bringing new AI-driven workflow automation tools to the digital network.

[10] As reported

- **Learn and disrupt:** We continue to learn and invest in disruptive technologies to ensure we remain at the forefront of our markets. We have made strong progress in leveraging our digital network to embed AI-powered features across Sage Business Cloud, helping to automate workflows from data ingestion through to transaction classification. In the first half, we launched our AI-powered accounts payable automation solution, expanded our outlier detection service, and made Sage Intelligent Time, our AI-powered time assistant, available in new markets. Looking ahead, we have a strong AI pipeline, and through continued investment and our strategic partnerships we aim to be a leader in this critical area, helping both Sage and our customers become more effective and more productive.

Colleagues

Management continues to focus on building an inclusive, high-performing and accountable culture, in which every colleague can perform at their best. Key to this is our listening strategy, through which colleagues have the opportunity to share experiences and insights. Our most recent all-colleague pulse survey achieved a record 87% response rate and resulted in a strong score for colleague satisfaction.

To develop and retain the best talent we continue to invest in mentoring and training schemes, both in house and in conjunction with third parties such as London Business School. We have also launched a new internal talent marketplace to enhance workforce mobility and agility. Our holistic approach to colleague wellbeing includes a sharper focus on 'healthy finances' in response to the cost-of-living crisis, and an improved range of benefits to support mental health.

Sage is committed to creating a diverse and equitable company which fully represents the customers we serve and the communities we recruit from. In December we published our first diversity, equity and inclusion (DEI) impact report, highlighting progress towards our DEI strategy. This included an improvement in gender diversity, with one third of leadership teams meeting our FY26 gender diversity target[11], up from 19% at the beginning of FY22. We have also enhanced our diversity training and resources, holding education and awareness workshops, and partnering with Neurodiversity in Business to help drive best practice in neurodiversity recruitment, retention and empowerment.

Sustainability and Society

Sage plays a key role in supporting SMBs which form the backbone of economies around the world, helping bring prosperity to their owners, employees and communities. Through our Sustainability and Society strategy, Sage supports sustainable and inclusive economic growth so everyone can thrive. During the first half, Sage colleagues, customers and partners contributed over 56,000 volunteering hours to support charitable and environmental causes.

In December, the Science Based Targets Initiative (SBTi) validated our target to halve our carbon emissions by 2030 against a 2019 baseline, underlining our commitment to achieve net zero emissions by 2040 through robust initiatives addressing our supply chain, properties, products and colleague actions. We are also supporting SMBs on their own journey to net zero, with Sage Earth, our innovative carbon accounting solution acquired in October, now available to support UK-based Sage Accounting and Sage 50 customers looking to measure and improve their environmental footprint. In addition, we launched a report at COP 27 featuring insights from over 4,000 SMBs across the UK and South Africa, and quantifying their impact and influence on the environment and the economy.

Through Sage Foundation, which supports Sage's volunteering, fundraising and social partnerships, we aim to support local communities and knock down barriers to entrepreneurship. In the first half, we have continued to support thousands of entrepreneurs in underserved communities with loan funds and grants through our partnerships with Kiva and The BOSS Network. In addition, we are helping to develop STEM skills in over 10,000 young people in the UK through our partnership with the Institute of Engineering and Technology, and we have now also expanded this initiative to Germany.

Sage has an ESG rating from MSCI of 'AAA', indicating we are a leader in the software and services industry in managing the most significant ESG risks and opportunities.

[11] Global gender diversity target of no more than 60% of any one gender, in any leadership team, anywhere in Sage, by FY26

Financial Review

The financial review provides a summary of the Group's results on a statutory and underlying basis, alongside its organic performance. Underlying measures allow management and investors to understand the Group's financial performance adjusted for the impact of foreign exchange movements and recurring and non-recurring items, while organic measures also adjust for the impact of acquisitions and disposals[12].

Statutory and underlying financial results

Financial results	Statutory			Underlying		
	H1 23	H1 22	Change	H1 23	H1 22	Change
North America	£483m	£376m	+28%	£483m	£420m	+15%
UKIA	£311m	£284m	+10%	£311m	£284m	+10%
Europe	£293m	£274m	+7%	£293m	£285m	+3%
Group total revenue	**£1,087m**	**£934m**	**+16%**	**£1,087m**	**£989m**	**+10%**
Operating profit	£157m	£204m	-23%	£227m	£199m	+14%
% Operating profit margin	*14.4%*	*21.8%*	*-7.4 ppts*	*20.8%*	*20.2%*	*+0.6 ppts*
Profit before tax	£139m	£189m	-27%	£210m	£185m	+13%
Net profit	£100m	£152m	-34%	£160m	£141m	+13%
Basic EPS	9.78p	14.84p	-34%	15.68p	13.83p	+13%

The Group achieved statutory and underlying total revenue of £1,087m in the first half. Statutory total revenue increased by 16% compared to the prior period, reflecting underlying total revenue growth of 10% together with a 6-percentage point foreign exchange tailwind, principally relating to the US Dollar in North America.

Statutory operating profit decreased by 23% to £157m, reflecting a 14% increase in underlying operating profit to £227m offset by changes in recurring and non-recurring items, including higher M&A related charges and a property restructuring charge in H1 23 together with a one-off gain on the disposal of Sage Switzerland in the prior period (see page 9).

Statutory basic EPS decreased by 34% to 9.78p, reflecting a higher statutory net finance cost and the post-tax impact of non-recurring items. Underlying basic EPS increased by 13% to 15.68p.

Revenue – underlying and organic reconciliation to statutory

Total revenue bridge	H1 23	H1 22	Change
Statutory	**£1,087m**	**£934m**	**+16%**
Recurring items[13]	-	£1m	
Impact of FX[14]	-	£54m	
Underlying	**£1,087m**	**£989m**	**+10%**
Disposals	-	(£5m)	
Held for sale	-	(£2m)	
Acquisitions	-	£10m	
Organic	**£1,087m**	**£992m**	**+10%**

Statutory, underlying and organic total revenue was £1,087m in H1 23. Underlying revenue in H1 22 of £989m reflects statutory revenue of £934m retranslated at current year exchange rates, resulting in a foreign exchange tailwind of £54m, together with a £1m fair value adjustment to deferred income relating to the acquisition of Brightpearl.

[12] Underlying and organic revenue and profit measures are defined in Appendix 1.

[13] Recurring and non-recurring items are defined in Appendix 1 and detailed in note 3 of the financial statements.

[14] Impact of retranslating H1 22 revenue at H1 23 average rates

Organic revenue in H1 22 of £992m reflects underlying revenue of £989m, adjusted for £5m of revenue from Sage's business in Switzerland which was sold during the prior period, £2m of revenue from the South African payroll outsourcing business which was held for sale, and £10m of revenue from Brightpearl, Futrli and Lockstep which were acquired during FY22.

Revenue by type

Underlying revenue mix	H1 23	H1 22	Change	Organic change
Software subscription revenue	£853m	£724m	+18%	+17%
Other recurring revenue	£186m	£201m	-7%	-7%
Underlying recurring revenue	**£1,039m**	**£925m**	**+12%**	**+12%**
Other revenue (SSRS)	£48m	£64m	-24%	-22%
Underlying total revenue	**£1,087m**	**£989m**	**+10%**	**+10%**
Subscription Penetration	***78%***	***73%***		

Underlying recurring revenue grew by 12% to £1,039m, supported by an 18% increase in software subscription revenue to £853m, reflecting the continued focus on attracting new customers and migrating existing customers to subscription and Sage Business Cloud. The decline in other recurring revenue of 7% to £186m reflects customers migrating from maintenance and support to subscription contracts. Other revenue (SSRS) declined by 24% to £48m, in line with our strategy to transition away from licence sales and professional services implementations. Underlying total revenue increased by 10% in H1 23 to £1,087m.

Revenue performance by region

North America	H1 23	H1 22	Change	Organic change
Underlying total revenue	£483m	£420m	+15%	+14%
Underlying recurring revenue	£467m	£398m	+17%	+16%
% Sage Business Cloud Penetration	84%	76%	+8 ppts	+8 ppts
% Subscription Penetration	77%	70%	+7 ppts	+7 ppts
Underlying recurring revenue	**H1 23**	**H1 22**	**Change**	**Organic change**
US	£405m	£343m	+18%	+16%
Of which Sage Intacct	*£150m*	*£115m*	*+30%*	*+30%*
Canada	£62m	£55m	+13%	+13%

North America achieved underlying recurring revenue growth of 17% to £467m and total revenue growth of 15% to £483m. Adjusting for the impact in the US of the acquisitions of Brightpearl and Lockstep during FY22, organic recurring and total revenue growth was 16% and 14% respectively. Sage Business Cloud penetration increased to 84%, up from 76% in the prior year, driven by growth in cloud native and cloud connected solutions, while subscription penetration increased to 77%, up from 70% in the prior year.

Cloud native growth was driven primarily through Sage Intacct, which delivered strong recurring revenue growth of 30% to £150m, reflecting continued success in attracting new customers and supported by strong sales to existing customers.

Recurring revenue in the US increased by 18% to £405m, driven by Sage Intacct alongside cloud connected growth across the Sage 200 and Sage 50 franchises, as well as success in migrations to Sage Business Cloud. Total revenue for the US increased by 16% to £420m.

In Canada, recurring revenue increased by 13% to £62m and total revenue by 11% to £63m, driven mainly by Sage 50 cloud and Sage 200 cloud solutions, together with strong growth in Sage Intacct.

UKIA	H1 23	H1 22	Change	Organic change
Underlying total revenue	£311m	£284m	+10%	+8%
Underlying recurring revenue	£303m	£273m	+11%	+10%
% Sage Business Cloud Penetration	88%	76%	+12 ppts	+12 ppts
% Subscription Penetration	89%	87%	+2 ppts	+2 ppts
Underlying recurring revenue	**H1 23**	**H1 22**	**Change**	**Organic change**
UK & Ireland (Northern Europe)	£230m	£209m	+10%	+8%
Africa & APAC	£73m	£64m	+15%	+14%

In the UKIA region, underlying recurring revenue grew by 11% to £303m and total revenue grew by 10% to £311m. Adjusting for the impact in the UK & Ireland of the acquisitions of Brightpearl and Futrli during FY22, organic recurring and total revenue growth was 10% and 8% respectively. Sage Business Cloud penetration reached 88%, up from 76% in the prior year, while subscription penetration increased to 89%, up from 87% in the prior year.

In the UK & Ireland, recurring revenue increased by 10% to £230m, reflecting growth in cloud native solutions, supported by further growth in Sage 50 cloud. Cloud native revenue growth was driven by continued growth in small business solutions, including Sage Accounting, together with Sage Intacct which is now starting to scale rapidly through both the direct and partner channels. Total revenue in the UK & Ireland increased by 10% to £233m.

Africa & APAC delivered strong recurring revenue growth of 15% to £73m, driven by growth in both cloud native solutions and local products. Total revenue in Africa & APAC increased by 10% to £78m.

Europe	H1 23	H1 22	Change	Organic change
Underlying total revenue	£293m	£285m	+3%	+4%
Underlying recurring revenue	£269m	£254m	+6%	+8%
% Sage Business Cloud Penetration	70%	61%	+9 ppts	+8 ppts
% Subscription Penetration	69%	65%	+4 ppts	+4 ppts
Underlying recurring revenue	**H1 23**	**H1 22**	**Change**	**Organic change**
France	£142m	£133m	+7%	+7%
Central Europe	£60m	£59m	+3%	+10%
Iberia	£67m	£62m	+7%	+7%

Europe achieved underlying recurring revenue growth of 6% to £269m and total revenue growth of 3% to £293m. Adjusting for the impact of the disposal of the Swiss business in FY22, organic recurring revenue growth and total revenue growth was 8% and 4% respectively. Sage Business Cloud penetration increased significantly to 70%, up from 61% in the prior year, while subscription penetration reached 69%, up from 65% in the prior year, driven by growth from new and existing customers together with migrations.

In France, recurring revenue increased by 7% to £142m, with a strong performance in cloud connected, particularly Sage 200 cloud, together with growth in cloud native solutions. Total revenue in France increased by 5% to £148m.

Central Europe achieved recurring revenue growth of 3% to £60m, while total revenue decreased by 3% to £71m. Adjusting for the disposal of the Swiss business, organic recurring and total revenue growth in Central Europe was 10% and 3% respectively. Growth in the region was driven by Sage Business Cloud, with a particularly strong performance in HR solutions.

In Iberia, recurring revenue increased by 7% to £67m, with continued success in cloud connected supported by growth in cloud native solutions. Total revenue grew by 5% to £74m.

Operating profit

The Group increased underlying operating profit by 14% to £227m (H1 22: £199m). Underlying operating margin increased by 60 basis points to 20.8% (H1 22: 20.2%), driven by operating efficiencies as we scale the Group. On an organic basis, adjusting for the full-year impact of acquisitions and disposals during FY22, operating profit increased by 19% to £227m (H1 22: £191m), and margin increased by 160 basis points to 20.8% (H1 22: 19.2%).

Operating profit – underlying and organic reconciliation to statutory

Operating profit bridge	H1 23		H1 22	
	Operating profit	Operating margin	Operating profit	Operating margin
Statutory	**£157m**	**14.4%**	**£204m**	**21.8%**
Recurring items[15]	£50m	–	£34m	–
Non-recurring items:				
• *Property restructuring*	£20m	–	–	–
• *Gain on disposal of subsidiaries*	–	–	(£49m)	–
• *Reversal of restructuring costs*	–	–	(£6m)	–
Impact of FX[16]	–	–	£16m	–
Underlying	**£227m**	**20.8%**	**£199m**	**20.2%**
Disposals	–	–	-	–
Held for sale	–	–	(£1m)	–
Acquisitions	–	–	(£7m)	–
Organic	**£227m**	**20.8%**	**£191m**	**19.2%**

The Group achieved a statutory operating profit in H1 23 of £157m (H1 22: £204m). Underlying and organic operating profit of £227m in H1 23 reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £50m (H1 22: £34m) comprise £26m of amortisation of acquisition-related intangibles (H1 22: £18m) and £24m of M&A related charges (H1 22: £15m). In H1 22, there was a further £1m of deferred income adjustment relating to the acquisition of Brightpearl.

Non-recurring items in H1 23 comprise a £20m charge for a property restructuring programme following a strategic review of the Group's property portfolio. The programme is expected to be completed by 30 September 2023. In the prior year, non-recurring items comprised a £49m gain on disposal from the sale of Sage's business in Switzerland, together with a £6m reversal of employee restructuring costs.

In addition, the retranslation of H1 22 operating profit at current year exchange rates has resulted in an operating profit tailwind of £16m. This has led to a 60-basis point margin tailwind from foreign exchange to 20.2% (H1 22 underlying as reported: 19.6%).

Organic operating profit of £191m in H1 22 reflects underlying operating profit of £199m adjusted for £1m of operating profit from the South African payroll outsourcing business, which was held for sale, and £7m of operating losses from businesses acquired during the period.

[15] Recurring and non-recurring items are defined in Appendix 1 and detailed in note 3 of the financial statements.
[16] Impact of retranslating H1 22 operating profit at H1 23 average rates.

EBITDA

EBITDA was £275m (H1 22: £243m) representing a margin of 25.2%. The increase in EBITDA principally reflects the improvement in underlying operating profit.

	H1 23	H1 22	Margin
Underlying operating profit	**£227m**	**£199m**	**20.8%**
Depreciation & amortisation	£28m	£28m	
Share based payments	£20m	£16m	
EBITDA	**£275m**	**£243m**	**25.2%**

Net finance cost

The statutory net finance cost for the period increased to £18m (H1 22: £15m), primarily reflecting the impact of interest on new debt issuances, and is broadly in line with the underlying net finance cost of £17m (H1 22: £14m).

Taxation

The underlying tax expense for H1 23 was £50m (H1 22: £44m), resulting in an underlying tax rate of 24% (H1 22: 24%). The statutory income tax expense for H1 23 was £39m (H1 22: £37m), resulting in a statutory tax rate of 28% (H1 22: 20%).

The difference between the underlying and statutory rate in H1 23 primarily reflects non-deductible M&A activity-related items. The H1 23 underlying tax rate is unchanged from H1 22 due to the offsetting impact of an increase in the UK corporation tax rate against a decrease in the French corporate tax rate.

Earnings per share

	H1 23	H1 22	Change
Statutory basic EPS	9.78p	14.84p	-34%
Recurring items	4.46p	2.97p	
Non-recurring items	1.44p	(5.19)p	
Impact of foreign exchange	–	1.21p	
Underlying basic EPS	**15.68p**	**13.83p**	**+13%**

Underlying basic EPS increased by 13% to 15.68p, reflecting higher underlying operating profit.

Statutory basic earnings per share decreased by 34%, with the increase in underlying basic earnings per share offset by the change in post-tax impact of recurring and non-recurring items, including higher M&A related charges and a property restructuring charge in H1 23 together with a one-off gain on the disposal of Sage Switzerland in the prior period.

Cash flow

Sage remains highly cash generative with underlying cash flow from operations of £266m (H1 22: £220m), representing underlying cash conversion of 117% (H1 22: 120%). This strong cash performance reflects further growth in subscription revenue and continued good working capital management. Free cash flow of £194m (H1 22: £167m) largely reflects strong underlying cash conversion.

Cash flow APMs	H1 23	H1 22 (as reported)
Underlying operating profit	£227m	£183m
Depreciation, amortisation and non-cash items in profit	£27m	£26m
Share based payments	£20m	£16m
Net changes in working capital	£2m	£3m
Net capital expenditure	(£10m)	(£8m)
Underlying cash flow from operations	**£266m**	**£220m**
Underlying cash conversion %	*117%*	*120%*
Non-recurring cash items	(£8m)	(£12m)
Net interest paid and derivative financial instruments	(£28m)	(£14m)
Income tax paid	(£35m)	(£27m)
Profit and loss foreign exchange movements	(£1m)	–
Free cash flow	**£194m**	**£167m**

Statutory reconciliation of cash flow from operations	H1 23	H1 22 (as reported)
Statutory cash flow from operations	**£251m**	**£193m**
Recurring and non-recurring items	£24m	£36m
Net capital expenditure	(£10m)	(£8m)
Other adjustments including foreign exchange translations	£1m	(£1m)
Underlying cash flow from operations	**£266m**	**£220m**

Net debt and liquidity

Group net debt was £691m at 31 March 2023 (30 September 2022: £733m), comprising cash and cash equivalents of £575m (30 September 2022: £489m) and total debt of £1,266m (30 September 2022: £1,222m). The Group had £1,205m of cash and available liquidity at 31 March 2023 (30 September 2022: £1,270m).

The decrease in net debt in the period is summarised in the table below.

	H1 23	H1 22 (as reported)
Net debt at 1 October	**(£733m)**	**(£247m)**
Free cash flow	£194m	£167m
New leases	(£9m)	(£4m)
Disposal of businesses	-	£38m
Acquisition of businesses	(£14m)	(£223m)
M&A and equity investments	(£16m)	(£14m)
Dividends paid	(£123m)	(£119m)
Share buyback	-	(£249m)
FX movement and other	£10m	£1m
Net debt at 31 March	**(£691m)**	**(£650m)**

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility (RCF), and from sterling and euro denominated bond notes. The Group's RCF was refinanced in December 2022 into a new facility of £630m which expires in December 2027, with an extension option for up to two further years subject to specific provisions. At 31 March 2023, the RCF was undrawn (H1 22: undrawn).

The Group's sterling denominated bond notes comprise a £400m 12-year bond, issued in February 2022, with a coupon of 2.875%, and a £350m 10-year bond, with a coupon of 1.625%, issued in February 2021.

The Group established a Euro Medium Term Note (EMTN) programme in January 2023 and issued €500m of 5-year notes in February 2023, with a coupon of 3.82%. This issuance funded the repayment of the Group's outstanding US private placement loan notes totalling £326m (US$400m), and enabled the Group to extend the maturity of its debt portfolio and to diversify its funding sources.

Sage has an investment grade issuer credit rating assigned by Standard and Poor's of BBB+ (stable outlook).

Capital allocation

Sage maintains a disciplined approach to capital allocation, with a focus on accelerating strategic execution through organic and inorganic investment, including through acquisitions and partnerships to enhance Sage Business Cloud and further develop Sage's digital network. During the period Sage completed the acquisition of Spherics, an innovative carbon accounting solution.

Sage has a progressive dividend policy, intending to grow the dividend over time while considering the future capital requirements of the Group. Reflecting the Group's strong business performance and cash generation during the first half, we have increased the interim dividend by 4% to 6.55p. The Group also considers returning surplus capital to shareholders.

	H1 23	**H1 22 (as reported)**
Net debt	£691m	£650m
EBITDA (Last Twelve Months)	£520m	£439m
Net debt/EBITDA Ratio	**1.3x**	**1.5x**

The Group's EBITDA over the last 12 months was £520m, resulting in a net debt to EBITDA leverage ratio of 1.3x, down from 1.5x in the prior year principally due to the improvement in EBITDA. Group return on capital employed (ROCE) for H1 23 was 19% (H1 22 as reported: 19%).

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

Going concern

The Directors have robustly tested the going concern assumption in preparing these financial statements, taking into account the Group's strong liquidity position at 31 March 2023 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in note 1 of the financial statements on page 20.

External audit tender

The Group's external auditors, Ernst & Young LLP, were first appointed for the year ended 30 September 2015. In accordance with applicable regulations, which include a requirement for audit tendering at least every 10 years, the Audit and Risk Committee has decided to run a tender process which is expected to conclude later this year. Subject to shareholder approval, this will allow a potential new audit firm to take up the role and conduct the audit for the year ended 30 September 2025.

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 normalise prior year underlying and organic figures are as follows:

Average exchange rates (equal to GBP)	**H1 23**	**H1 22**	**Change**
Euro (€)	1.14	1.19	-4%
US Dollar ($)	1.20	1.34	-11%
Canadian Dollar (C$)	1.62	1.70	-5%
South African Rand (ZAR)	21.13	20.62	+2%
Australian Dollar (A$)	1.78	1.85	-4%

Appendix 1 – Alternative Performance Measures

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

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency to aid understanding of the performance for the year or comparability between periods: • Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items and unhedged FX on intercompany balances; and • Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Recurring items are adjusted each period irrespective of materiality to ensure consistent treatment. Underlying basic EPS is also adjusted for the tax impact of recurring and non-recurring items. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: • Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and • Exclude the contribution from acquired businesses until the year following the year of acquisition; and • Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying Cash Flow from Operations	Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cash flow generated by the operations and calculate underlying cash conversion.
Underlying Cash Conversion	Underlying Cash Flow from Operations divided by Underlying (as reported) Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how

MEASURE	DESCRIPTION	RATIONALE
		efficiently operating profit is converted into cash.
EBITDA	EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Underlying Cash Flow from Operations minus net interest paid and derivative financial instruments, income tax paid, and adjusted for non-recurring cash items (which excludes net proceeds on disposals of subsidiaries) and profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Underlying software subscription revenue as a percentage of underlying total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Underlying recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the underlying recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: - Underlying Operating Profit; minus - Amortisation of acquired intangibles; the result being divided by The average (of the opening and closing balance for the period) total net assets excluding net debt, derivative financial instruments, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the Company. ROCE is used as an underpin in the FY21, FY22 and FY23 PSP awards.
Net debt	Net debt is cash and cash equivalents less current and non-current borrowings.	To calculate the Net Debt to EBITDA leverage ratio and an indicator of our indebtedness.

Consolidated income statement
For the six months ended 31 March 2023

	Note	**Six months ended 31 March 2023 Underlying**	**Six months ended 31 March 2023 Adjustments***	**Six months ended 31 March 2023 Statutory**	Six months ended 31 March 2022 Underlying as reported	Six months ended 31 March 2022 Adjustments*	Six months ended 31 March 2022 Statutory
		£m	**£m**	**£m**	£m	£m	£m
Revenue	2	**1,087**	**–**	**1,087**	935	(1)	934
Cost of sales		**(76)**	**–**	**(76)**	(68)	–	(68)
Gross profit		**1,011**	**–**	**1,011**	867	(1)	866
Selling and administrative expenses		**(784)**	**(70)**	**(854)**	(684)	22	(662)
Operating profit	2	**227**	**(70)**	**157**	183	21	204
Finance income		**4**	**–**	**4**	–	–	–
Finance costs		**(21)**	**(1)**	**(22)**	(14)	(1)	(15)
Profit before income tax		**210**	**(71)**	**139**	169	20	189
Income tax expense	4	**(50)**	**11**	**(39)**	(40)	3	(37)
Profit for the period		**160**	**(60)**	**100**	129	23	152

* Adjustments are detailed in note 3.

Earnings per share attributable to the owners of the parent (pence)							
Basic	6	**15.68p**		**9.78p**	12.62p		14.84p
Diluted	6	**15.49p**		**9.66p**	12.49p		14.68p

Consolidated statement of comprehensive income
For the six months ended 31 March 2023

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Profit for the period	**100**	152
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss:		
Fair value gain on reassessment of equity investment	**–**	30
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations and net investment hedges	**(93)**	24
Cash flow hedges	**(1)**	–
Exchange differences recycled through income statement on sale of foreign operations	**–**	(13)
	(94)	11
Other comprehensive (expense)/income for the period, net of tax	**(94)**	41
Total comprehensive income for the period	**6**	193

The notes on pages 20 to 37 form an integral part of this condensed consolidated half-yearly report.

Consolidated balance sheet
As at 31 March 2023

	Note	**31 March 2023 £m**	31 March 2022 £m	30 September 2022 Restated* £m
Non-current assets				
Goodwill	7	**2,238**	2,082	2,391
Other intangible assets	7	**288**	281	320
Property, plant and equipment	7	**124**	155	152
Equity investments		**4**	4	4
Trade and other receivables		**125**	116	128
Deferred income tax assets		**35**	34	19
Derivative financial instruments		**2**	–	–
		2,816	2,672	3,014
Current assets				
Trade and other receivables		**367**	329	355
Current income tax asset		**37**	28	39
Cash and cash equivalents (excluding bank overdrafts)	9	**575**	515	489
Assets classified as held for sale	11	**–**	2	–
		979	874	883
Total assets		**3,795**	3,546	3,897
Current liabilities				
Trade and other payables		**(302)**	(311)	(368)
Current income tax liabilities		**(33)**	(23)	(13)
Borrowings	9	**(16)**	(42)	(178)
Provisions		**(20)**	(44)	(33)
Deferred income		**(770)**	(705)	(734)
		(1,141)	(1,125)	(1,326)
Non-current liabilities				
Borrowings	9	**(1,250)**	(1,123)	(1,044)
Post-employment benefits		**(19)**	(23)	(19)
Deferred income tax liabilities		**(14)**	(24)	(17)
Provisions		**(24)**	(36)	(20)
Trade and other payables		**(14)**	(2)	(6)
Deferred income		**(7)**	(9)	(8)
Derivative financial instruments		**(20)**	–	(60)
		(1,348)	(1,217)	(1,174)
Total liabilities		**(2,489)**	(2,342)	(2,500)
Net assets		**1,306**	1,204	1,397
Equity attributable to owners of the parent				
Ordinary shares	8	**12**	12	12
Share premium	8	**548**	548	548
Translation reserve		**113**	53	206
Hedging reserve		**(1)**	–	–
Merger reserves		**61**	61	61
Retained earnings		**573**	530	570
Total equity		**1,306**	1,204	1,397

*Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep, completed in the prior year (see notes 1 & 11).

Consolidated statement of changes in equity
For the six months ended 31 March 2023

	Ordinary shares £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Merger reserves £m	Retained earnings £m	Total equity £m
	Attributable to owners of the parent						
At 1 October 2022	**12**	**548**	**206**	**–**	**61**	**570**	**1,397**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**100**	**100**
Other comprehensive expense							
Exchange differences on translating foreign operations and net investment hedges	**–**	**–**	**(93)**	**–**	**–**	**–**	**(93)**
Cash flow hedges	**–**	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Total comprehensive (expense)/income for the period ended 31 March 2023	**–**	**–**	**(93)**	**(1)**	**–**	**100**	**6**
Transactions with owners							
Employee share option scheme - value of employee services including deferred tax	**–**	**–**	**–**	**–**	**–**	**25**	**25**
Proceeds from issuance of treasury shares	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Purchase of shares by Employee Benefit Trust	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**–**	**–**	**(123)**	**(123)**
Total transactions with owners for the period ended 31 March 2023	**–**	**–**	**–**	**–**	**–**	**(97)**	**(97)**
At 31 March 2023	**12**	**548**	**113**	**(1)**	**61**	**573**	**1,306**

	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
	Attributable to owners of the parent					
At 1 October 2021	12	548	42	61	448	1,111
Profit for the period	–	–	–	–	152	152
Other comprehensive income/(expense)						
Exchange differences on translating foreign operations and net investment hedges	–	–	24	–	–	24
Exchange differences recycled through income statement on sale of foreign operations	–	–	(13)	–	–	(13)
Fair value gain on reassessment of equity investment	–	–	–	–	30	30
Total comprehensive income for the period ended 31 March 2022	–	–	11	–	182	193
Transactions with owners						
Employee share option scheme - value of employee services including deferred tax	–	–	–	–	16	16
Proceeds from issuance of treasury shares	–	–	–	–	3	3
Dividends paid to owners of the parent	–	–	–	–	(119)	(119)
Total transactions with owners for the period ended 31 March 2022	–	–	–	–	(100)	(100)
At 31 March 2022	12	548	53	61	530	1,204

Consolidated statement of cash flows
For the six months ended 31 March 2023

	Notes	**Six months ended 31 March 2023 £m**	Six months ended 31 March 2022 £m
Cash flows from operating activities			
Cash generated from continuing operations	9	**251**	193
Interest paid		**(28)**	(14)
Income tax paid		**(35)**	(27)
Net cash generated from operating activities		**188**	152
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		**–**	37
Acquisition of subsidiaries, net of cash acquired	11	**(14)**	(210)
Purchases of intangible assets	7	**(8)**	(17)
Purchases of property, plant and equipment		**(2)**	(4)
Proceeds from disposals of property, plant and equipment		**–**	10
Interest received		**4**	–
Net cash used in investing activities		**(20)**	(184)
Cash flows from financing activities			
Proceeds from issuance of treasury shares	8	**2**	3
Proceeds from borrowings	9	**440**	516
Repayments of borrowings	9	**(353)**	(166)
Net payments for derivative financial instruments		**(2)**	–
Capital element of lease payments		**(10)**	(9)
Borrowing costs		**(2)**	–
Share buyback programme	8	**–**	(249)
Purchase of shares by Employee Benefit Trust	8	**(1)**	–
Dividends paid to owners of the parent	5	**(123)**	(119)
Net cash used in financing activities		**(49)**	(24)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**119**	(56)
Effects of exchange rate movement	9	**(33)**	4
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**86**	(52)
Cash, cash equivalents and bank overdrafts at 1 October	9	**489**	567
Cash, cash equivalents and bank overdrafts at period end	9	**575**	515

Notes to the financial information
For the six months ended 31 March 2023

1. Group accounting policies

General information

The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is a leading global supplier of finance, HR and payroll software to small and mid-sized businesses.

This condensed consolidated half-yearly financial report was approved for issue by the board of directors on 16 May 2023.

The financial information set out above does not constitute the Company's Statutory Accounts. Statutory Accounts for the year ended 30 September 2022 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 UK-adopted International Accounting Standards ("UK-IFRS") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), this announcement does not in itself contain sufficient information to comply with IFRS or UK-IFRS. 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 and Accounts 2022.

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 C23 – 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ. The Company is listed on the London Stock Exchange.

Basis of preparation

The financial information for the six months ended 31 March 2023 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as issued by the IASB and as adopted for use in the UK.

The condensed consolidated half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2022, which have been prepared in accordance with UK-IFRS and IFRS as issued by the IASB.

Going concern

As at 31 March 2023, the Group had a strong liquidity position with cash and available liquidity of £1.2bn, supported by strong underlying cash conversion of 117% reflecting the strength of the subscription-based business model. The Group's position is further supported by a well-diversified customer base amongst small and medium sized businesses with high quality recurring revenue and strong retention rates.

In reaching its assessment on going concern, the Directors have reviewed liquidity forecasts for the Group for the period to 30 September 2024 (the going concern assessment period), which reflect the expected impact of economic conditions on trading. In doing so, the Directors have also reviewed the extent to which the macro-economic environment has been considered in building assumptions to support the forecasts.

Scenario-specific stress testing has been performed, with the level of churn assumptions increased by 75%, and a significant reduction in the level of new customer acquisition and sales to existing customers. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence, without the need to draw down the revolving credit facility or seek additional financing. If more severe impacts occur, controllable mitigating actions to protect liquidity, including the reduction of discretionary spend, are available to the Group should they be required.

The Directors also reviewed the results of reverse stress testing to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to exhaust cash down to minimum working capital requirements. The result of the reverse stress testing has highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions considered in the stress testing scenarios. The probability of these factors occurring is deemed to be highly unlikely given the resilient nature of the subscription business model, robust balance sheet, and continued strong cash conversion.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operation throughout the going concern assessment period. Accordingly, the consolidated financial information has been prepared on a going concern basis.

Accounting policies

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those of the annual financial statements for the year ended 30 September 2022. There has been one new accounting policy adopted in the period relating to cash flow hedges, set out in further detail below.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivatives is recognised in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates the change in fair value of the forward element of forward exchange contracts as the hedging instrument in cash flow hedging relationships.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

Adoption of new and revised IFRSs

There are no new accounting standards which are currently issued but not yet effective which management expects would have a material impact on the Group.

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

Over a third of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue.

Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as contract acquisition costs.

Goodwill impairment

Management has performed a review for indicators of impairment of goodwill as at 31 March 2023. As a result of this review, no indicators of impairment have been identified.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in note 6.1 of the annual financial statements for the year ended 30 September 2022.

Business combinations

In the period, the Group finalised the purchase price accounting for Lockstep Network Holdings Inc ("Lockstep"), for which the Group acquired 100% of the equity capital and voting rights in August 2022. At the end of the prior year, the amounts recognised relating to the acquisition were provisional. As a result of the purchase price accounting being finalised, certain adjustments have been recognised in the period, specifically the recognition of intangible assets and deferred tax liabilities, offset by a deduction in the amount of goodwill provisionally recognised in the prior year. Further explanation of the changes is set out in note 11.

Key areas of judgement include the identification and subsequent measurement of acquired intangible assets, for which an external expert was engaged to support the exercise. The recognised intangible assets included the technology and customer relationships. The fair value of the acquired technology was determined using the relief from royalty method and the customer relationship was determined using a discounted cashflow approach. These valuation techniques incorporate several key assumptions including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value. In addition, the relief from royalty method requires the use of an appropriate royalty rate.

Website

This condensed consolidated half-yearly financial report for the six months ended 31 March 2023 can also be found on our website: www.sage.com/investors/financial-information/results.

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 Leadership Team (ELT) 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 Management Performance Reviews. The ELT uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

- North America
- UK & Ireland
- Europe (Central Europe, France and Iberia)

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

In previous reporting periods, the UK & Ireland reportable segment was presented as Northern Europe, the Europe reportable segment was presented as International – Central and Southern Europe, and the Africa & APAC segment was presented as International – Africa & APAC.

The reportable segments reflect the aggregation of the operating segments for Central Europe, France and Iberia. The aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area.

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

	Six months ended 31 March 2023					
	Statutory £m	**Underlying £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment						
North America	**467**	**467**	**467**	31%	17%	16%
UK & Ireland	**230**	**230**	**230**	11%	10%	8%
Europe	**269**	**269**	**269**	10%	6%	8%
Africa & APAC	**73**	**73**	**73**	14%	15%	14%
Recurring revenue	**1,039**	**1,039**	**1,039**	19%	12%	12%
Other revenue by segment						
North America	**16**	**16**	**16**	(16%)	(25%)	(26%)
UK & Ireland	**3**	**3**	**3**	(19%)	(19%)	(33%)
Europe	**24**	**24**	**24**	(19%)	(23%)	(21%)
Africa & APAC	**5**	**5**	**5**	(30%)	(31%)	(10%)
Other revenue	**48**	**48**	**48**	(20%)	(24%)	(22%)
Total revenue by segment						
North America	**483**	**483**	**483**	28%	15%	14%
UK & Ireland	**233**	**233**	**233**	10%	10%	7%
Europe	**293**	**293**	**293**	7%	3%	4%
Africa & APAC	**78**	**78**	**78**	9%	10%	12%
Total revenue	**1,087**	**1,087**	**1,087**	16%	10%	10%

Revenue by segment

	Six months ended 31 March 2022						
	Statutory £m	Underlying adjustments* £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments** £m	Organic £m
Recurring revenue by segment							
North America	356	1	357	41	398	6	404
UK & Ireland	208	–	208	1	209	4	213
Europe	244	–	244	10	254	(4)	250
Africa & APAC	65	–	65	(1)	64	–	64
Recurring revenue	873	1	874	51	925	6	931
Other revenue by segment							
North America	20	–	20	2	22	–	22
UK & Ireland	4	–	4	–	4	–	4
Europe	30	–	30	1	31	(1)	30
Africa & APAC	7	–	7	–	7	(2)	5
Other revenue	61	–	61	3	64	(3)	61
Total revenue by segment							
North America	376	1	377	43	420	6	426
UK & Ireland	212	–	212	1	213	4	217
Europe	274	–	274	11	285	(5)	280
Africa & APAC	72	–	72	(1)	71	(2)	69
Total revenue	934	1	935	54	989	3	992

* Adjustments are detailed in note 3.

** Adjustments relate to the acquisition of Brightpearl, Lockstep and Futrli, disposal of the Group's Swiss business in the prior period and the Group's payroll outsourcing business in South Africa which was classified as held for sale in the prior period.

Operating profit by segment

	Six months ended 31 March 2023						
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic £m**	**Change Statutory %**	**Change Underlying %**	**Change Organic %**
Operating profit by segment							
North America	**43**	**42**	**85**	**85**	(27%)	1%	5%
UK & Ireland	**35**	**25**	**60**	**60**	4%	13%	25%
Europe	**66**	**2**	**68**	**68**	(32%)	37%	39%
Africa & APAC	**13**	**1**	**14**	**14**	(11%)	6%	9%
Total operating profit	**157**	**70**	**227**	**227**	(23%)	14%	19%

	Six months ended 31 March 2022						
	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							
North America	59	14	73	12	85	(3)	82
UK & Ireland	34	17	51	1	52	(4)	48
Europe	97	(51)	46	3	49	–	49
Africa & APAC	14	(1)	13	–	13	(1)	12
Total operating profit	204	(21)	183	16	199	(8)	191

Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
North America	**85**	85
UK & Ireland	**60**	52
Europe	**68**	49
Total reportable segments	**213**	186
Africa & APAC	**14**	13
Underlying operating profit	**227**	199
Impact of movement in foreign currency exchange rates	**–**	(16)
Underlying operating profit (as reported)	**227**	183
Amortisation of acquired intangible assets	**(26)**	(18)
Adjustment to acquired deferred income	**–**	(1)
Other M&A activity-related items	**(24)**	(15)
Non-recurring items	**(20)**	55
Statutory operating profit	**157**	204

3. Adjustments between underlying profit and statutory profit

	Six months ended 31 March 2023 Recurring £m	**Six months ended 31 March 2023 Non-recurring £m**	**Six months ended 31 March 2023 Total £m**	Six months ended 31 March 2022 Recurring £m	Six months ended 31 March 2022 Non-recurring £m	Six months ended 31 March 2022 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**26**	**–**	**26**	18	–	18
Gain on disposal of subsidiaries	**–**	**–**	**–**	–	(49)	(49)
Adjustment to acquired deferred income	**–**	**–**	**–**	1	–	1
Other M&A activity-related items	**24**	**–**	**24**	15	–	15
Other items						
Property restructuring costs	**–**	**20**	**20**	–	–	–
Reversal of restructuring costs	**–**	**–**	**–**	–	(6)	(6)
Total adjustments made to operating profit	**50**	**20**	**70**	34	(55)	(21)
Foreign currency movements on intercompany balances	**1**	**–**	**1**	1	–	1
Total adjustments made to profit before income tax	**51**	**20**	**71**	35	(55)	(20)

Recurring items

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

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

Other M&A activity-related items relate to advisory, legal, accounting, valuation and other professional or consulting services which are related to M&A activity as well as acquisition-related remuneration and directly attributable integration costs. £4m (six months ended 31 March 2022: £5m) of these costs have been paid in the period, while the remainder is expected to be paid in subsequent periods.

Foreign currency movements on intercompany balances occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future and resulted in a loss of £1m (six months ended 31 March 2022: loss of £1m).

Non-recurring items

Property restructuring costs relate to the reorganisation of a number of leased properties following a strategic review of the Group's property portfolio, as a result of which certain of the Group's properties were either exited or down-sized as part of a consolidated plan. In the current period, costs of £20m consist of impairment of £13m of right of use assets and other related fixed assets that are no longer in use as well as a provision for directly attributable future running costs associated with the properties. The execution of the programme will be completed by 30 September 2023 with further costs expected to be incurred in the second half of the year.

The gain on disposal of subsidiaries in the prior year of £49m relates to the disposal of the Group's Swiss business.

Reversal of restructuring costs of £6m in the prior year primarily relates to unutilised provisions recognised in 2021 following the implementation of a business transformation plan to rebalance investment towards the Group's strategic priorities and simplify the business. The reversal is a result of fewer colleagues leaving the business as they were redeployed into other roles.

4. Income tax expense

The effective tax rate on statutory profit before tax was 28% (six months ended 31 March 2022: 20%) whilst the effective tax rate on underlying profit before tax for continuing operations was 24% (six months ended 31 March 2022: 24%). The effective income tax rate represents the best estimate of the Group's average effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 31 March 2023.

The difference between the underlying and statutory rate for the six months ended 31 March 2023 primarily reflects non-deductible other M&A activity-related items.

5. Dividends

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m	Year ended 30 September 2022 £m
Final dividend paid for the year ended 30 September 2021 of 11.63p per share	**–**	119	119
Interim dividend paid for the year ended 30 September 2022 of 6.30p per share	**–**	–	64
Final dividend paid for the year ended 30 September 2022 of 12.10p per share	**123**	–	–
	123	119	183

The interim dividend of 6.55p per share will be paid on 23 June 2023 to shareholders on the register at the close of business on 2 June 2023. The Company's distributable reserves are sufficient to support the payment of this dividend. This condensed consolidated half-yearly financial report does not reflect this proposed dividend payable.

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 and held by the Employee Benefit Trust, 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 potentially dilutive ordinary shares. The Group has one class of potentially dilutive ordinary shares. They are 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 2023	Underlying as reported Six months ended 31 March 2022	Underlying Six months ended 31 March 2022	**Statutory Six months ended 31 March 2023**	Statutory Six months ended 31 March 2022
Earnings attributable to owners of the parent					
Profit for the period	**160**	129	141	**100**	152
Number of shares (millions)					
Weighted average number of shares	**1,018**	1,023	1,023	**1,018**	1,023
Dilutive effects of shares	**12**	10	10	**12**	10
	1,030	1,033	1,033	**1,030**	1,033
Earnings per share attributable to owners of the parent (pence)					
Basic earnings per share	**15.68**	12.62	13.83	**9.78**	14.84
Diluted earnings per share	**15.49**	12.49	13.69	**9.66**	14.68

Reconciliation of earnings	**Six months ended 31 March 2023 £m**	Six months ended 31 March 2022 £m
Underlying earnings attributable to owners of the parent	**160**	141
Impact of movement in foreign currency exchange rates	**–**	(12)
Underlying earnings attributable to owners of the parent (as reported)	**160**	129
Amortisation of acquired intangible assets	**(26)**	(18)
Adjustment to acquired deferred income	**–**	(1)
Other M&A activity-related items	**(24)**	(15)
Foreign currency movements on intercompany balances	**(1)**	(1)
Property restructuring costs	**(20)**	–
Gain on disposal of subsidiaries	**–**	49
Reversal of restructuring costs	**–**	6
Taxation on adjustments	**11**	3
Net adjustments	**(60)**	23
Earnings – statutory profit for period attributable to owners of the parent	**100**	152

7. Non-current assets

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2022*	**2,391**	**320**	**152**	**2,863**
Additions	**–**	**8**	**12**	**20**
Acquisition of subsidiary**	**8**	**4**	**–**	**12**
Impairment	**–**	**–**	**(13)**	**(13)**
Depreciation, amortisation and other movements	**–**	**(33)**	**(22)**	**(55)**
Exchange movement	**(161)**	**(11)**	**(5)**	**(177)**
Closing net book amount at 31 March 2023	**2,238**	**288**	**124**	**2,650**

*Opening net book amount restated for finalisation of fair value of assets acquired and liabilities assumed in the acquisition of Lockstep in the prior year (see notes 1 & 11).
**Assets acquired as part of the acquisition of Spherics (see note 11).

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2021	1,877	190	164	2,231
Additions	–	4	8	12
Acquisition of subsidiary	176	110	2	288
Depreciation, amortisation and other movements	–	(24)	(21)	(45)
Exchange movement	29	1	2	32
Closing net book amount at 31 March 2022	2,082	281	155	2,518

Impairment of property, plant and equipment in the period of £13m relates to property restructuring costs, see note 3.

8. Ordinary shares and share premium

	Number of shares	Ordinary Shares £m	Share premium £m	Total £m
At 1 October 2022 & 31 March 2023	**1,100,789,295**	**12**	**548**	**560**
At 1 October 2021	1,120,789,295	12	548	560
Cancellation of treasury shares	(20,000,000)	–	–	–
At 31 March 2022	1,100,789,295	12	548	560

As at 31 March 2023:

- The Group held 76,477,587 treasury shares (30 September 2022: 81,168,903). During the period the Group transferred 4,691,316 treasury shares to employees in order to satisfy vested awards (six months ended 31 March 2022: 4,897,923).
- The Employee Benefit Trust held 4,419,478 ordinary shares in the Company (30 September 2022: 4,610,875 ordinary shares) at a cost of £34m (30 September 2022: £33m). During the period, the Employee Benefit Trust purchased £1m of ordinary shares from the market, funded by the Company (six months ended 31 March 2022: £nil).

The Employee Benefit Trust did not receive additional funds for the purchase of shares in the market (six months ended 31 March 2022: £nil).

During the prior period, the Group completed a previously announced non-discretionary share buyback programme which resulted in the payment of £249m in the six months ended 31 March 2022.

9. Cash flow and net debt

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Statutory operating profit	**157**	204
Recurring and non-recurring items	**70**	(21)
Underlying operating profit (as reported)	**227**	183
Depreciation/amortisation/impairment/profit on disposal of non-current assets/non-cash items	**27**	26
Share-based payments	**20**	16
Net changes in working capital	**2**	3
Net capital expenditure	**(10)**	(8)
Underlying cash flow from operations	**266**	220
Net interest paid and derivative financial instruments	**(28)**	(14)
Income tax paid	**(35)**	(27)
Non-recurring items	**(8)**	(12)
Exchange movement	**(1)**	–
Free cash flow	**194**	167
Net debt at 1 October	**(733)**	(247)
Disposal of subsidiaries or similar transactions, net of cash and lease liabilities disposed	**–**	38
Acquisition of subsidiaries or similar transactions, net of cash acquired and lease liabilities recognised	**(14)**	(223)
Acquisitions and disposals related items	**(16)**	(14)
Dividends paid to owners of the parent	**(123)**	(119)
Proceeds from issuance of treasury shares	**2**	3
New leases	**(9)**	(4)
Share buyback programme	**–**	(249)
Purchase of shares by Employee Benefit Trust	**(1)**	–
Exchange movement	**9**	(3)
Other	**–**	1
Net debt at 31 March	**(691)**	(650)

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Underlying cash flow from operations	**266**	220
Net capital expenditure	**10**	8
Recurring and non-recurring cash items	**(24)**	(36)
Other adjustments including foreign exchange translations	**(1)**	1
Statutory cash flow from operations	**251**	193

Analysis of change in net debt	At 1 October 2022 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	At 31 March 2023 £m
Cash, cash equivalents and bank overdrafts	489	**119**	**–**	**(33)**	**575**
Liabilities arising from financing activities					
Loans due within one year	(161)	**148**	**–**	**13**	**–**
Loans due after more than one year	(966)	**(235)**	**–**	**24**	**(1,177)**
Lease liabilities due within one year	(17)	**10**	**(9)**	**–**	**(16)**
Lease liabilities after more than one year	(78)	**–**	**–**	**5**	**(73)**
	(1,222)	**(77)**	**(9)**	**42**	**(1,266)**
Total	(733)	**42**	**(9)**	**9**	**(691)**

The Group's debt is sourced from sterling and euro denominated bond notes, with a syndicated Revolving Credit Facility ("RCF") also available. Previously, certain US private placements ("USPP") loan notes were held.

During the period, the Group issued euro denominated bond notes under its newly established Euro Medium Term Note (EMTN) programme, for a nominal amount of EUR 500m and an expiry date of February 2028. Cash proceeds from the issuance, net of transaction costs, were EUR 498m (£442m).

At 31 March 2023, bond notes were £1,179m (30 September 2022: £741m), comprised of sterling denominated bond notes £741m (30 September 2022: £741m) and euro denominated bond notes £438m (30 September 2022: £nil)

The Group's RCF was refinanced in December 2022, with facility levels of £630m, and expires in December 2027, with an extension option for up to two further years subject to specific provisions. At 31 March 2023, £nil of the RCF was drawn down and associated unamortised costs of £2m had been paid and capitalised. The previously held RCF comprising (USD 719m and £135m tranches) was extinguished in December 2022.

Total USPP loan notes at 31 March 2023 were £nil following the repayment of the remaining balance during the current period (30 September 2022: £386m comprising USD 400m and EUR 30m).

10. Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US private placement loan notes, euro and sterling denominated bond notes and bank loans.

The fair value of the euro and sterling denominated bond notes is determined by reference to quoted market prices and therefore can be considered as a level 1 fair value as defined within IFRS 13.

The fair value of US private placement loan notes is determined by reference to interest rate movements on the US dollar private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

The fair value of bank loans is determined using a discounted cash flow valuation technique calculated at prevailing interest rates, and therefore can be considered as a level 3 fair value as defined within IFRS 13.

The respective book and fair values of bank loans, bond notes and loan notes are included in the table below.

	At 31 March 2023		At 31 March 2022		At 30 September 2022	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
Long term-borrowings (excluding lease liabilities)	**(1,177)**	**(1,033)**	(1,045)	(1,006)	(966)	(753)
Short term-borrowings (excluding lease liabilities)	**-**	**-**	(25)	(26)	(161)	(158)

During the period, the Group issued EUR 500m of euro denominated bond notes (see note 9). In relation to this transaction, the Group also entered into cross-currency interest rate swaps in order to hedge exposure to foreign currency exchange movements:

- The Group designated EUR-GBP cross-currency interest rate swap contracts totalling £264m (EUR 300m) as hedging instruments in a cash flow hedge to hedge exposure to foreign currency exchange movements of the forecast principal and interest payments of a portion of the EUR 500m euro denominated bond entered into in the year (see note 9).

- The Group designated USD-GBP cross-currency interest rate swap contracts totalling £264m (USD 321m) as hedging instruments in a net investment hedge to hedge exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US.

During the second half of the prior year, the Group designated USD-GBP cross-currency interest rate swap contracts totalling £350m (USD 429m) as hedging instruments in a net investment hedge to hedge exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US. This hedge relationship is still active in the current period.

The fair value of the cross-currency interest rate swaps held by the Group is determined using a discounted cash flow valuation technique at market rates and therefore can be considered as a level 2 fair value as defined within IFRS 13. The fair value of the swaps held by the Group as at 31 March 2023 was a £18m net liability (30 September 2022: a £60m liability).

11. Acquisitions and disposals

Measurement adjustments to business combinations reported using provisional amounts

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc ("Lockstep") for total cash consideration of £80m, of which £3m was deferred and paid in the current period.

The net assets acquired recognised in the financial statements at 30 September 2022 were based on a provisional assessment of their fair value while the Group undertook a valuation of the acquired intangible assets. During the period, the purchase price accounting has been approved and completed.

The intangible assets identified and subsequently valued as at the date of acquisition include:

Acquired intangible assets	**Valuation £m**	Useful economic life (years)
Customer relationships	3	8
Technology	23	8
Acquired intangible assets	**26**	

The comparative information for the financial year 2022 has been restated to reflect the adjustment to the provisional amounts.

As a result of the recognition of intangible assets of £26m, and net deferred tax liability of £1m, there was a corresponding decrease of £25m to goodwill. The balancing £54m goodwill comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's North America CGU where the underlying benefit arising from the acquisition is expected to be realised. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America operating segment in line with the underlying operations.

No other adjustments have been made to the provisional fair value of assets and liabilities reported at 30 September 2022, as set out below:

Fair value of identifiable net assets acquired	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Intangible assets	–	26	26
Deferred tax liability	–	(1)	(1)
Other identifiable net assets	1	–	1
Fair value of identifiable net assets acquired	**1**	**25**	**26**
Goodwill	79	(25)	54
Total consideration	**80**	**–**	**80**

The increased amortisation charge on the intangibles assets from the acquisition date to 30 September 2022 was not material and therefore no adjustment has been made for this. No changes have been identified to the directly attributable acquisition related costs which were included during the financial year ended 30 September 2022 in relation to the acquisition.

Acquisitions made during the current period

On 11 October 2022, the Group acquired 100% equity capital and voting rights of Spherics Technologies Ltd ("Spherics"), a company based in the UK, for total cash consideration £11m. Spherics provides a carbon accounting software solution to help businesses easily understand and reduce their environmental impact.

Summary of acquisition	Total £m
Acquisition-date fair value of consideration	**11**
Fair value of identifiable net assets	(4)
Deferred tax liability	1
Goodwill	**8**

Acquired intangible net assets comprises technology, at a fair value of £4m, which will be amortised over a useful economic life of 8 years.

Acquired goodwill of £8m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's UK & Ireland CGU where the underlying benefit arising from the acquisition is expected to be realised. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the UK & Ireland operating segment in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(11)
Cash and cash equivalents acquired	–
Net cash outflow	**(11)**

Transaction costs of £1m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal, and other professional services. See note 3.

Arrangements have been put in place for retention payments to remunerate employees of Spherics for future services. The amount recognised to date of £2m is included in selling and administrative expenses, in the consolidated income statement, as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement reported by Spherics for the period since the acquisition date, includes an immaterial amount of revenue and loss after tax.

On an underlying and statutory basis, impact on revenue and profit after tax would have been immaterial, if Spherics had been acquired at the start of the financial year and included in the Group's results for the six months ended 31 March 2023.

Disposals and discontinued operations

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the six-month periods ended 31 March 2023 or 31 March 2022.

Assets held for sale at 31 March 2022 included one disposal group comprising the Group's payroll outsourcing business in South Africa, with a net book value of £2m. This business was subsequently sold on 4 April 2022 for cash consideration £5m resulting in a gain on disposal totalling £4m.

There are no assets held for sale at 31 March 2023.

12. Related party transactions

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Leadership Team members and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group, and between those subsidiaries, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation	**Six months ended 31 March 2023 £m**	Six months ended 31 March 2022 £m
Salaries and short-term employee benefits	**5**	5
Share-based payments	**3**	2
	8	7

Key management personnel are deemed to be members of the Executive Leadership Team, as defined in the Group's Annual Report and Accounts 2022 and the Non-executive Directors. Since the signing of the Group's Annual Report and Accounts 2022, there have been no changes to the composition of the Executive Leadership Team.

13. Events after the balance sheet date

On 5 May 2023, the Group acquired 100% of the outstanding equity securities of Corecon Technologies, Inc. ('Corecon') for cash consideration of £13m (subject to a customary post-closing net debt and working capital adjustment). Corecon is a cloud native subscription-based software company used to streamline and manage project operations focused on the construction industry. Due to the timing of the acquisition the results of Corecon are not included in our financial statements for the period ended 31 March 2023 and the acquisition accounting has not yet been completed. In line with IFRS 3, the purchase price accounting for the acquisition will be finalised within 12 months of the acquisition date.

Managing Risk

Through our risk process, Sage is able to effectively manage our strategic, operational, commercial, compliance, change and emerging risks. This helps us to deliver our strategic objectives and goals through risk informed decisions. The Board's role is to maintain oversight of the key principal and business risks, together with ensuring that the appropriate committees are managing the risks effectively. Additionally, the Board reviews the effectiveness of our risk management approach and challenges our leaders to articulate their risk management strategies.

Sage continually assesses its principal risks to ensure alignment to our strategy and consideration of where Sage is currently on its journey to transforming into a digital business.

By monitoring risk and performance indicators related to this strategy, principal risk owners focus on those metrics that signal current performance, as well as any emerging risks and issues. The principal risks reflect our five strategic priorities. The management and mitigation actions described below reflect the principal risks and build on those actions previously reported in the Annual Report and Accounts 2022.

KEY

Scale Sage Intacct	Expand medium beyond financials	Build the small business engine	Scale the network	Learn and disrupt

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Understanding Customer Needs	**Risk Trend: Stable Risk Environment**	
If we fail to anticipate, understand, and deliver against the capabilities and experiences our current and future customers need in a timely manner; they will find alternative solution providers. **Strategic alignment:**	As Sage continues to communicate its brand and purpose, understanding of how to attract new customers whilst retaining its existing customers is essential. This requires a deep and continuous flow of insights supported by processes and systems. By understanding the needs of our customers, Sage will differentiate itself from competitors, build compelling value propositions and offers, leverage key drivers to identify opportunities, influence product and process roadmaps, decrease churn and drive more effective revenue generation.	• Brand campaigns to communicate the vision of how Sage will support businesses. • Brand health surveys to provide an understanding of customer perception of the Sage brand and its products, used to inform and enhance our market offerings. • A Market and Competitive Intelligence team to provide insights that Sage uses to win in the market. • Proactive analysis of customer activity and churn data, to improve customer experience. • Customer Segmentation Framework and the customer market analysis by region to help inform product roadmaps. • Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels to constantly gather information on customer needs.
Execution of Product Strategy	**Risk Trend Improving Risk Environment**	
If we fail to deliver the capabilities and experiences outlined in our product strategy in a timely manner, we will not meet the needs of our customers or our commercial goals. **Strategic alignment:**	We need to execute at pace, a prioritised product strategy that continues to simplify our product portfolio and focuses on our drive to create a digital network that will benefit our customers.	• A product strategy in line with strategic objectives and priorities, based on our market understanding and customer expectations. • A robust product organisation supported by a governance model to enable the way we build products. • Migration framework in key countries to support our customers in their journey to the cloud. • Continued expansion of Sage Intacct outside of North America and for additional product verticals (i.e. retail with the acquisition of Brightpearl). • Digitalisation of Sage products to support strategic objections through the integration of Lockstep. • Product design governance to ensure product development is always driven by our understanding of our ability to penetrate key markets.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Developing and Exploiting New Business Models	**Risk Trend: Stable Risk Environment**	
If we are unable to develop, commercialise and scale new business models to diversify from traditional SaaS, especially consumption-based services and those which leverage data, we will not meet the needs of our customers or our commercial goals. **Strategic alignment:**	We must be able to rapidly deploy new innovations to our customers and partners by introducing technologies, services, or new ways of working. Innovation requires us to address how we drive change and transformation across our people, processes, and technology, and how we differentiate our products and drive customer efficiencies.	• A new Business Unit solely focused on creating the Sage Digital Network. • Continued focus on AI/ML development coupled with a drive to improve how to exploit data to provide better management insight to our customers. • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System. • Strategic acquisition and collaboration with partners to complement and enable accelerated innovation. • Focused colleague engagement to accelerate innovation across the organisation through a Continuous Innovation Community.
Route to Market	**Risk Trend: Stable Risk Environment**	
If we fail to deliver a bespoke blend of route to market channels in each country, based upon common components, we will not be able to efficiently deliver the right capabilities and experiences to our current and future customers. **Strategic alignment:**	We have a blend of channels to communicate with our current and potential customers and ensure our customers receive the right information on the right products and services at the right time. Our sales channels include selling directly to customers through digital and telephony channels, via our accountant network and through partners, valued added resellers (VARs) and Independent Software Vendors (ISVs). We use these channels to maximise our marketing and customer engagement activities. This can shorten our sales cycle and ensure that customer retention is improved.	• Market data and intelligence is used to support decision making regarding the best routes to market • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Sale processes are targeted and configured by region for key customer segments and verticals • A dedicated On-Boarding Squad to enhance user journeys to enable customer conversion • Acceleration of new partnerships to support the Digital Network • Centre of Excellence to support our Indirect Sales and Third-Party approach.
Customer Experience	**Risk Trend: Stable Risk Environment**	
If we fail to effectively identify and deliver ongoing value to our customers by focusing on their needs over the lifetime of their customer journey, we will not be able to achieve sustainable growth through renewal. **Strategic alignment:**	We must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates. Whilst Sage is known for its quality customer support, this area requires constant, proactive focus. By helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes, and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • A data-driven Customer Success Framework to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer • Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to Target Operating Model • 'Customer for life' roadmaps, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends • Launch of member service to provide business tools and advise to support businesses
Third Party Reliance	**Risk Trend: Stable Risk Environment**	
If we do not embed our partners as an integral and aligned part of Sage's go-to-market strategy in a timely manner,	Sage places reliance on third-party providers to support the delivery of our products to our customers through the provision of cloud native products.	• Centre of Excellence for our Indirect Sales and Third- Party partners. • Dedicated colleagues in place to support partners, and to help manage the growth of

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
we will fail to deliver the right capabilities and experiences to our customers. **Strategic alignment:**	Sage also has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.	targeted channels. • Standardised implementation plans for Sage products that facilitate efficient partner implementation. • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers. • Enhanced third-party management framework, to support closer alignment and oversight of third-party activities. • A specialized Procurement function supporting the business with the selection of strategic third-party suppliers and negotiation of contracts. • Investing in new types of partnerships to explore and grow business in new markets.
People and Performance	**Risk Trend: Stable Risk Environment**	
If we fail to ensure we have engaged colleagues with the critical skills, capabilities, and capacity we need to deliver on our strategy, we will not be successful. **Strategic alignment:**	As we evolve our priorities, the capacity, knowledge, and leadership skills we need will continue to change. Sage will not only need to attract the talent and experience we will need to help navigate this change. We will also need to provide an environment where colleagues can develop to meet these new expectations, an environment where everyone can perform at their very best. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague voluntary attrition, and embracing the values of successful technology companies, Sage can increase colleague engagement and create an aligned high-performing team.	• Extensive focus on hiring channels to ensure we are attractive in the market through our enhanced employee value proposition, enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook. • Hiring practices focused on the skills we need in balance with organisational costs supported by a methodology for upskilling and building capability in the long term from within the organisation. • Reward mechanisms designed to incentivize and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets. • Focused development of our leaders (e.g. a 7-month Senior Leadership Programme) to ensure they create the environment which enables colleagues to thrive and perform at their very best. • An effective hybrid working model across the organization.
Culture	**Risk Trend: Improving Risk Environment**	
If we do not fully empower our colleagues and enable them to take accountability in line with our shared Values and Behaviours, we will be challenged to maintain a culture, that meets Sage's business ambitions. **Strategic alignment:**	The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business and drive innovation is critical in Sage's success. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values and Behaviours, and fosters a culture that provides customers a rich digital environment. Sage will also need to create a culture of empowered leaders that supports the development of ideas, and that provides colleagues with a safe environment allowing for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success, and drive the engagement that results in increased market share.	• Values that align with the Sage brand. • Integration of Values and Behaviours into all colleague priorities including talent attraction, selection, onboarding as well as performance management. • All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community. • Commitments to diversity, equity and inclusion (DEI) including zero tolerance to discrimination, equal chance to everyone, inclusive culture, removing barriers, DEI education, and development of a new DEI strategy to ensure we deliver on our commitments. • A DEI strategy focused on building diverse teams, an equitable culture, and fostering inclusive leadership. This strategy is supported by measurable plans and metrics to track progress. • A new transparency and accountability development framework. • Code of Conduct communicated to all colleagues, and subject to certification every two years. • Core eLearning modules rolled out across Sage, with regular refresher training.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
		• Whistleblowing and incident reporting mechanisms in place to allow issues to be formally reported and investigated.
Cyber Security and Data Privacy	**Risk Trend: Improving Risk Environment**	
If we fail to responsibly collect, process and store data, together with ensuring an appropriate standard of cyber security across the business, we will not meet our regulatory obligations, and will lose the trust of our stakeholders. **Strategic alignment:**	Information is the life blood of a digital company – protecting the confidentiality, integrity and accessibility of this data is critical for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.	• Multi-year cyber security programmes in IT and products to ensure Sage is driving continuous improvement and cyber risk reduction across technology, business processes and culture • Accountability within both IT and Product for all internal and external data being processed by Sage. The Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection Officer oversees information protection • Formal certification schemes maintained across the business, and include internal and external validation of compliance • All colleagues are required to undertake awareness training for cyber security, information management and data protection, with a focus on the GDPR requirements • A Cyber Security Risk Management Methodology is deployed to provide objective risk information on our assets and systems.
Data Strategy	**Risk Trend: Improving Risk Environment**	
If we fail to recognise the value of our data assets, deliver effective data foundations, and capitalise on their use, we will not be able to realise their full potential to secure strategically aligned outcomes. **Strategic alignment:**	Data is central to the Sage strategy to deliver our ambition of a digital network. The strategy is underpinned by our ability to innovate and develop solutions to enhance customer propositions, improve insight and decision making and create new business models and ecosystems. Successful ability to use data will accelerate our growth and will be a key driver in helping customers transform how they run and build their businesses.	• Data strategy across customer, product, and enterprise data to support the delivery of customer value and solve customer problems, including the use of enhanced Artificial Intelligence /Machine Learning capabilities. • A global data function that drives focus and alignment across the organization. In FY22, Sage appointed its first Chief Data Officer. • A defined set of Data ethics and principles to ensure we use customer data responsibly to achieve our strategy. • Plan to increase digital network participation, which will contribute to more data to support the delivery of real customer value and solve real customer problems. • Governance policies, processes, and tooling to enhance and manage the quality and consistency of our data. • A data asset catalogue to enable creation of use cases.
Readiness to Scale	**Risk Trend: Improving Risk Environment**	
If we fail to maintain a reliable, scalable, and secure live services environment, we will be unable to deliver the consistent cloud experience expected by our customers. **Strategic alignment:**	As Sage transitions to a digital company, we continue to focus on scaling our current and future platform services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud platform and associated digital network. Sage must provide the right infrastructure and operations for all our customer products, a hosting platform together with the governance to ensure optimal service availability, performance, security protection and restoration (if required).	• Migrating of products to public cloud offerings to improve scalability, resilience, and security. • Accountability across product owners, underpinned by ongoing risk assessments and continuous improvement projects. • Formal onboarding process including ongoing management in Portfolio Management processes. • Incident and problem management change processes adhered to for all products and services. • Service-level objectives including uptime, responsiveness, and mean time to repair objectives. • Defined Real-Time Demand Management processes and controls and also Disaster Recovery Capability and operational resilience models. • Improved focus and monitoring of product

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
		availability. • A governance framework to optimise operational cost base in line with key metrics. • All new acquisitions are required to adopt Sage cloud operation standards.
Environmental, Social and Governance	**Risk Trend: Improving Risk Environment**	
If we fail to fully, and continually, respond to the range of environmental (especially climate), social, and governance-related opportunities and risks we may fail to deliver positive change to social and environmental issues and damage the confidence of our stakeholders. Strategic alignment:	We are committed to investing in education, technology, and the environment to give individuals, small and medium businesses (SMBs), and our planet the opportunity to thrive. Internally, it is essential that Sage understands the potential impact of climate change to its strategy and operations and considers appropriate mitigations. Societal and Governance related issues are integral to Sage's purpose and Values and to the delivery of Sage's strategy.	• A robust Sustainability and Society strategy which was launched in 2021, focusing on three pillars: Tech for Good, Fuel for Business, Protect the Planet. • Underpinning the strategy is a robust cross-functional governance framework. • Tracking tools in place to enable horizon scanning and to track the Sustainability and Society strategy's impact. • As part of our broader Sustainability function, the Sage Foundation, established in 2015, remains focused on the areas of education, employment, and entrepreneurship via the contribution of time, investment, and capability on managing climate risks. • An integrated framework for the management of ESG related risk, including physical and transitional climate risks as recommended by the Taskforce for Climate Related Financial Disclosures (TCFD).

Statement of Directors' Responsibilities

The condensed consolidated half-yearly financial report for the six months ended 31 March 2023 includes the following responsibility statement.

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

- the Group condensed consolidated interim financial statements, which have been prepared in accordance with IAS34, "Interim Financial Reporting" as adopted by the UK and as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R, namely:
    - an indication of important events that have occurred during the six months ended 31 March 2023 and their impact on the condensed consolidated half-yearly financial report, and a description of the principal risks and uncertainties that the Group faces for the remaining six months of the current financial year; and
    - any related party transactions in the six months ended 31 March 2023 that have materially affected the financial position or performance of the Group during that period and any changes in the related party transactions described in the last Annual Report that could have a material effect on the financial position or performance of the Group in the six months ended 31 March 2023.

The Directors of The Sage Group plc are consistent with those listed in the Group's Annual Report and Accounts 2022, except for the following changes:

- Maggie Chan Jones, in her role as Non-Executive Director has been appointed to the Board with effect from 1 December 2022; and
- Roisin Donnelly, in her role as Non-Executive Director has been appointed to the Board with effect from 3 February 2023.

A list of current directors is maintained on the Group's website: www.sage.com.

On behalf of the Board

S Hare

Chief Executive Officer

16 May 2023

Independent review report to The Sage Group plc

Conclusion

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 2023 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.

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 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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.

Ernst & Young LLP
London
16 May 2023

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