Wednesday, 6 May 2009

SAGE REPORTS FINANCIAL RESULTS FOR THE HALF-YEAR ENDED 31 MARCH 2009

The Sage Group plc ("Sage"), one of the leading global suppliers of business management software and services for small and medium-sized enterprises ("SMEs"), announces its unaudited results for the half-year ended 31 March 2009.

Financial overview

- Statutory revenues increased by 17% to £748.4m (H1 2008: £640.4m), enhanced by favourable currency movements
  - On a currency neutral basis, revenues contracted 3%* (H1 2008: growth of 9%*)
- EBITA† margin increased to 24% excluding restructuring charges; EBITA† margin maintained at 23% including restructuring charges (H1 2008: 23%*)
- Statutory pre-tax profit of £139.2m (H1 2008: £122.6m), an increase of 14%
  - On a currency neutral basis, adjusted pre-tax profit^ contracted 3% to £159.3m (H1 2008: £164.1m) and excluding restructuring costs increased 3% to £169.4m
- Operating cash flow of £187.0m (H1 2008: £187.4m), representing 111% of EBITA†
- Strong balance sheet with a ratio of net debt to EBITDA† of 1.6x; interest cover of 13.2x with committed debt facilities of £830m to 2011
- Interim dividend raised 3% to 2.50p per share (H1 2008: 2.43p per share), reflecting reliable cash flows and the strength of our business model

Operational overview

- Strong control of our cost base with annualised savings of £49.3m (equating to 4% of the full year 2008 cost base) with associated restructuring charges of £10.1m in the first half of the year; and an additional £13.0m cost incurred since 31 March 2009 to date
- 4%* organic revenue contraction (H1 2008: 5%* organic revenue growth), reflecting a contraction of 15%* in organic software and software-related services revenues, offset by good organic subscription revenue growth
- Organic subscription± revenue growth of 7%* in the UK and Mainland Europe; 14%* growth in Rest of World, contraction of 3%* in North America, giving 2%* growth for the Group
- Renewal rates of support contracts maintained at 81% with continued strength in premium support and overall revenue growth in many of our product lines
- Average of 40,000 customer support calls taken per day

Chief Executive Paul Walker commented: "Our businesses have delivered a resilient first half performance in challenging economic conditions as customers continued to rely on Sage as a trusted partner in running their businesses more efficiently in difficult markets. After a robust performance last year, we are now experiencing the effects of the weakening global economy in most of our markets, with customers delaying software purchasing decisions. However, demand for high-quality customer support remains strong. We are proactively managing our business for these demanding market conditions and, in the current financial year to date#, we have successfully eliminated annualised costs of £49.3m, representing 4% of the full year 2008 cost base.

"We anticipate that current market conditions will continue throughout the remainder of this financial year. However, we are confident that our market-leading portfolio of products and services, high-quality customer support, well established distribution channels and loyal, geographically diverse customer base mean we are well positioned to benefit when markets recover."

*Foreign currency results for the prior half-year ended 31 March 2008 have been retranslated based on the average exchange rates for the half-year ended 31 March 2009 of $1.48/£1 and €1.14/£1 to facilitate the comparison of results.

†EBITA is defined as earnings before interest, tax and amortisation of intangible fixed assets. EBITDA is defined as EBITA plus depreciation.

^EBITA, adjusted pre-tax profit and earnings per share figures stated prior to amortisation of intangible fixed assets and after neutralisation of foreign exchange movements.

±Subscription revenues are recurring in nature and include combined software/support contracts, maintenance and support, transaction revenues (payment and health insurance claims processing) and hosted products.

#Current financial year to date is defined as the period 1 October 2008 to 6 May 2009.

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An analyst presentation will be held at 8.30am today at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB. A live webcast of the presentation will be hosted on **www.investors.sage.com***, dial-in number +44 (0) 1452 568 051, pin code: 97644096. A replay of the call will also be available for two weeks after the event: Tel: +44 (0) 1452 550 000, pin code 97644096#.*

Overview

		UK	Mainland Europe	North America	Rest of World	Group adjusted	Foreign exchange*	Adjustment^	Group statutory
Revenue									
H1 2009	£m	121.9	275.4	304.4	46.7	748.4	-	-	748.4
H1 2008	£m	121.7	269.4	335.2	44.6	770.9	(130.5)	-	640.4
Variance	*%*					***-3%***			***+17%***
EBITA†/Operating profit									
H1 2009	£m	43.3	62.1	53.4	9.6	168.4	-	(20.1)	148.3
H1 2008	£m	45.5	63.7	58.8	10.5	178.5	(26.1)	(15.4)	137.0
Variance	*%*					***-6%***			***+8%***
Pre-tax profit									
H1 2009	£m					159.3	-	(20.1)	139.2
H1 2008	£m					164.1	(26.1)	(15.4)	122.6
Variance	*%*					***-3%***			***+14%***
Earnings per share									
H1 2009						8.51p	-	(1.07p)	7.44p
H1 2008						8.68p	(1.38p)	(0.82p)	6.48p
Variance						***-2%***			***+15%***

Over the period, we experienced challenging market conditions across our businesses as the global economy weakened. Our businesses in Mainland Europe and Rest of World began to experience similar market conditions to those we saw in North America and the UK last year. This affected customer demand for software and software-related services revenue across all our businesses, with lengthening purchase decision cycles for new licences, upgrades and migrations.

Reported revenues for the period grew by 17% to £748.4m (H1 2008: £640.4m), benefitting from favourable exchange rates. Statutory pre-tax profit grew 14% to £139.2m (H1 2008: £122.6m).

On a constant currency basis, total revenues contracted 4%* organically. Subscription revenues, constituting 64% of our business, grew 2%* organically and software and software-related services revenue contracted 15%* organically. EBITA† contracted by 6%* to £168.4m (H1 2008: £178.5m*) including restructuring charges of £10.1m. EBITA† margin was maintained at 23% (H1 2008: 23%*) including restructuring charges. Adjusted pre-tax profit^ contracted 3% to £159.3m (H1 2008: £164.1m).

As anticipated, customer demand for software and software-related services was weak. Nonetheless, 120,000 new customers purchased software solutions in the period. Demand for customer support remained resilient, helping to underpin our performance for the half-year. In the UK and Mainland Europe, where the customer support model is well established, subscription revenues grew 7%* on an organic basis and in the emerging markets of Rest of World, subscription revenues again showed strong organic growth of 14%*. In North America, where the premium support model is less well-established, subscription revenues contracted 3%* organically.

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Premium support, which often includes a software component with a customer support contract, continued to show resilience, growing organically at 8%* in the UK, 7%* in Mainland Europe and 10%* in Rest of World, after strong growth last year. In North America, *Peachtree Business Care* and *SimplyCare*, the new premium support offerings for *Peachtree* and *Simply*, grew 44%* off a small base. Over the period, we again handled more than 40,000 support calls per day as customers continued to rely on Sage as a trusted partner in running their businesses more efficiently in difficult markets. Support contract renewals, a measure of the underlying performance of our business model, remained high at 81% in line with the long-term average renewal rates.

We anticipate that market conditions will be challenging for both Sage and its customers over the second half of the year. With global customer confidence at historically low levels, demand for software and software-related services will remain muted over the second half of the year. We continue to manage our cost base, and in the current financial year to date[#], we have successfully eliminated annualised costs of £49.3m. This saving equates to 4% of the full year 2008 cost base. In the period ended 31 March 2009, we incurred restructuring charges of £10.1m associated with these measures. Since that date, to the date of this announcement, we have incurred a further £13.0m of restructuring costs associated with these cost savings. We will continue to be proactive in managing our cost base so that we remain a strong and efficient business. We maintain our leading market positions relative to our competitors and we will be well placed to leverage our strong business model and financial strength when markets improve.

Product and services strategy

Whilst driving initiatives to reduce our cost base, we have maintained investment in the long-term competitiveness of our product portfolio. Our customers continue to look for tools to run their businesses more efficiently to meet the current market challenges, and we have responded by enhancing the depth, breadth and ease of use in our product functionality with features such as improved cash flow forecasting, credit risk management and integrated product modules.

We continue to innovate our products and services to meet the changing demands of our customer base as they cope with the current challenging market conditions. Our customer support service is relied upon by our customers to help them negotiate changes in legislation and business regulation and market uncertainty has reinforced our role as a trusted business partner to many of our customers. Premium support offerings, such as *Sage Accountants' Club Priority Link* in the UK, showed strong growth, as have other premium support offerings.

Customer interest in new methods of delivering and integrating products and services has grown in recent years and our businesses have responded with new offerings in hosted and web-based solutions. We continue to deploy global products such as *Sage Accpac ERP* and *Sage ERP X3,* adaptable to the needs of our customers working internationally, across our markets, including the recent launch of *Sage ERP X3* in Russia. These products are an important part of our product portfolio adding to the richness and diversity of our product and services offering.

Regional review

Throughout the regional review, growth trends are stated on a currency neutral basis with prior period results retranslated at current period exchange rates. This is done to facilitate the comparison of results.

UK

Total UK revenues were maintained at prior year levels of £121.9m (H1 2008: £121.7m*). Organic revenues declined by 2%*, as the effects of the global economic slowdown became more pronounced. Organic subscription revenues remained robust, growing at 7%*, while organic software and software-related services revenue contracted 19%*. Premium support also showed strong organic revenue growth of 8%*.

Our flagship products, *Sage 50* and *Sage 50 Payroll*, were broadly flat after strong growth last year, with good performance in subscription revenues. *Sage 200*, one of our integrated product solutions, showed modest growth driven by support revenue. *Protx*, the payment solutions provider, now renamed *Sage Pay*, delivered strong growth, benefitting from the relative strength in on-line purchasing. After good growth last year, our mid-

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[#]Current financial year to date is defined as the period 1 October 2008 to 6 May 2009.

market and payroll solutions experienced extended purchase decision cycles and weak licence revenue, although outsourcing services and customer support showed good growth and stable retention levels.

The EBITA[†] margin including restructuring charges of £0.6m incurred in the first half of the year was 36% (H1 2008: 37%*). In the current financial year to date[#] the UK business has undertaken a range of cost saving measures which we anticipate will yield annualised cost savings of £5.8m, with estimated restructuring charges of £3.7m in the second half of the year. This cost saving equates to 4% of the full year 2008 cost base.

Mainland Europe

Total revenues in Mainland Europe grew 2%* overall to £275.4m (H1 2008: £269.4m*). Organic revenues contracted 2%*, reflecting the anticipated economic slowdown which became apparent mid-way through our half-year. Subscription revenues continued to show good organic growth of 7%*, while software and software-related services revenue contracted organically by 11%* after very strong growth in the comparable period last year. Premium support also showed strong organic revenue growth of 7%*.

Our French business began to experience the effects of the global economic slowdown mid-way through our half-year and that, combined with a strong performance last year, contributed to total revenue growth of 1%*. Organically, revenues contracted 1%*, which was reflected across our broad product portfolio. Spain experienced total revenue growth of 11%*, reflecting the contribution of acquisitions in the current and prior periods. As anticipated, organic revenues contracted 4%*, reflecting the exceptional growth of 30%* in the comparable period last year as a result of the stimulus of major legislative change. Germany grew 3%* organically, benefitting from continued growth in payroll and entry-level products and investment in their technology architecture which resulted in customers moving to the new version of *Office Line*. Our smaller businesses in Mainland Europe, including Switzerland, Portugal and Poland declined 8%* overall in slowing market conditions after strong growth last year.

We anticipate that the slowing economic conditions will continue to affect performance in Mainland Europe over the second half of our financial year. Resilience in selected product lines and stable levels of customer support retention should help to underpin performance in these challenging market conditions.

The EBITA[†] margin including restructuring charges of £2.3m incurred in the first half of the year was reduced to 23% (H1 2008: 24%*), reflecting the slowing revenue growth following the strong performance in the prior year. In the current financial year to date[#] the Mainland European region has undertaken a range of cost saving measures which we anticipate will yield annualised cost savings of £10.5m, with estimated restructuring charges of £4.6m in the second half of the year. This cost saving equates to 3% of the full year 2008 cost base.

North America

Total revenue in North America contracted 9%* to £304.4m (H1 2008: £335.2m*), reflecting the difficult economic conditions. Organic revenue also contracted 9%*. Organic subscription revenues declined 3%*, while organic software and software-related services revenue declined 22%*. The subscription revenue contraction was attributable to the Sage Payment Solutions and Sage Healthcare Divisions.

The EBITA[†] margin including restructuring charges of £7.2m incurred in the first half of the year was maintained at 18%. In the current financial year to date[#] our North American business has undertaken a range of cost saving measures which we anticipate will yield annualised cost savings of £33.0m, with estimated restructuring charges of £4.7m in the second half of the year. These cost savings equate to 6% of the full year 2008 cost base. Excluding restructuring charges, the EBITA[†] margin increased to 20%.

The new North American executive management team has achieved a number of strategic goals in its first year, including significant margin improvement in difficult economic conditions and the continuing turnaround of Sage Healthcare Division. Senior management appointments were made in the Business Management and Sage

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Payment Solutions Divisions. We continue to drive operational efficiencies, particularly in the areas of sales and customer support.

Sage Healthcare Division continued to achieve milestones in its turnaround strategy, following the organisational restructure last year and further strengthening of the management team. Revenue contraction moderated to 6%*, after strong growth in new licence sales of *Intergy,* which combines physician practice management with electronic healthcare record capabilities. The EBITA† margin showed significant improvement to 15% (H1 2008: 7%*). Sage Payment Solutions Division declined 6%* in difficult credit markets despite strong new merchant growth.

The Business Management Division declined organically by 11%*. Our entry-level solutions, *Peachtree* and *Simply* delivered resilient performances in difficult market conditions, resulting in only a modest decline in overall revenues and maintained market share. *Peachtree Quantum* continued to perform well. Mid-market products, including *MAS, Sage Accpac ERP* and CRM products were all affected by market conditions, with customers delaying purchasing decisions on upgrades and migrations. The Industry & Specialised Solutions Division declined by 8%*. Non Profit Solutions products proved more resilient in the challenging market conditions and grew modestly. *Sage Timberline Office* was affected by the severe slump in the US housing and construction market although support continued to show modest growth.

Rest of World

Total and organic revenues in Rest of World grew by 5%* to £46.7m (H1 2008: £44.6m*). Organic subscription revenues showed strong growth of 14%*, while organic software and software-related services revenue contracted by 2%* after excellent growth in the comparable period last year. Premium support also showed strong organic revenue growth of 10%*.

South Africa continued to show excellent revenue growth, with strong growth in *Pastel* and payroll solutions. Australia contracted modestly after an excellent performance last year, reflecting the slowing economy. Our businesses in Asia have software licence based revenue models with comparatively immature service offerings and consequently were affected by the global slowdown in software licence procurement.

The EBITA† margin was 21% (H1 2008: 24%*), reflecting the difficult market conditions in Asia and Australia.

Financial review

The change in foreign currency exchange rates had a favourable impact on the translation of our financial results into Sterling for accounting purposes. Since 1 October 2008 rates for the Euro to Sterling strengthened 15% to €1.08 from €1.27 giving an average rate of €1.14 for the half-year. Similarly, rates for the US Dollar showed a movement of 20% to US$1.43 from US$1.78, giving an average rate of US$1.48 for the half-year. It is Sage's policy to align the currency denominations of our debt with the cash flows arising from our trading activities in those same currencies to hedge our currency exposure. We do not hedge pure translational exposure resulting from conversion for accounting purposes of overseas companies' results into Sterling.

Revenues

Revenues increased 17% to £748.4m (H1 2008: £640.4m), benefitting from the favourable exchange rates. Organic revenue in constant currency contracted 4%*. Organic revenue also excludes contributions of current and prior year acquisitions and disposals (2% of total revenues) and non-core products (2% of total revenues).

On a constant currency basis, total subscription revenues grew 3%* to £477.1m (H1 2008: £461.9m*). Total software and software-related services revenue contracted 12%* to £271.3m (H1 2008: £309.0m*).

Profitability

The costs of restructuring and the associated benefits are both reported in EBITA†.

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The Group's EBITA† margin was maintained at 23% (H1 2008: 23%*) despite the contraction in organic revenue. EBITA† includes restructuring charges of £10.1m incurred in the period ended 31 March 2009. Excluding restructuring charges, the EBITA† margin increased to 24%.

Statutory pre-tax profit increased 14% to £139.2m (H1 2008: £122.6m). Statutory earnings per share increased 15% to 7.44p (H1 2008: 6.48p). On a constant currency basis, adjusted pre-tax profit^ decreased 3% to £159.3m (H1 2008: £164.1m), and adjusted earnings per share^ fell 2% to 8.51p (H1 2008: 8.68p). A reconciliation of adjusted pre-tax profit^ to statutory profit before tax is shown in the table in Note 2 on page 11.

The Group's effective tax rate for the year is forecast to reduce to 30% (H1 2008: 31%) following a reduction in headline tax rates in a number of Sage territories.

Cash flow

The Group remains highly cash generative with operating cash flow of £187.0m representing 111% of EBITA†.

At 31 March 2009 net debt was £557.8m (30 September 2008: £541.0m or £642.0m at constant exchange rates). Over the period, strong cash generation reduced net debt by £84.2m on a currency neutral basis. During the period we renegotiated and extended the terms of our £200m bank facility so that all of our £830m facilities now mature in 2011. At 31 March 2009, £610.5m of these facilities were drawn down (30 September 2008: £575.4m or £683.4m at constant exchange rates).

Dividend

The interim dividend has been increased by 3% to 2.50p per share (H1 2008: 2.43p per share), reflecting reliable cash flows and the strength of our business model. The dividend will be payable on 19 June 2009 to shareholders on the register at close of business on 15 May 2009.

People

This has been a challenging period for our people as we sought to drive operational efficiencies and improve our market competitiveness. Our employees are at the forefront of dealing with our customers, and we thank them for their dedication, professionalism and commitment to delivering the very best to our customers.

Outlook

We have a robust business model with a strong balance sheet underpinned by reliable cash flows. Demand for customer support remains strong, as customers continue to rely on Sage to help them run their businesses more efficiently. We anticipate that current market conditions will continue throughout the remainder of this financial year. However, we are confident that our market-leading portfolio of products and services, high quality customer support, well established distribution channels and loyal, geographically diverse customer base mean we are well positioned to benefit when markets recover.

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Consolidated income statement

For the six months ended 31 March 2009

	Note	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m	Year ended 30 September 2008 (Audited) £m
Revenue	1,2	**748.4**	640.4	1,295.0
Cost of sales		**(57.2)**	(47.7)	(94.0)
Gross profit		**691.2**	592.7	1,201.0
Selling and administrative expenses		**(542.9)**	(455.7)	(933.6)
Operating profit	1	**148.3**	137.0	267.4
Finance income		**2.6**	1.8	3.8
Finance expenses		**(11.7)**	(16.2)	(30.2)
Net finance expenses		**(9.1)**	(14.4)	(26.4)
Profit before taxation	2	**139.2**	122.6	241.0
Taxation	3	**(41.7)**	(38.0)	(74.7)
Profit for the period – attributable to equity shareholders	8	**97.5**	84.6	166.3
EBITA*	1	**168.4**	152.4	299.8
Earnings per share (pence)				
– Basic	5	**7.44p**	6.48p	12.73p
– Diluted	5	**7.43p**	6.46p	12.69p

Consolidated statement of recognised income and expense

For the six months ended 31 March 2009

	Note	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m	Year ended 30 September 2008 (Audited) £m
Profit for the period	8	**97.5**	84.6	166.3
Net exchange adjustments offset in reserves	8	**246.1**	44.8	117.1
Equity movement of deferred tax		**–**	–	(0.2)
Actuarial gain on employment benefits		**–**	–	3.1
Net profits not recognised in income statement		**246.1**	44.8	120.0
Total recognised income for the period – attributable to equity shareholders		**343.6**	129.4	286.3

* EBITA measure (Earnings before interest, tax and amortisation) excludes the effects of:
- Amortisation of acquired intangible assets; and
- Net amortisation of software development expenditure.

Consolidated balance sheet

As at 31 March 2009

	Note	**31 March 2009 (Unaudited) £m**	31 March 2008 (Unaudited) £m	30 September 2008 (Audited) £m
Non-current assets				
Goodwill	6	**2,174.2**	1,697.2	1,825.5
Other intangible assets	6	**249.9**	220.1	223.7
Property, plant and equipment	6	**148.2**	135.3	140.5
Deferred tax assets		**7.5**	8.7	5.2
		2,579.8	2,061.3	2,194.9
Current assets				
Inventories		**6.5**	5.5	5.4
Trade and other receivables		**327.6**	283.3	267.6
Cash and cash equivalents	9	**76.5**	76.4	70.1
		410.6	365.2	343.1
Total assets		**2,990.4**	2,426.5	2,538.0
Current liabilities				
Trade and other payables		**(255.9)**	(233.3)	(247.2)
Current tax liabilities		**(95.0)**	(64.1)	(69.2)
Financial liabilities				
– Borrowings		**(10.4)**	(0.5)	(13.9)
Deferred consideration		**(2.7)**	(6.5)	(2.6)
Deferred income		**(453.1)**	(374.6)	(352.2)
		(817.1)	(679.0)	(685.1)
Non-current liabilities				
Financial liabilities				
– Borrowings		**(610.0)**	(614.7)	(575.2)
Retirement benefit obligations		**(4.8)**	(6.5)	(3.9)
Deferred tax liabilities		**(26.9)**	(13.0)	(26.8)
		(641.7)	(634.2)	(605.9)
Total liabilities		**(1,458.8)**	(1,313.2)	(1,291.0)
Net assets		**1,531.6**	1,113.3	1,247.0
Equity				
Share capital	7,8	**13.1**	13.1	13.1
Share premium account	7,8	**487.8**	481.9	486.6
Other reserves	8	**355.3**	36.9	109.2
Retained earnings	8	**675.4**	581.4	638.1
Total equity	8	**1,531.6**	1,113.3	1,247.0

The notes on pages 10 to 18 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated cash flow statement

For the six months ended 31 March 2009

	Note	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m	Year ended 30 September 2008 (Audited) £m
Cash flows from operating activities				
Cash generated from continuing operations		**187.0**	187.4	342.0
Interest received		**2.6**	1.8	3.8
Interest paid		**(11.2)**	(16.0)	(29.2)
Tax paid		**(17.5)**	(31.1)	(62.5)
Net cash generated from operating activities		**160.9**	142.1	254.1
Cash flows from investing activities				
Acquisitions of subsidiaries (net of cash acquired)		**(13.0)**	(58.6)	(81.1)
Disposal of subsidiaries		**13.9**	–	–
Purchase of intangible assets		**(5.8)**	(8.4)	(15.4)
Purchase of property, plant and equipment		**(10.2)**	(10.6)	(25.0)
Proceeds from sale of property, plant and equipment		**–**	0.1	1.8
Net cash used in investing activities		**(15.1)**	(77.5)	(119.7)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		**1.2**	3.8	8.5
Finance lease principal payments		**–**	–	(0.1)
Issue costs on loans		**(0.2)**	(0.3)	(0.3)
Repayment of borrowings		**(197.8)**	(126.0)	(233.5)
New borrowings		**97.0**	139.1	193.9
Dividends paid to shareholders	4	**(62.5)**	(74.5)	(106.2)
Net cash used in financing activities		**(162.3)**	(57.9)	(137.7)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts (before exchange rate changes)	9	**(16.5)**	6.7	(3.3)
Effects of exchange rate changes	9	**13.5**	4.1	7.8
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(3.0)**	10.8	4.5
Cash, cash equivalents and bank overdrafts at 1 October	9	**70.1**	65.6	65.6
Cash, cash equivalents and bank overdrafts at period end	9	**67.1**	76.4	70.1

Notes to financial information

For the six months ended 31 March 2009

Group accounting policies

a General information

The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is one of the leading global suppliers of business management software and services to small and medium-sized enterprises. The Group operates in 26 countries worldwide in the UK & Ireland, Mainland Europe, North America, Southern Hemisphere and Asia.

These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 30 September 2008 were approved by the Board of directors on 17 December 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 237 of the Companies Act 1985.

The Company is a limited liability Company incorporated and domiciled in the UK. The address of its registered office is North Park, Newcastle upon Tyne, NE13 9AA.

The Company is listed on the London Stock Exchange.

The Group consolidated half-yearly financial information was approved for issue by the Board of directors on 6 May 2009.

b Basis of preparation

This condensed consolidated half-yearly financial information for the half-year ended 31 March 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2008, which have been prepared in accordance with IFRSs as adopted by the European Union.

c Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2008, as described in those annual financial statements.

Adoption of new and revised International Financial Reporting Standards

At the date of approval of this half-yearly information, the following interpretations and amendments were issued and, if endorsed by the EU, would be mandatory for the Group for the first time for the financial year beginning 1 October 2008.

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"
- Amendment to IAS 39 and IFRS 7, "Reclassification of Financial Assets"
- Amendments to IFRIC 9 and IAS 39, "Embedded Derivatives"

At the date of approval of this half-yearly financial information, the following standards, interpretations and amendments were issued but not yet mandatory for the Group and early adoption has not been applied.

International Financial Reporting Standards ("IFRS")

- IFRS 1 (Revised), "First-time Adoption of IFRSs"
- IFRS 3 (Revised), "Business Combinations"
- IFRS 8, "Operating Segments"
- IAS 1 (Revised), "Presentation of Financial Statements"
- IAS 23 (Revised), "Borrowing Costs"
- IAS 27 (Revised), "Consolidated and Separate Financial Statements"

International Financial Reporting Interpretations Committee ("IFRIC") interpretations

- IFRIC 12, "Service Concession Arrangements"
- IFRIC 13, "Customer Loyalty Programmes"
- IFRIC 14, "IAS19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- IFRIC 15, "Agreements for the Construction of Real Estate"
- IFRIC 17, "Distribution of Non-cash Assets to Owners"
- IFRIC 18, "Transfer of Assets from Customers"

Amendments to existing standards

- Amendments to IAS 32 and IAS 1, "Puttable Financial Instruments and Obligations Arising on Liquidation"
- Amendment to IFRS 1 and IAS 27, "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate"
- Amendment to IAS 39, "Eligible Hedged Items"
- Amendment to IFRS 2, "Vesting Conditions and Cancellations"
- Amendments to IFRS 7, "Improving Disclosures about Financial Instruments"
- Annual Improvements to IFRSs

All the above IFRSs, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the EU at the date of approval of this consolidated half-yearly financial information with the exception of IAS 1, IAS 23, IFRS 8, IFRIC 12, IFRIC 13, IFRIC 14, the amendments to IAS 32 and IAS 1, the amendment to IFRS 2, the amendment to IFRS 1 and IAS 27, and the amendment to IAS 39 and IFRS 7.

The directors anticipate that the future adoption of those standards, interpretations and amendments listed above will not have a material impact on the consolidated half-yearly financial information.

Notes to financial information

For the six months ended 31 March 2009

1 Segmental reporting

	Six months ended 31 March 2009			Six months ended 31 March 2008		
	Revenue* (Unaudited) £m	**EBITA* (Unaudited) £m**	**Operating profit* (Unaudited) £m**	Revenue* (Unaudited) £m	EBITA* (Unaudited) £m	Operating profit* (Unaudited) £m
UK & Ireland	**121.9**	**43.3**	**41.0**	120.2	44.9	43.3
Mainland Europe	**271.4**	**60.3**	**53.0**	229.4	53.9	47.9
North America	**304.4**	**53.4**	**43.1**	248.5	43.6	35.9
Rest of World	**46.7**	**9.6**	**9.5**	42.3	10.0	9.9
	744.4	**166.6**	**146.6**	640.4	152.4	137.0
Acquisition – Spain	**4.0**	**1.8**	**1.7**	–	–	–
	748.4	**168.4**	**148.3**	640.4	152.4	137.0

*The 2009 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 = $1.48 and £1 = €1.14 respectively. Results for the prior period ended 31 March 2008 were translated at the average exchange rates for the previous financial period. These rates were £1 = $2.01 and £1 = €1.35.

The Board measures Group and regional performance by using EBITA (earnings before interest, tax and amortisation), which excludes the effects of amortisation of acquired intangible assets and the net amortisation of software development expenditure.

Reconciliation of EBITA to operating profit	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m
EBITA	**168.4**	152.4
Net amortisation of software development expenditure	**(0.3)**	(0.3)
Amortisation of acquired intangible assets	**(19.8)**	(15.1)
Operating profit	**148.3**	137.0

2 Reconciliation to statutory revenue and profit before taxation

Reconciliation of revenue	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m	Growth (Unaudited) %
Revenue on foreign currency exchange rate neutral basis	**748.4**	770.9	-3%
Impact of movements in foreign currency exchange rates	**–**	(130.5)	
Statutory revenue	**748.4**	640.4	17%

Reconciliation of profit before taxation	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m	Growth (Unaudited) %
Adjusted pre-tax profit	**159.3**	164.1	-3%
Impact of movements in foreign currency exchange rates	**–**	(26.1)	
	159.3	138.0	15%
Net amortisation of software development expenditure	**(0.3)**	(0.3)	
Amortisation of acquired intangible assets	**(19.8)**	(15.1)	
Statutory profit before taxation	**139.2**	122.6	14%

3 Taxation

Income tax for the six months ended 31 March 2009 (Unaudited) is charged at 30% (six months ended 31 March 2008 (Unaudited): 31%; year ended 30 September 2008 (Audited): 31%), representing the best estimate of the average annual effective income tax rate expected for the full year, applied to the pre-tax income for the six months ended 31 March 2009. The Group's effective tax rate for the year has reduced following a reduction in headline tax rates in a number of Sage territories.

Notes to financial information

For the six months ended 31 March 2009

4 Dividends

	Six months ended 31 March 2009 (Unaudited) £m	Six months ended 31 March 2008 (Unaudited) £m	Year ended 30 September 2008 (Audited) £m
Final dividend paid for the year ended 30 September 2007 of 5.73p per share	**–**	74.5	74.5
Interim dividend paid for the year ended 30 September 2008 of 2.43p per share	**–**	–	31.7
Final dividend paid for the year ended 30 September 2008 of 4.78p per share	**62.5**	–	–
	62.5	74.5	106.2

The interim dividend of 2.50p per share will be paid on 19 June 2009 to shareholders on the register at the close of business on 15 May 2009.

5 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share 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 dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and the contingently issuable shares under the Group's long-term incentive plan.

At 31 March 2009, the performance criteria for the vesting of the awards under the incentive scheme had not been met and consequently the shares in question are excluded from the diluted EPS calculation.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Six months ended 31 March 2009 (Unaudited)			Six months ended 31 March 2008 (Unaudited)		
	Earnings £m	**Weighted average number of shares millions**	**Per-share amount pence**	Earnings £m	Weighted average number of shares millions	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**97.5**	**1,310.0**	**7.44**	84.6	1,304.8	6.48
Effect of dilutive securities						
Options		**1.4**	**(0.01)**		4.2	(0.02)
Diluted EPS	**97.5**	**1,311.4**	**7.43**	84.6	1,309.0	6.46

Notes to financial information

For the six months ended 31 March 2009

5 Earnings per share (continued)

Adjusted EPS – non GAAP measure

	Six months ended 31 March 2009 (Unaudited)			Six months ended 31 March 2008 (Unaudited)		
	Earnings £m	**Weighted average number of shares millions**	**Per-share amount pence**	Earnings £m	Weighted average number of shares millions	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**97.5**	**1,310.0**	**7.44**	84.6	1,304.8	6.48
Adjustments:						
Intangible asset amortisation excluding amortisation of computer software	**20.1**			15.4		
Taxation	**(6.1)**			(4.8)		
Net adjustments	**14.0**		**1.07**	10.6		0.82
Adjusted basic EPS	**111.5**	**1,310.0**	**8.51**	95.2	1,304.8	7.30
Exchange adjustments				26.1		
Taxation				(8.1)		
Net exchange adjustments				18.0		1.38
Adjusted basic EPS (after exchange adjustments)	**111.5**	**1,310.0**	**8.51**	113.2	1,304.8	8.68
Effect of dilutive securities						
Options		**1.4**	**(0.01)**		4.2	(0.02)
Adjusted diluted EPS (after exchange adjustments)	**111.5**	**1,311.4**	**8.50**	113.2	1,309.0	8.66

6 Non-current assets

Six months ended 31 March 2008	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount 1 October 2007	1,567.0	200.6	130.5	1,898.1
Additions	45.7	22.7	11.0	79.4
Disposals	–	–	(0.1)	(0.1)
Depreciation, amortisation and other movements	–	(17.4)	(8.4)	(25.8)
Exchange differences	84.5	14.2	2.3	101.0
Closing net book amount 31 March 2008	1,697.2	220.1	135.3	2,052.6

Six months ended 31 March 2009	**Goodwill (Unaudited) £m**	**Other intangible assets (Unaudited) £m**	**Property, plant and equipment (Unaudited) £m**	**Total (Unaudited) £m**
Opening net book amount 1 October 2008	**1,825.5**	**223.7**	**140.5**	**2,189.7**
Additions	**7.9**	**8.7**	**10.4**	**27.0**
Disposals	**(11.3)**	**(0.6)**	**(0.4)**	**(12.3)**
Depreciation, amortisation and other movements	**–**	**(22.8)**	**(11.2)**	**(34.0)**
Exchange differences	**352.1**	**40.9**	**8.9**	**401.9**
Closing net book amount 31 March 2009	**2,174.2**	**249.9**	**148.2**	**2,572.3**

Notes to financial information

For the six months ended 31 March 2009

6 Non-current assets (continued)

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment annually at the year-end (30 September) or whenever there is any indication of impairment. At 31 March 2009, there was no indication of impairment for non-financial assets with indefinite lives. Financial assets were reviewed for impairment as at 31 March 2009. There was no indication of impairment.

7 Share capital

Capital	**Number of shares (Unaudited)**	**Ordinary shares (Unaudited) £m**	**Share premium (Unaudited) £m**	**Total (Unaudited) £m**
Opening balance 1 October 2007	1,304,160,154	13.0	478.2	491.2
Allotted under share option schemes	2,521,592	0.1	3.7	3.8
At 31 March 2008	1,306,681,746	13.1	481.9	495.0
Opening balance 1 October 2008	**1,309,557,557**	**13.1**	**486.6**	**499.7**
Allotted under share option schemes	**914,695**	–	**1.2**	**1.2**
At 31 March 2009	**1,310,472,252**	**13.1**	**487.8**	**500.9**

8 Shareholders' funds and reconciliation of changes in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2007 (Audited)	13.0	478.2	(7.9)	567.5	1,050.8
Exchange adjustments	–	–	44.8	–	44.8
New shares issued	0.1	–	–	–	0.1
Profit for the period	–	–	–	84.6	84.6
Share options					
– proceeds from shares issued	–	3.7	–	–	3.7
– value of employee services	–	–	–	3.8	3.8
Dividends	–	–	–	(74.5)	(74.5)
At 31 March 2008 (Unaudited)	13.1	481.9	36.9	581.4	1,113.3

	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total equity £m**
At 1 October 2008 (Audited)	**13.1**	**486.6**	**109.2**	**638.1**	**1,247.0**
Exchange adjustments	–	–	**246.1**	–	**246.1**
New shares issued	–	–	–	–	–
Profit for the period	–	–	–	**97.5**	**97.5**
Share options					
– proceeds from shares issued	–	**1.2**	–	–	**1.2**
– value of employee services	–	–	–	**2.3**	**2.3**
Dividends	–	–	–	**(62.5)**	**(62.5)**
At 31 March 2009 (Unaudited)	**13.1**	**487.8**	**355.3**	**675.4**	**1,531.6**

Notes to financial information

For the six months ended 31 March 2009

9 Net debt

Analysis of change in net debt	At 1 October 2007 (Audited) £m	Cash flow (Unaudited) £m	Acquisitions (Unaudited) £m	Other (Unaudited) £m	Exchange movements (Unaudited) £m	At 31 March 2008 (Unaudited) £m
Cash and cash equivalents	65.6	6.7	–	–	4.1	76.4
Loans due within one year	(0.2)	0.1	–	–	(0.1)	(0.2)
Finance leases due within one year	(0.1)	–	–	–	(0.2)	(0.3)
Loans due after more than one year	(561.1)	(9.4)	(0.4)	(0.3)	(42.8)	(614.0)
Finance leases due after more than one year	(0.1)	–	(0.2)	–	0.2	(0.1)
Cash collected from customers	(13.8)	(3.5)	–	–	(0.3)	(17.6)
	(509.7)	(6.1)	(0.6)	(0.3)	(39.1)	(555.8)

Analysis of change in net debt	**At 1 October 2008 (Audited) £m**	**Cash flow (Unaudited) £m**	**Acquisitions (Unaudited) £m**	**Other (Unaudited) £m**	**Exchange movements (Unaudited) £m**	**At 31 March 2009 (Unaudited) £m**
Cash and cash equivalents	**70.1**	**(7.1)**	–	–	**13.5**	**76.5**
Bank overdrafts	–	**(9.4)**	–	–	–	**(9.4)**
Cash, cash equivalents and bank overdrafts	**70.1**	**(16.5)**	–	–	**13.5**	**67.1**
Loans due within one year	**(13.6)**	**13.8**	–	–	**(1.0)**	**(0.8)**
Finance leases due within one year	**(0.3)**	**0.1**	–	–	–	**(0.2)**
Loans due after more than one year	**(574.3)**	**72.8**	–	**(0.3)**	**(108.0)**	**(609.8)**
Finance leases due after more than one year	**(0.2)**	–	–	–	–	**(0.2)**
Cash collected from customers	**(22.7)**	**14.3**	–	–	**(5.5)**	**(13.9)**
	(541.0)	**84.5**	–	**(0.3)**	**(101.0)**	**(557.8)**

Included in cash above is £13.9m (30 September 2008: £22.7m) relating to cash collected from customers, which we are contracted to pay onto another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

10 Business combinations (Unaudited)

Aytos

On 20 November 2008 the Group completed the acquisition of Aytos CPD, S.L. ("Aytos"), for a consideration of £13.2m (inclusive of £0.3m related costs). Total goodwill arising on the acquisition is £7.9m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 31 March 2009 the acquisition contributed £4.0m to revenue and £1.7m to profit.

The net identifiable assets (including intangible assets) were recognised at their fair values. The residual excess over the net assets acquired is recognised as goodwill.

Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
- cash paid	**11.7**
- deferred consideration	**1.2**
- direct costs relating to the acquisition	**0.3**
Total purchase consideration	**13.2**
- fair value of net identifiable assets acquired (see below)	**(5.3)**
Goodwill	**7.9**

Notes to financial information

For the six months ended 31 March 2009

10 Business combinations (Unaudited) (continued)

Goodwill represents the fair value of the assembled workforce at the time of acquisition, potential synergies and other potential future economic benefit that is anticipated from the integration of services already offered by Sage with existing product and service offerings within the Aytos business.

The fair value adjustments contain some provisional amounts which will be finalised in the 2009 accounts.

Aytos acquisition	**Carrying values pre-acquisition £m**	**Provisional fair value £m**
Intangible fixed assets	**0.2**	**3.0**
Property, plant and equipment	**0.2**	**0.2**
Inventories	**0.1**	**0.1**
Trade and other receivables	**2.9**	**2.9**
Trade and other payables	**(0.4)**	**(0.4)**
Deferred income	**(0.7)**	**(0.7)**
Taxation – Current	**(0.1)**	**(0.1)**
Taxation – Deferred	**-**	**(0.8)**
Cash and cash equivalents	**1.1**	**1.1**
Net assets acquired	**3.3**	**5.3**
Goodwill		**7.9**
Consideration		**13.2**
Consideration satisfied by:		
Cash		**12.0**
Deferred consideration		**1.2**
Consideration		**13.2**

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

	£m
Cash consideration	**12.0**
Cash acquired	**(1.1)**
Net cash outflow	**10.9**

The intangible assets acquired as part of the acquisition of Aytos can be analysed as follows:

	£m
Customer relationships	**1.4**
Technology	**1.4**
Computer software	**0.2**
	3.0

Contribution of acquisitions
Had this acquisition occurred at the beginning of the financial year, Group revenue would have been £748.9m and Group profit before taxation would remain unchanged.

Notes to financial information

For the six months ended 31 March 2009

10 Business combinations (Unaudited) (continued)
Tax Compliance Services
On 28 February 2009 the Group completed the disposal of the Tax Compliance Services division of Sage Software, Inc. for £13.9m in cash.

Details of net assets disposed of and the gain on disposal are as follows:

Tax Compliance Services disposal	**Carrying values pre-disposal £m**
Goodwill	**11.3**
Intangible fixed assets	**0.6**
Property, plant and equipment	**0.1**
Trade and other receivables	**1.7**
Deferred income	**(0.9)**
Net assets disposed	**12.8**

The gain on disposal is calculated as follows:	
Disposal proceeds	**13.9**
Net assets disposed	**(12.8)**
Cumulative translation differences	**2.3**
Gain on disposal	**3.4**

Other
During the six months to 31 March 2009, adjustments were made in respect of goodwill on other current and prior year acquisitions of £nil, due to additional consideration of £0.7m and an increase in net assets of £0.7m.

During the six months to 31 March 2009, £1.4m payments were made in relation to deferred consideration on previous years acquisitions.

11 Contingent liabilities
The Group had no contingent liabilities at 31 March 2009 (31 March 2008 and 30 September 2008: none).

12 Related party transactions
The Group has taken advantage of the exemption available under IAS 24, “Related Party Disclosures”, not to disclose details of transactions with its subsidiary undertakings. There are no other external related parties.

Key management compensation	**Six months ended 31 March 2009 (Unaudited) £m**	Six months ended 31 March 2008 (Unaudited) £m
Salaries and short-term employee benefits	**3.1**	2.8
Post-employment benefits	**0.3**	0.1
Share-based payments	**1.2**	1.0
	4.6	3.9

13 Group risk factors
As with all businesses, the Group is affected by certain risks, not wholly within our control, which could have a material impact on the Group’s long-term performance and could cause actual results to differ materially from forecast and historic results.

The principal risks and uncertainties facing the Group have not changed from those set out in the Annual Report and Accounts 2008. These include: Highly competitive environment; disruption to systems and networks; changes in the economic, political, legal, accounting and business environment; changes in technology; changes to regulatory requirements; changes to legal protection of intellectual property; and changes in foreign currency exchange rates. For a full discussion of the risks to our future business performance, please refer to pages 42-43 in our Annual Report and Accounts 2008, or to www.ar2008.sage.com.

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

On behalf of the Board
P A Walker
Chief Executive
6 May 2009

P S Harrison
Group Finance Director
6 May 2009

Report on review of consolidated half-yearly financial information

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2009, which comprises the Consolidated income statement, Consolidated statement of recognised income and expense, Consolidated balance sheet, Consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial 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.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
6 May 2009

Notes:

(a) The maintenance and integrity of The Sage Group plc website 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 statements since they were initially presented on the website.

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