

sage



sage

**The Sage Group plc**

Interim Report Six Months Ended 31 March 2006

Serving 5 million customers worldwide

### Overview

We are pleased to report a revenue increase of 18%\* and earnings per share growth of 19%. These results show further progress in our growth strategy, based on fulfilling a greater range of SME business management needs with a portfolio of locally-developed software and services. Group organic revenue growth of 5%\* reflected our strong market positions, maintained by growth in both our small business and mid-market divisions.

### Customers

We have continued to focus on expanding our customer base and on encouraging existing customers to adopt the new and enhanced products and services that we have developed. Key developments in the period were:

- Our customer base expanded to 5.0 million (30 September 2005: 4.7 million)
- 1.5 million of our customers purchased support contracts and related services (2005: 1.3 million)
- 377,000 of our support service customers purchased added value, premium support contracts (2005: 353,000)
- 745,000 of our support service customers chose subscriptions combining software upgrades with support (30 September 2005: 678,000)

These achievements have further deepened relationships with our customers and as they renew and expand their solutions over time, there will be significant opportunities for our future growth.

### Products

We continued to make progress in extending our solutions to help our customers manage processes throughout their businesses. In response to customer needs, our annual product development programme continued to improve our product range in all of our markets. A number of key new products are scheduled for release in the second half of the year. These products provide industry-specific extensions, new business analysis capabilities and deeper integration between Sage products. In addition, we continued to cooperate with a range of major technology partners in order to make more effective use of their technologies in developing our products. During the period, our total investment in software development, including £0.5m of capitalised expenditure, represented 31% of software revenue (2005: 28%).

Our customers have continued to adopt Sage solutions beyond core accounts and payroll, particularly in industry-specific markets such as manufacturing and distribution and also in customer relationship management ("CRM"). With organic revenue growth of 9%\*, CRM has continued to be our fastest-growing category of solutions.

### Acquisitions

Acquisitions in high-growth segments of the SME market remain an important part of Sage's growth strategy. We made two significant acquisitions during the period, which enhanced our position in existing product markets and also extended our business into new service markets. These acquisitions contributed to an increase in the size of our operations to 10,500 employees (31 March 2005: 8,200).

Adonix S.A. ("Adonix"), acquired in November 2005 for an enterprise value of £74.1m, strengthened our market leading position in France. Adonix brings more advanced business management solutions, including industry-specific software for businesses in real estate and manufacturing. These solutions provide migration choices for our large mid-market customer base in France.

Verus Financial Management, Inc. ("Verus"), acquired in February 2006 for an enterprise value of £184.6m, provides credit / debit card and cheque processing for US SMEs, complementing the existing payroll processing services available to our North American customers. Verus supports over 100,000 merchants in processing customer transactions. Such merchant services represent a strongly growing market, underpinned by increased use of credit / debit cards and by progressive adoption of e-commerce. Sage's North American customers are showing clear demand for their card transactions to be both automated and integrated with their accounting software. To realise this opportunity, we have begun to integrate Verus services with Sage accounting software.

We continue to evaluate further acquisition opportunities to extend our existing regional businesses and also to enter adjacent product and service markets and new territories. We remain disciplined in our valuation of businesses and will only acquire businesses that represent good value for our shareholders. We demonstrated our commitment to shareholder value when, in April 2006, having announced an offer for Visma ASA, a Scandinavian vendor of business management solutions for SMEs, we withdrew our interest after a higher bid was made by a third party.

After the end of the period, two further acquisitions, *Contractor Anywhere* and *Master Builder* (combined enterprise value approximately £17m, May 2006), extended the North American range of construction solutions. The two businesses had combined revenues of £8.3m for the year ended 31 July 2005 and have 9,000 customers. Both *Master Builder*, purchased from Intuit Inc. and *Contractor Anywhere*, a recently-developed mid-market solution, will form part of the migration path to our full mid-market solution, *Timberline*.

### Regional review

#### UK

UK revenues were £99.5m (2005: £95.6m). Organic revenue growth of 4% reflected growth in both small business and mid-market solutions. Core small business accounts products showed strong licence revenue growth. In addition, industry-specific product extensions and CRM made rising contributions. In all these product lines, support revenue growth resulted from the strong licence sales growth over recent periods.

The earnings before interest, tax and net amortisation ("EBITA") margin increased to 37% (2005: 36%).

#### Mainland Europe

Revenues in Mainland Europe were £152.8m (2005: £99.9m\*). Organic revenue growth of 6%\* resulted principally from increased customer spend on support services. The strongest organic revenue growth was in Spain (11%\*) and resulted from strong growth in software licence revenues and further adoption of premium support contracts.

The acquisition of Adonix extended our presence in the French mid-market with advanced solutions for our mid-market customers. For the year ended 31 December 2004, its last full year prior to acquisition, its revenue was £43.1m\* and its EBITA was £9.7m\*. Adonix has performed strongly since acquisition, with revenue growth of 13% compared with the prior year period (pre-ownership).

The overall EBITA margin in Mainland Europe was maintained at 22% (2005: 22%\*).

#### North America

Revenues in North America were £170.3m (2005: £161.0m\*). Organic revenue growth, excluding the contribution from a small business unit disposed of in January 2006, was 4%\*.

The small business division showed organic revenue growth of 7%\*, resulting from new and existing customers adopting premium versions of existing products, together with added-value support and payroll services for these products.

The mid-market division showed organic revenue growth of 2%\*. This was lower than in recent periods due to this year's product release schedule being weighted to the second half. Support revenues continued to grow strongly as a result of sustained software licence growth over recent periods.

The acquisition of Verus (February 2006) extended the services we offer to US SMEs into credit card processing. Its revenue for the year ended 31 December 2005 was £36.5m\* and its EBITA was £11.0m. Verus has continued its strong growth since acquisition, with revenue growth of 21% compared with the prior year period (pre-ownership).

The overall North American EBITA margin increased to 25% (2005: 24%\*), principally as a result of a gain of £2.7m made on disposal of a small business unit in January 2006. Excluding this gain, underlying margins were unchanged from the prior year period at 24%.

### Rest of World

This region contributed revenues of £33.3m (2005: £29.1m\*). Organic revenue growth was 14%\* and was strong in both principal territories. In South Africa, revenue growth resulted from licence sales growth in core accounts and payroll products, combined with continued adoption of support contracts by new and existing customers. In Australia, new payroll products provided a basis for strong growth in revenues from upgrades, support and related services.

The overall EBITA margin for the region rose to 27% (2005: 18%\*) as a result of revenue growth.

### Financial review

These results are the first the Group has reported under International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") that the Group expects to be applicable to the year ending 30 September 2006. A summary of the principal impacts of IFRS is shown in note 1.

#### Revenue

Revenues grew 18%\* to £455.9m (2005: £385.6m\*). Organic revenue growth, excluding the contributions of non-core products (3% of revenues) and of current- and prior-year acquisitions together with a small disposal (combined 14% of revenues), was 5%\*.

Software licence revenues were £161.7m (2005: £147.3m\*), showing organic growth of 2%\*. Whilst we added 186,000 new customers excluding acquisitions, adoption of our higher-value mid-market software products was comparatively slow reflecting the fact that the year's principal product releases are due in the second half.

Services revenues, principally related to the provision of support services, were £294.2m (2005: £238.3m\*), representing organic growth of 7%\*. Support service revenues represented 50% of Group revenues and grew 9%\* organically, principally as a result of an increase in spend per customer associated with adoption of additional software and with further take-up of premium support. Our 1.5 million support contracts (2005: 1.3 million) included a growing proportion of contracts providing continuous subscriptions combining software upgrades and support.

#### Profitability

Pre-tax profit increased by 19% to £113.7m (2005: £95.8m) and earnings per share grew 19% to 6.10p (2005: 5.14p). These results include a gain of £2.7m made on disposal of a small North American business unit in January 2006.

Under IFRS, earnings before interest and tax ("EBIT") includes non-cash charges for amortisation and excludes capitalised software development expenditure. The impacts of these items on the 2005 results are shown in note 1. The Board measures Group and regional performance by using the EBITA performance measure. This excludes the impact of amortisation of acquired intangible assets and also the net impact of capitalisation of certain software development and its subsequent amortisation. The EBITA margin was increased to 27% (2005: 26%\*).

The tax charge gives an effective rate of 31% which is unchanged from the prior year with the result that earnings per share increased by 19%.

### Acquisitions

During the period, we completed two significant acquisitions, for an enterprise value of £258.7m. These were Adonix (France, enterprise value £74.1m) and Verus (US, enterprise value £184.6m).

Current and prior year acquisitions contributed strong revenue growth, such that Group pro-forma revenue growth, with comparative pre-ownership results from acquisitions added to the prior year period, was 6%\*.

### Cash flow

The Group remains highly cash generative with cash flow from operations of £153.9m (2005: £131.7m) representing 125% of EBITA. This strong cash flow meant that, after expenditure on acquisitions of £281.4m, net debt stood at £287.4m at 31 March 2006 (£106.9m at 30 September 2005).

### Dividend

In line with the Group's policy, announced in December 2004, the interim dividend is being raised 17% to 1.08p per share (2005: 0.92p) reflecting the Board's intention to move dividend cover to 3.5 times for the current year. The dividend will be payable on 16 June 2006 to shareholders on the register at close of business on 19 May 2006.

### Board

On 6 February 2006, we announced that our Chairman Michael Jackson would be retiring from the Board on 1 August 2006. Michael joined the Board in 1984 and has been Chairman since 1997. During this period Michael helped guide the Group through its initial growth to become UK market leader, its flotation as a listed company and its international expansion through a series of successful acquisitions. The Board would like to thank Michael for his substantial contribution to Sage's growth over the past 22 years. Sir Julian Horn-Smith, who joined the Board on 3 March 2006 and will be retiring as Vodafone's Deputy Chief Executive, will become Chairman on 1 August 2006.

### Outlook

The first half of 2006 has progressed as expected, with our expanding customer base of 5 million businesses continuing to purchase more of our locally-developed software and services.

We will continue to evaluate acquisition opportunities that meet the evolving needs of customers, whilst satisfying our investment criteria and representing good value for our shareholders.

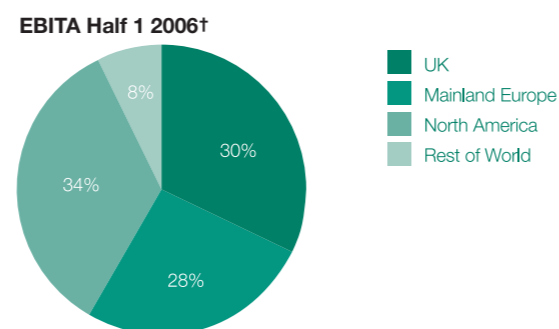
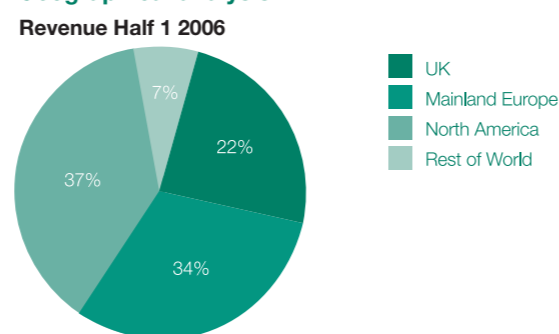
With a number of new product and service initiatives in place, we expect increased organic revenue growth for the second half and we therefore continue to view 2006 with confidence.

Paul Walker  
Chief Executive

### Financial highlights

Revenue (£m)	
Half 1 2006	455.9
Half 1 2005	372.9
EBITA (£m)	
Half 1 2006	123.1
Half 1 2005	98.2
Profit before tax (£m)	
Half 1 2006	113.7
Half 1 2005	95.8
Earnings per share (pence)	
Half 1 2006	6.10
Half 1 2005	5.14
Dividend per share (pence)	
Half 1 2006	1.08
Half 1 2005	0.92

### Geographical analysis



### Consolidated Income Statement

For the six months ended 31 March 2006

	Note	Six months ended 31 March 2006 (unaudited) £m	Six months ended 31 March 2005 (unaudited) £m	Year ended 30 September 2005 (unaudited) £m
<b>Revenue</b>	1	<b>455.9</b>	372.9	759.6
<b>Operating profit</b>	1	<b>118.8</b>	98.2	199.2
Financial income		1.6	1.1	2.8
Financial expenses		(6.7)	(3.5)	(8.5)
<b>Profit before taxation</b>		<b>113.7</b>	95.8	193.5
Taxation	3	(35.2)	(29.9)	(61.2)
<b>Profit for the period</b>		<b>78.5</b>	65.9	132.3
<b>Attributable to:</b>				
Equity shareholders		78.5	65.9	132.2
Minority interest		-	-	0.1
<b>Profit for the period</b>		<b>78.5</b>	65.9	132.3
<b>Earnings per share (pence) – basic</b>	5	<b>6.10p</b>	5.14p	10.30p
<b>Earnings per share (pence) – diluted</b>	5	<b>6.05p</b>	5.11p	10.25p

### Consolidated Statement of Recognised Income and Expense

For the six months ended 31 March 2006

	Six months ended 31 March 2006 (unaudited) £m	Six months ended 31 March 2005 (unaudited) £m	Year ended 30 September 2005 (unaudited) £m
<b>Profit for the period</b>	<b>78.5</b>	65.9	132.3
Net exchange adjustments offset in reserves	14.4	(17.2)	13.4
<b>Total recognised income for the period</b>	<b>92.9</b>	48.7	145.7

\*Foreign currency results for the prior half-year ended 31 March 2005 and other prior periods referred to, have been retranslated based on the average exchange rates for the half-year ended 31 March 2006 to facilitate the comparison of results.  
†Excluding profit on disposal.

## Consolidated Balance Sheet

As at 31 March 2006

	31 March 2006 (unaudited) £m	31 March 2005 (unaudited) £m	30 September 2005 (unaudited) £m
Goodwill	1,275.4	995.7	1,076.8
Other intangible assets	174.3	13.4	45.4
Property, plant and equipment	126.2	121.2	119.9
Deferred tax assets	13.7	38.5	46.0
<b>Total non-current assets</b>	<b>1,589.6</b>	<b>1,168.8</b>	<b>1,288.1</b>
Inventories	4.3	3.3	3.5
Trade and other receivables	184.2	132.0	149.9
Cash and cash equivalents	88.4	77.9	69.1
<b>Total current assets</b>	<b>276.9</b>	<b>213.2</b>	<b>222.5</b>
<b>TOTAL ASSETS</b>	<b>1,866.5</b>	<b>1,382.0</b>	<b>1,510.6</b>
Trade and other payables	(168.0)	(133.7)	(145.5)
Tax liabilities	(58.5)	(59.5)	(60.8)
Financial liabilities			
- Borrowings	(0.4)	(6.0)	(0.2)
Deferred consideration	(14.9)	(2.5)	(5.8)
Deferred income	(269.9)	(222.2)	(228.3)
<b>Total current liabilities</b>	<b>(511.7)</b>	<b>(423.9)</b>	<b>(440.6)</b>
Financial liabilities			
- Borrowings	(375.8)	(157.1)	(176.3)
Retirement benefit obligations	(2.3)	(2.4)	(2.3)
Deferred tax liabilities	(19.4)	(3.7)	(2.5)
<b>Total non-current liabilities</b>	<b>(397.5)</b>	<b>(163.2)</b>	<b>(181.1)</b>
<b>TOTAL LIABILITIES</b>	<b>(909.2)</b>	<b>(587.1)</b>	<b>(621.7)</b>
<b>NET ASSETS</b>	<b>957.3</b>	<b>794.9</b>	<b>888.9</b>
Share capital	12.9	12.8	12.8
Share premium account	460.9	448.7	451.0
Other reserve	61.1	61.1	61.1
Currency translation reserve	27.8	(17.1)	13.4
Retained earnings	394.6	289.2	350.4
<b>Total shareholders' equity</b>	<b>957.3</b>	<b>794.7</b>	<b>888.7</b>
Minority interest in equity	-	0.2	0.2
<b>TOTAL EQUITY</b>	<b>957.3</b>	<b>794.9</b>	<b>888.9</b>

## Consolidated Cash Flow Statement

For the six months ended 31 March 2006

Note	Six months ended 31 March 2006 (unaudited) £m	Six months ended 31 March 2005 (unaudited) £m	Year ended 30 September 2005 (unaudited) £m
<b>Cash flows from operating activities</b>	<b>153.9</b>	<b>131.7</b>	<b>241.0</b>
Interest received	1.6	1.1	2.8
Interest paid	(6.4)	(3.9)	(8.1)
Tax paid	(30.0)	(33.7)	(57.3)
<b>Net cash from operating activities</b>	<b>119.1</b>	<b>95.2</b>	<b>178.4</b>
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries (net of cash acquired)	(251.8)	(29.4)	(101.0)
Disposal of subsidiary	8.4	-	-
Proceeds from sale of property, plant and equipment	2.7	2.1	3.5
Purchase of property, plant and equipment	(13.9)	(6.7)	(20.7)
Purchase of intangible assets	(1.9)	-	-
Development expenditure	(0.3)	(0.4)	(0.7)
<b>Net cash used in investing activities</b>	<b>(256.8)</b>	<b>(34.4)</b>	<b>(118.9)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital	10.0	1.8	4.6
Purchase of treasury shares	(13.3)	-	-
Finance lease principal repayment	(0.4)	-	0.9
Issue costs on loans	(0.2)	-	-
Repayment of borrowings	(111.1)	(54.0)	(209.4)
New borrowings	296.2	17.0	173.1
Dividends paid to shareholders	(25.2)	(22.0)	(33.9)
<b>Net cash from / (used in) financing activities</b>	<b>156.0</b>	<b>(57.2)</b>	<b>(64.7)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>18.3</b>	<b>3.6</b>	<b>(5.2)</b>
Cash and cash equivalents at 1 October	69.1	74.3	74.3
Effects of exchange rate changes	1.0	-	-
<b>Cash and cash equivalents</b>	<b>88.4</b>	<b>77.9</b>	<b>69.1</b>

## Notes

For the six months ended 31 March 2006

### 1 IFRS

IFRS financial information presented in this statement has been prepared on the basis of the policies the directors expect to adopt for the Group's first full IFRS financial statements for the year to 30 September 2006. These policies include all prevailing and applicable IFRS including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees. These standards and interpretations are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change.

The Group has taken the exemption available under IFRS 1 from presenting comparative financial information under IAS 32 and IAS 39 and therefore the related applicable financial instruments have been accounted for under UK GAAP.

Further standards and interpretations may also be issued that will be applicable for financial years beginning on or after 1 January 2005 or that will be applicable to later accounting periods but may be adopted early. The Group's first IFRS financial statements may, therefore, be prepared in accordance with different accounting policies to those used to prepare the financial information presented in this announcement. In addition, as IFRS

is a new reporting basis for UK companies, accounting practice and interpretations of accounting standards will develop as companies gain more experience of the new framework. Accordingly there may be changes in the common approaches currently adopted and the final application of IFRS in the financial statements for the year to 30 September 2006 may be subject to change.

The date of transition to IFRS for the Group was 1 October 2004, being the first day of the comparative period ("the transition date") and the Group is required to prepare a balance sheet as at the transition date ("the transition balance sheet") under IFRS.

On 27 March 2006 the Group disclosed the unaudited restatement of financial information for the Group under IFRS for the six months ended 31 March 2005 and the year ended 30 September 2005 including the reconciliation of the Group's UK GAAP consolidated income statement, balance sheet and cash flow statement to IFRS. In addition, details of the impacts on the primary segmental disclosure of geographic region were provided.

This document is available at [www.sage.com/investors/ifrs.pdf](http://www.sage.com/investors/ifrs.pdf).

### Analysis of results

	First half 2006			First half 2005		
	Revenue (unaudited) £m	EBITA (unaudited) £m	Operating profit (unaudited) £m	Revenue (unaudited) £m	EBITA (unaudited) £m	Operating profit (unaudited) £m
UK	99.5	36.4	37.0	95.6	34.8	34.9
Mainland Europe	134.5	29.8	26.6	99.9	22.4	22.0
North America	164.1	38.7	37.0	161.0	38.7	39.0
Rest of World	33.3	9.1	9.1	29.1	5.3	5.3
	<b>431.4</b>	<b>114.0</b>	<b>109.7</b>	385.6	101.2	101.2
<b>Acquisitions:</b>						
Mainland Europe	18.3	4.3	4.3	-	-	-
North America	6.2	2.1	2.1	-	-	-
	<b>24.5</b>	<b>6.4</b>	<b>6.4</b>	-	-	-
<b>Profit on disposal</b>	-	2.7	2.7	-	-	-
<b>Impact of foreign exchange*</b>	-	-	-	(12.7)	(3.0)	(3.0)
	<b>455.9</b>	<b>123.1</b>	<b>118.8</b>	372.9	98.2	98.2

The Board measures Group and regional performance by using the EBITA (earnings before interest, tax and net amortisation) performance measure. This excludes the impact of amortisation of acquired intangible assets and also the net impact of capitalisation of certain software development and its subsequent amortisation.

\* The 2006 trading results from businesses located outside the UK were translated into Sterling at the average exchange rates for the period. For our two most significant foreign operating currencies, the US Dollar and the Euro, the resulting rates were £1=\$1.75 and £1=€1.46 respectively. Results for the period ended 31 March 2005 have been retranslated at these exchange rates to facilitate the comparison of results. The Group does not hedge this translational exposure.

EBITA includes a charge for share-based payments of £4.2m (2005: £3.6m).

### Reconciliation of EBITA to operating profit

	2006 First half (unaudited) £m	2005 First half (unaudited) £m
EBITA	123.1	98.2
Development cost capitalised	0.6	0.6
Development amortisation	(0.3)	(0.2)
Intangible amortisation	(4.6)	(0.4)
<b>Operating profit</b>	<b>118.8</b>	<b>98.2</b>

The geographical restatement of UK GAAP figures for the period ended 31 March 2005 to IFRS is presented below. Further details are available at [www.sage.com/investors/ifrs.pdf](http://www.sage.com/investors/ifrs.pdf).

### Revenue - half year ended 31 March 2005 (unaudited)

	UK £m	Mainland Europe £m	North America £m	Rest of World £m	Total £m
<b>UK GAAP</b>	96.7	101.3	155.4	28.2	381.6
<b>IFRS adjustments:</b>					
IAS 18 - Revenue	(1.1)	0.2	(7.8)	-	(8.7)
<b>IFRS</b>	<b>95.6</b>	<b>101.5</b>	<b>147.6</b>	<b>28.2</b>	<b>372.9</b>

### Operating profit - half year ended 31 March 2005 (unaudited)

	UK £m	Mainland Europe £m	North America £m	Rest of World £m	Total £m
<b>UK GAAP</b>	36.3	24.0	37.3	5.5	103.1
<b>IFRS adjustments:</b>					
IFRS 2 - Share-based payment	(1.1)	(0.9)	(1.4)	(0.2)	(3.6)
IAS 18 - Revenue	(0.4)	0.4	-	-	-
IAS 19 - Employee benefits	-	(0.8)	(0.4)	(0.1)	(1.3)
<b>EBITA</b>	<b>34.8</b>	<b>22.7</b>	<b>35.5</b>	<b>5.2</b>	<b>98.2</b>
IFRS 3 - Business combinations (amortisation)	-	(0.3)	(0.1)	-	(0.4)
IAS 38 - Intangible assets (development costs)	0.1	(0.1)	0.4	-	0.4
<b>Operating profit</b>	<b>34.9</b>	<b>22.3</b>	<b>35.8</b>	<b>5.2</b>	<b>98.2</b>

**2 Analysis of change in net debt**

	At 1 October 2005 (unaudited) £m	Cash flow £m	Exchange movement/ other £m	At 31 March 2006 (unaudited) £m
Cash and cash equivalents	69.1	18.3	1.0	<b>88.4</b>
Loans due within one year	(0.1)	(0.3)	-	<b>(0.4)</b>
Finance leases due within one year	(0.1)	0.1	-	-
Loans due after more than one year	(175.2)	(184.6)	(15.3)	<b>(375.1)</b>
Finance leases due after more than one year	(0.6)	0.3	-	<b>(0.3)</b>
	<b>(106.9)</b>	<b>(166.2)</b>	<b>(14.3)</b>	<b>(287.4)</b>

**3 Taxation**

The taxation charge for the period comprises:

	Six months ended 31 March 2006 (unaudited) £m	Six months ended 31 March 2005 (unaudited) £m	Year ended 30 September 2005 (unaudited) £m
UK taxation	<b>13.8</b>	13.2	19.1
Overseas taxation	<b>21.4</b>	16.7	42.1
	<b>35.2</b>	29.9	61.2

The taxation charge gives an effective rate of 31% (2005: 31%).

**4 Statutory accounts**

The unaudited financial information set out above does not constitute the Group's statutory accounts for the period ended 31 March 2006. The accounting policies used as a basis for this interim results announcement are consistent with those included in the unaudited restatement of financial information for the year ended 30 September 2005 as highlighted above. The Group's statutory accounts for the year ended 30 September 2005, based on UK GAAP have been delivered to the Registrar of Companies.

The Group results for the year ended 30 September 2005 have been extracted from those statutory accounts as adjusted for IFRS in the unaudited restatement of financial information for the year ended 30 September 2005 highlighted above. The Auditors' Report on the UK GAAP accounts to 30 September 2005 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985. Accounts to 30 September 2006 under IFRS will be delivered in due course.

**5 Earnings per share**

The calculation of basic earnings per ordinary share is based on earnings of £78,470,000 (2005: £65,918,000) being the profit for the period and on 1,287,271,933 ordinary 1p shares (2005: 1,282,275,455) being the weighted average number of ordinary shares in issue during the period.

The diluted earnings per ordinary share is based on profit for the period of £78,470,000 (2005: £65,918,000) and on 1,297,329,036 ordinary 1p shares (2005: 1,289,959,970).

**6 Dividends**

The interim dividend of 1.08 pence per share will be paid on 16 June 2006 to shareholders on the register at the close of business on 19 May 2006.

**Independent review report to The Sage Group plc****Introduction**

We have been instructed by the company to review the financial information for the six months ended 31 March 2006 which comprises the consolidated balance sheet as at 31 March 2006 and the related consolidated statements of income, cash flows and recognised income and expense for the six months then ended and related notes as set out in pages 4 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

**Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. As explained in note 1, there is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 30 September 2006 are not known with certainty at the time of preparing this interim financial information.

**Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2006.

**Notes:**

(a) The maintenance and integrity of the The Sage Group plc corporate 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 interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

PricewaterhouseCoopers LLP

Chartered Accountants

Newcastle upon Tyne

9 May 2006

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