SANDERSON GROUP PLC

Interim Report
for the six months to 31 March 2009

IT solutions driving continual business improvement

2009

About Sanderson Group plc

IT solutions driving continual business improvement

Sanderson is a publicly owned UK provider of software solutions and IT services. We supply innovative, market-focused solutions, primarily to the **multi-channel retail and manufacturing sectors.**

Highly experienced in the markets we serve, we forge long-term relationships with our customers. This allows us to consistently deliver real business benefit and help our clients achieve rapid return on their investment in IT.

Established in 1983, Sanderson has a multi-million pound turnover and a track record of profitable growth. We employ around 300 people nationwide and continually invest in developing technology skills and business know-how.

We strive to be the best in our chosen fields and achieve market leadership through the quality of our products, people and services.

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SANDERSON GROUP PLC

Key points

Financial

- Revenue of £13.0m (2008: £13.0m)
- *Adjusted operating profit of £1.1m (2008: £2.0m)
- Loss from operating activities of £1.1m (2008: profit of £1.4m)
- * Adjusted earnings per share of 0.5p (2008: 3.2p)
- Basic loss per share of 4.6p (2008: 1.9p earnings)
- Interim Dividend per share of 0.2p (2008: 1.2p)
- Cash generated from operations of £1.5m (2008: £1.3m)
- Net debt significantly reduced to £9.5m (2008: £12.5m)

*Before amortisation of acquisition-related intangibles, impairment of goodwill and share-based payment charges.

"Notwithstanding the slowdown in the general economy the Group has a robust business model with a focus on its strong client base."

Operational

- Revenues from multi-channel retail operations up 3%
- Large projects for existing clients including Wilkinson, Wyevale Garden Centres and Lakeland
- Recurring revenues from annual licence, support and maintenance contracts continue to grow
- 7 new customers gained including Kurt Geiger, Boot Tree and Quality Desserts
- Cost base reduction of approximately £1m planned for the second half year

Chairman's statement

Chistopher Winn

"The Group has a robust, cash generative business model with over 50% of revenue derived from annual licence, support and maintenance contracts. We believe our focus on core markets – with the continuing development of solutions relevant to customers operating in them and the provision of additional products and services – together with cost savings already implemented, will deliver improved financial performance and enhanced shareholder value."

Introduction

The trading results for the six month period to 31 March 2009 show revenue from continuing operations of £13.0m (2008: £13.0m). Operating profit before the amortisation of acquisition-related intangibles and before the charge in respect of share-based payments amounted to £1.1m (2008: £2.0m).

The Group's trading has been affected by the challenging market conditions resulting from the general economic downturn and recession. In response, the Board has already implemented a number of efficiency measures and cost saving initiatives which will result in a significantly reduced cost base in the second half of the financial year.

The Group has reported a number of non-cash charges in the period, resulting in an after tax loss of £2.0m (2008: profit of £0.8m). In addition to the regular amortisation charge in respect of acquisition-related intangibles, an impairment charge of £1.5m against the value of goodwill attributable to the manufacturing division has been recognised in the income statement. This charge arises from the reduced levels of profitability being reported by this business. A further one-off charge of £0.6m in respect of a movement in the fair value of the Group's interest rate hedging arrangement, arising from the reduction in base rates to an historic low, is included in finance costs.

The Group has continued to manage working capital in a prudent manner. Cash generated from operations in the six month period to 31 March 2009 was £1.5m (2008: £1.3m). This strong cash generation has facilitated a reduction in bank debt, with net debt at 31 March 2009 amounting to £9.5m (2008: £12.5m). The Group is currently in advanced discussions with its bank, Royal Bank of Scotland, to reschedule and extend repayment of the remaining bank debt while also resetting the covenant suite to more appropriately reflect the current market environment. The new maturity date is expected to be June 2014.

Business review

As highlighted in the trading update issued in April, the general recession in the UK economy has resulted in both existing, as well as, prospective customers reducing or postponing capital investment decisions. Discretionary expenditure from existing customers is focused on enhancing the performance of their current IT systems in order to deliver tangible business benefits through cost savings and increased efficiencies with a strong return on investment (ROI) expected from any capital investment. The Group is well placed to assist its customers in this endeavour. The level of annual, pre-contracted recurring revenues has increased in monetary terms by 3% in the period to £6.8m (2008: £6.6m) and accounts for 54% of total revenue (2008: 52%). The Group has further developed its customer support and managed service offerings in the multi-channel retail division which has resulted in a 7% growth in divisional recurring revenues. A contribution to this growth was derived from the gain of a three-year managed service contract with an existing customer, worth £1.5m over the life of the contract.

The Group has continued to gain new customers, but against the backdrop of a general lack of business confidence and economic uncertainty, the number and size of opportunities is fewer and the deferment of investment decisions, which was experienced towards the end of the 2008 financial year (ending 30 September 2008) has continued into the current year.

Sales and marketing efforts have been increased, with the focus being upon existing customer account management whilst at the same time continuing to compete and to win new customers. An efficiency programme has

been implemented and the related costs have been expensed in the period to 31 March 2009. This programme will result in a reduction in the cost base of approximately £1m in the second half year.

Review of multi-channel retail

The Group provides end-to-end and comprehensive solutions to businesses operating in retail, mail order, fulfilment and wholesale distribution, as well as, increasingly, to those with an online sales presence. Revenues derived from multi-channel retail operations increased by 3%. The change in the nature of customer expenditure, with less software licence revenue as a proportion of total revenue, led to a fall in gross margin. This trend has been particularly noticeable in the businesses focused on the high street retail sector. Activity levels from the larger retail customers have been high, especially in the areas of fraud prevention and Payment Card Industry (PCI) compliance. Activity at the lower end of the retail sector, including charities, has been very low.

The Group has experienced some continued modest growth from its non-high street customers – online traders, catalogue/mail order businesses and also wholesalers.

Six new customers were gained in the period including Kurt Geiger and Boot Tree. Reflecting the changed market conditions, this compares with twelve new customers in 2008 and nine new customers in 2007. Large projects were gained from a number of existing clients, including Wilkinson, Wyevale Garden Centres and Lakeland.

Review of manufacturing

The Group's manufacturing business covers the provision of IT solutions to manufacturers who operate primarily in the engineering, plastics, electronics, furniture, automobile parts, print and food process sectors. The UK manufacturing sector has been particularly badly affected by the current recession. Revenue in the six months to 31 March 2009, at £3.0m, was almost 10% below the level of the previous year (2008: £3.3m).

One new client, Quality Desserts, was gained in the period compared with three in the comparative period in 2008. Market conditions remain challenging, but since February, the food process sector (which accounts for around 40% of total manufacturing division revenue) has become very active and order intake has recovered to pre-September 2008 levels. The manufacturing business is well positioned to benefit from any improvement in the economy and pre-contracted annual recurring revenues now account for 65% of total revenue.

Balance sheet

A primary focus of the Group remains the reduction of debt levels. Whilst the conclusion of negotiations with the Group's bank will reduce the amount of capital repayments due in the short term, the Group remains committed to reducing debt levels as quickly as possible. The Group has reflected the revised repayment profile of bank debt in the balance sheet at 31 March 2009.

Strategy

We believe that our focus on core markets and the continuing development of solutions relevant to customers operating in these sectors will deliver improved financial performance and enhanced shareholder value. The short term goal remains the reduction in debt levels as quickly as trading conditions allow.

Dividend

Taking into account current market conditions, the likely timing of any sustained economic recovery and the Group's ongoing strategy to reduce debt levels, the Board believes that it is prudent to declare a reduced interim dividend of 0.2p per share, payable on 21 August 2009 to shareholders on the register at close of business on 24 July 2009.

Staff

The Group employs experienced individuals committed to the ongoing development of the business. We would like to thank all of our staff for their support and commitment in this challenging economic environment.

Outlook

Notwithstanding the slowdown in the general economy, the Group has a robust business model with a focus on its strong client base. The Group has concentrated on providing additional products and services to customers and together with the cost savings already implemented, this should ensure that the Group produces an improved trading result for the second half of the financial year.

Christopher Winn
Executive Chairman
30 June 2009

Consolidated income statement

for the six months to 31 March 2009

	Notes	**Unaudited Six months to 31/03/09 £000**	Unaudited Six months to 31/03/08 £000	Audited Year to 30/09/08 £000
Continuing Operations				
Revenue	2	**12,956**	13,001	27,554
Cost of sales		**(3,723)**	(3,443)	(8,007)
Gross profit		**9,233**	9,558	19,547
Other operating expenses		**(10,380)**	(8,139)	(17,795)
Results from operating activities		**(1,147)**	1,419	1,752
Results from operating activities before amortisation and share-based payment charges	2	**1,066**	1,968	4,070
Amortisation of acquisition-related intangibles		**(690)**	(524)	(1,381)
Impairment of goodwill		**(1,499)**	–	(889)
Share-based payment charges		**(24)**	(25)	(48)
Results from operating activities		**(1,147)**	1,419	1,752
Movement in fair value of derivative financial instrument		**(576)**	119	72
Net finance costs		**(397)**	(573)	(923)
(Loss)/profit before tax		**(2,120)**	965	901
Tax		**134**	(139)	942
(Loss)/profit for the period		**(1,986)**	826	1,843
(Loss)/earnings per share				
From continuing operations				
Basic	3	**(4.6p)**	1.9p	4.2p
Diluted	3	**(4.6p)**	1.8p	4.1p

Consolidated statement of recognised income and expense

for the six months to 31 March 2009

	Unaudited Six months to 31/03/09 £000	Unaudited Six months to 31/03/08 £000	Audited Year to 30/09/08 £000
Actuarial result on defined benefit pension schemes	**–**	–	(103)
Tax on items taken directly to equity	**–**	–	29
(Loss)/profit for the period	**(1,986)**	826	1,843
Total recognised income and expense for the period	**(1,986)**	826	1,769

Consolidated balance sheet
at 31 March 2009

	Unaudited As at 31/03/09 £000	Unaudited As at 31/03/08 £000	Audited As at 30/09/08 £000
Non-current assets			
Goodwill	**29,908**	33,594	31,407
Other intangible assets	**5,118**	6,761	5,829
Property, plant and equipment	**529**	561	602
Employee benefits	**275**	144	170
Deferred tax asset	**1,013**	775	1,046
	36,843	41,835	39,054
Current assets			
Inventories	**380**	362	397
Trade and other receivables	**6,779**	7,487	6,920
Income tax receivable	**134**	95	791
Derivative financial instrument	**–**	119	72
Cash and cash equivalents	**179**	68	1,060
	7,472	8,131	9,240
Current liabilities			
Bank overdraft and loans	**(444)**	(2,000)	(2,170)
Trade and other payables	**(4,782)**	(4,731)	(4,565)
Deferred contingent consideration	**–**	(1,442)	–
Current tax liabilities	**(11)**	(711)	–
Derivative financial instrument	**(504)**	–	–
Deferred income	**(6,377)**	(6,002)	(6,500)
	(12,118)	(14,886)	(13,235)
Net current liabilities	**(4,646)**	(6,755)	(3,995)
Non-current liabilities			
Deferred income	**(433)**	–	(702)
Deferred tax liabilities	**(1,487)**	(1,833)	(1,665)
Loans and borrowings	**(9,212)**	(10,526)	(9,554)
	(11,132)	(12,359)	(11,921)
Net assets	**21,065**	22,721	23,138
Equity			
Called-up share capital	**4,338**	4,328	4,338
Share premium	**15,178**	15,153	15,178
Retained earnings	**1,549**	3,240	3,622
Total equity	**21,065**	22,721	23,138

Consolidated cash flow statement

for the six months to 31 March 2009

	Unaudited Six months to 31/03/09 £000	Unaudited Six months to 31/03/08 £000	Audited Year to 30/09/08 £000
Cash flows from operating activities			
(Loss)/profit for the period	**(1,986)**	826	1,843
Adjustments for:			
Depreciation and amortisation	**2,343**	685	2,692
Share-based payment charges	**24**	25	48
Net finance expense	**973**	454	851
Income tax (credit)/expense	**(134)**	139	(942)
Operating cash flow before working capital movements	**1,220**	2,129	4,492
Movement in working capital	**244**	(787)	597
Cash generated by operations	**1,464**	1,342	5,089
Payments to defined benefit pension scheme	**(117)**	(117)	(234)
Interest paid	**(728)**	(306)	(605)
Income taxes received/(paid)	**657**	(377)	(1,139)
Net cash from operating activities	**1,276**	542	3,111
Investing activities			
Purchases of property, plant and equipment	**(60)**	(103)	(247)
Expenditure on product development	**–**	–	(50)
Acquisition of subsidiary net of cash acquired	**–**	(500)	(500)
Net cash used in investing activities	**(60)**	(603)	(797)
Financing activities			
Equity dividends paid	**(87)**	(671)	(1,192)
Repayment of bank borrowing	**(2,000)**	(125)	(975)
Repayment of finance lease principal	**(10)**	(10)	(22)
Net cash used in financing activities	**(2,097)**	(806)	(2,189)
(Decrease)/increase in cash and cash equivalents	**(881)**	(867)	125
Cash and cash equivalents at start of the period	**1,060**	935	935
Cash and cash equivalents at end of the period	**179**	68	1,060

Notes to the interim results

1 Basis of preparation

The Group's interim results for the six month period ended 31 March 2009 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU and effective, or expected to be adopted and effective, at 30 September 2009. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim financial reporting'.

These interim results do not constitute full statutory accounts within the meaning of section 240(5) of the Companies Act 1985 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 29 June 2009.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The statutory accounts for the year ended 30 September 2008, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors' Report and did not contain a statement under either Section 237(2) or (3) of the Companies Act 1985.

2 Segmental reporting

The Group is managed as two separate divisions; manufacturing and multi-channel retail. Substantially all revenue is generated within the UK.

	Manufacturing			**Multi-channel retail**			**Total**		
	Six months 31/03/09 £000	Six months 31/03/08 £000	Year ended 30/09/08 £000	**Six months 31/03/09 £000**	Six months 31/03/08 £000	Year ended 30/09/08 £000	**Six months 31/03/09 £000**	Six months 31/03/08 £000	Year ended 30/09/08 £000
Revenue	**2,974**	3,319	6,489	**9,982**	9,682	21,065	**12,956**	13,001	27,554
Operating profit*	**401**	601	1,255	**665**	1,367	2,815	**1,066**	1,968	4,070
Amortisation†	**–**	–	–	**(690)**	(524)	(1,381)	**(690)**	(524)	(1,381)
Impairment of goodwill	**(1,499)**	–	–	**–**	–	(889)	**(1,499)**	–	(889)
Share-based payment charges	**–**	–	–	**(24)**	(25)	(48)	**(24)**	(25)	(48)
Operating (loss)/profit	**(1,098)**	601	1,255	**(49)**	818	497	**(1,147)**	1,419	1,752
Net finance expense							**(973)**	(454)	(851)
(Loss)/profit before tax							**(2,120)**	965	901

*Stated before amortisation of acquisition-related intangibles and share-based payment charges.
† Amortisation of acquisition-related intangibles.

3 Earnings per share

Earnings	Six months to 31/03/09 £000	Six months to 31/03/08 £000	Year to 30/09/08 £000
(Loss)/profit for the period	**(1,986)**	826	1,843
Adjusted* profit from continuing operations	**227**	1,375	4,161
Average number of shares during period	**Number**	Number	Number
In issue at the start of the period	**43,384,000**	42,282,000	42,282,000
Effect of shares issued in the period	**–**	330,000	1,102,000
Weighted average number of shares at period end	**43,384,000**	42,612,000	43,384,000
Effect of share options	**1,836,000**	1,939,000	1,836,000
Effect of deferred consideration	**–**	670,000	–
Weighted average number of shares (diluted) at period end	**45,220,000**	45,221,000	45,220,000
Earnings per share	**pence**	pence	pence
Continuing – basic	**(4.6)**	1.9	4.2
– diluted	**(4.6)**	1.8	4.1
Adjusted* – basic	**0.5**	3.2	9.6
– diluted	**0.5**	3.0	9.2

Owing to the result for the period being a loss, the basic loss per share is not further diluted.

*Stated before amortisation of acquisition-related intangibles, impairment of goodwill and share-based payment charges.

4 Interim report

The Group's interim report will be sent to the Company's shareholders. The report will also be available from the Company's registered office and on the Company's website: www.sanderson.com.

Notes

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Adrian Frost

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