SANDERSON GROUP PLC

Interim Report
for the six months to 31 March 2011

IT solutions driving continual business improvement

2011

About Sanderson

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 customers achieve rapid return on their investment in IT.

Established in 1983, Sanderson has a multi-million pound turnover and a track record of profitable trading. We employ around 270 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

Highlights

Financial

- Revenue of £13.1m (2010: £13.3m)
- Operating profit of £0.8m (2010: £0.7m)
- Adjusted* operating profit increased to £1.5m (2010: £1.4m)
- Basic earnings per share of 0.7p (2010: 0.01p)
- Adjusted* basic earnings per share of 2.3p (2010: 1.7p)
- Cash generated from operations amounted to £1.7m (2010: £1.8m)
- Net debt at period end further reduced to £7.2m (2010: £9.0m)
- Interim dividend declared of 0.3p per share (2010: 0.25p)

Operational

- Order book at period end increased to £3.3m (2010: £3.0m), with much of it scheduled for delivery in second half of current financial year
- Gross margins up 3.5% reflecting delivery of more proprietary IPR and other owned services
- Recurring revenues rose to £7.1m (2010: £6.7m), representing 54% of total revenues (2010: 51%)
- Introduction of new products and services continues with solutions based on Software as a Service ('SaaS') and cloud delivery models launched during the period
- Green IT product suite based on power optimisation successfully launched and currently trialling with large retailer

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

Chairman's statement

Christopher Winn

"Whilst the Board remains cautious with regard to the general economic outlook for the UK manufacturing and retail markets in which Sanderson operates, the Group has built and maintained a good level of business momentum over the past two years. Its improved competitive market position, latest products and strong order book give the Board confidence regarding the outlook for the financial year ending on 30 September 2011."

Introduction

Whilst the Group's trading has continued to be impacted by the slow pace of recovery in the UK economy, improvements in the Group's competitive market position driven by the introduction of new products and services, have resulted in a continued recovery from the financial year ended 30 September 2009.

Improved trading momentum has been maintained with pre-contracted recurring revenues continuing to grow and with both gross margin and order book values increasing. As with the previous financial year, we expect the benefits of the larger order book to be reflected in the result for the second half year, during which most of the projects are scheduled for implementation and delivery.

The trading results for the six month period to 31 March 2011 show revenue of £13.1m (2010: £13.3m). Gross margin increased by 3.5% to 70.6% (2010: 67.1%) and operating profit before the amortisation of acquisition-related intangibles and before the charge in respect of share-based payments improved to £1.5m (2010: £1.4m).

The Group has continued to manage working capital efficiently and prudently. Cash generated from operations in the six months to 31 March 2011, amounted to £1.7m (2010: £1.8m). Continued strong cash generation has facilitated a further reduction in bank debt, with net debt at 31 March 2011 falling to £7.2m (2010: £9.0m). In the past three years, since its peak at 31 March 2008 of £12.5m, the Group's net debt has reduced by over 40%. The Board anticipates further significant reductions in future periods.

Business review

Sanderson provides a wide range of software solutions and services to customers in the multi-channel retail and manufacturing markets. These solutions primarily comprise of the Group's own proprietary software often integrated with other market-leading products, which are installed, supported and serviced by Sanderson staff. Since the onset of the recession the Group has accelerated the introduction of new products and services. These include Business Assurance, Factory Automation, latest etailing and ecommerce software, a suite of Green IT solutions and most recently, offerings based on

'Software as a Service' (SaaS) and cloud delivery models. The latest release of the Unity software suite for manufacturing markets has been well received.

A cornerstone of the Sanderson business model is the high proportion of annual pre-contracted recurring revenue consisting of software licences, support contracts and increasingly, managed services. In the period to 31 March 2011, recurring revenues grew by 6% to £7.1m (2010: £6.7m) representing 54% of total revenues (2010: 51%).

Notwithstanding the challenging trading conditions in the UK economy, the Group has continued to build a better level of trading momentum. The Group's competitive market position has been significantly improved by new product introductions, the delivery of a cost-effective, quality service, and increased investment in sales and marketing.

Sanderson has continued to focus on supplying customers with value for money solutions offering a compelling return on investment. Enhancements to existing systems are targeted at providing customers with tangible benefits such as cost savings and business efficiencies. The latest versions of the Group's software products incorporate features which address both regulatory and legislative compliance whether for the Payment Card Industry in Retail or Food Standards and Traceability in Food Manufacturing, as well as latest technologies enabling 'voice picking' in warehousing and distribution. Whilst overall sales at £13.1m were marginally lower than the previous period, gross margin improved by 3.5% reflecting the delivery of more of the Group's proprietary IPR and other owned services to customers. The Group gained 13 new customers during the period, compared with 15 in the comparative period to 31 March 2010. The order book has grown by 10% to £3.3m at 31 March 2011 (2010: £3.0m) and this provides a

Cloud IT

Green IT

Chairman's statement *continued*

good level of confidence for a satisfactory trading performance for the full year, as most of this order book is scheduled for delivery by the end of September 2011.

Review of multi-channel retail

The Group provides end-to-end and comprehensive solutions to businesses operating in retail, catalogue, mail order, fulfilment logistics, wholesale distribution markets and to those with an online sales presence. Revenues derived from multi-channel retail operations were £10.1m (2010: £10.2m). Activity levels have generally been good with the multi-channel business which addresses the wholesale distribution market being particularly active. There has also been a noticeable improvement in the level of activity from smaller retailers.

Within the suite of retail software, the Group has developed a new hospitality and catering module, which utilises the latest tablet PCs and wireless technology to enable customers to achieve savings and efficiencies in catering management. Salford Royal NHS Foundation Trust has achieved significant savings and both the Bradford Teaching Hospitals NHS Trust, as well as, Whipps Cross University Hospital NHS Trust have now adopted the Sanderson system. The Group is currently trialling its Green 'Power Optimisation System' at a large retailer and early indications are that annual power savings of around £25 per till can be achieved.

A total of 11 new customers were gained in the period (2010: 11 new customers) and included Shaws The Drapers, O'Reillys — The Sweet People and Yorkshire Trading Company. The average contract value was £111k compared with £156k in the previous year and £60k two years ago. Additionally, large orders were gained from a number of existing customers including Wilkinson, Lakeland and English Heritage.

Review of manufacturing

The Group's manufacturing business covers the provision of comprehensive IT solutions to manufacturers who operate primarily in the engineering, plastics, aerospace, electronics, print and food process sectors. UK manufacturing was seriously affected during the recession but has experienced a marked recovery over the last 18 months and the Group has benefited from this recovery. Whilst revenue was relatively flat at £3.0m (2010: £3.1m), the division experienced a surge in orders for its latest products in March and enters the second half of the financial year with a strong order book worth £860k, 88% ahead of the March 2010 order book of £457k.

Two new customers were gained in the period (Bio Health Pharmaceuticals and Gardners), compared with four new customers in the whole of the previous year, which ended 30 September 2010. Recurring revenues continue to be strong, accounting for 58% of total revenue and the margin from this revenue stream covers 82% of divisional overheads.

Balance sheet

The continued reduction in the level of Group debt is a primary focus for management and improved trading supported by good cash generation resulted in the level of net debt falling to £7.2m (2010: £9.0m).

Strategy

The Group's concentration on the core markets of multi-channel retail and manufacturing ensure a total focus on developing specialist solutions to customers and prospective customers in these sectors. The Group continues to accelerate the development and introduction of new products across its markets and this has improved the Group's market competitiveness. We intend to continue to deliver an improved financial performance, which will ensure the further reduction of net debt.

Dividend

Whilst recognising the need to reduce debt, the Group is committed to improve dividend levels and an interim dividend of 0.30 pence per share (2010: 0.25 pence) will be paid on 19 August 2011 to shareholders on the register at the close of business on 22 July 2011.

Management and staff

In total, the Group employs around 270 staff, most of whom have a high level of experience in the specialist markets which the Group addresses. The commitment of staff to the development of the Sanderson business is crucial and we would like to thank all of our staff for their support and dedication.

Outlook

Whilst the Board remains cautious with regard to the general economic outlook for the UK manufacturing and retail markets in which Sanderson operates, the Group has built and maintained a good level of business momentum over the past two years. Its improved competitive market position, latest products and strong order book give the Board confidence regarding the outlook for the financial year ending on 30 September 2011.

Christopher Winn
Chairman
18 May 2011

Consolidated income statement

for the six months to 31 March 2011

	Note	**Unaudited Six months to 31/03/11 £000**	Unaudited Six months to 31/03/10 £000	Audited Year to 30/09/10 £000
Continuing operations				
Revenue	2	**13,140**	13,313	26,999
Cost of sales		**(3,864)**	(4,384)	(8,366)
Gross profit		**9,276**	8,929	18,633
Other operating expenses		**(8,494)**	(8,267)	(16,944)
Results from operating activities		**782**	662	1,689
Results from operating activities before amortisation and share-based payment charges	2	**1,468**	1,376	3,093
Amortisation of acquisition-related intangibles		**(662)**	(690)	(1,381)
Share-based payment charges		**(24)**	(24)	(23)
Results from operating activities		**782**	662	1,689
Movement in fair value of derivative financial instrument		**190**	(8)	4
Net finance costs		**(577)**	(620)	(1,187)
Profit before tax		**395**	34	506
Tax		**(76)**	(29)	(234)
Profit for the period		**319**	5	272
Earnings per share				
Continuing operations				
Basic	3	**0.7p**	0.01p	0.6p
Diluted	3	**0.7p**	0.01p	0.6p

Consolidated statement of comprehensive income

for the six months to 31 March 2011

	Unaudited Six months to 31/03/11 £000	Unaudited Six months to 31/03/10 £000	Audited Year to 30/09/10 £000
Profit for the period	**319**	5	272
Other comprehensive income			
Actuarial result on defined benefit pension schemes	**—**	—	(2,163)
Income tax relating to components of other comprehensive income	**—**	—	606
Other comprehensive income, net of tax	**—**	—	(1,557)
Total comprehensive income/(expense) for the period	**319**	5	(1,285)

Consolidated statement of financial position
at 31 March 2011

	Unaudited As at 31/03/11 £000	Unaudited As at 31/03/10 £000	Audited As at 30/09/10 £000
Non-current assets			
Goodwill	**29,908**	29,908	29,908
Other intangible assets	**2,464**	3,730	3,089
Property, plant & equipment	**614**	456	430
Deferred tax asset	**1,455**	1,648	1,721
	34,441	35,742	35,148
Current assets			
Inventories	**325**	362	321
Trade and other receivables	**7,088**	7,210	7,669
Income tax receivable	**–**	209	81
Cash and cash equivalents	**141**	660	248
	7,554	8,441	8,319
Current liabilities			
Bank overdraft and loans	**(1,644)**	(1,636)	(1,644)
Trade and other payables	**(4,774)**	(4,840)	(5,043)
Current tax liabilities	**(5)**	(7)	–
Derivative financial instrument	**(295)**	(497)	(485)
Deferred income	**(6,912)**	(6,800)	(7,098)
	(13,630)	(13,780)	(14,270)
Net current liabilities	**(6,076)**	(5,339)	(5,951)
Non-current liabilities			
Deferred tax liabilities	**(567)**	(974)	(759)
Pension and other employee obligations	**(3,662)**	(1,735)	(3,779)
Loans and borrowings	**(5,726)**	(8,072)	(6,440)
	(9,955)	(10,781)	(10,978)
Net assets	**18,410**	19,622	18,219
Equity			
Called-up share capital	**4,338**	4,338	4,338
Share premium	**4,178**	4,178	4,178
Retained earnings	**9,894**	11,106	9,703
Total equity	**18,410**	19,622	18,219

Consolidated statement of changes in equity

for the six months to 31 March 2011

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2010	**4,338**	**4,178**	**9,703**	**18,219**
Dividend paid	**—**	**—**	**(152)**	**(152)**
Share-based payment charge	**—**	**—**	**24**	**24**
Transactions with owners	**—**	**—**	**(128)**	**(128)**
Profit for the period	**—**	**—**	**319**	**319**
At 31 March 2011	**4,338**	**4,178**	**9,894**	**18,410**

for the six months to 31 March 2010

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2009	4,338	15,178	160	19,676
Dividend paid	—	—	(87)	(87)
Share-based payment charge	—	—	24	24
Capital reconstruction	—	(11,000)	11,000	—
Transactions with owners	—	(11,000)	10,937	(63)
Profit for the period	—	—	5	5
Other comprehensive income:				
Foreign exchange differences	—	—	4	4
Balance at 31 March 2010	4,338	4,178	11,106	19,622

for the year ended 30 September 2010

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2009	4,338	15,178	160	19,676
Dividend paid	—	—	(195)	(195)
Share-based payment charge	—	—	23	23
Capital reconstruction	—	(11,000)	11,000	—
Transactions with owners	—	(11,000)	10,828	(172)
Profit for the year	—	—	272	272
Other comprehensive income:				
Actuarial result on employee benefits	—	—	(2,163)	(2,163)
Deferred tax on above	—	—	606	606
Total comprehensive expense	—	—	(1,285)	(1,285)
At 30 September 2010	4,338	4,178	9,703	18,219

Consolidated statement of cash flows

for the six months to 31 March 2011

	Note	**Unaudited Six months to 31/03/11 £000**	Unaudited Six months to 31/03/10 £000	Audited Year to 30/09/10 £000
Cash flows from operating activities				
Profit for the period		**319**	5	272
Adjustments for:				
Depreciation and amortisation		**800**	837	1,755
Share-based payment charges		**24**	24	23
Net finance expense		**387**	628	1,183
Income tax expense		**76**	29	234
Operating cash flow before working capital movements		**1,606**	1,523	3,467
Movement in working capital		**118**	274	161
Cash generated by operations		**1,724**	1,797	3,628
Payments to defined benefit pension scheme		**(168)**	(129)	(258)
Interest paid		**(368)**	(718)	(1,245)
Income taxes received		**84**	305	541
Net cash from operating activities		**1,272**	1,255	2,666
Investing activities				
Purchases of property, plant & equipment		**(299)**	(64)	(199)
Expenditure on product development		**(60)**	(35)	(152)
Net cash used in investing activities		**(359)**	(99)	(351)
Financing activities				
Equity dividends paid	4	**(152)**	(87)	(195)
Repayment of bank borrowing		**(864)**	—	(1,459)
Repayment of finance lease principal		**(4)**	(8)	(12)
Net cash used in financing activities		**(1,020)**	(95)	(1,666)
(Decrease)/increase in cash and cash equivalents		**(107)**	1,061	649
Cash and cash equivalents at start of the period		**248**	(401)	(401)
Cash and cash equivalents at end of the period		**141**	660	248

Notes to the interim results

1. Basis of preparation

The Group's interim results for the six month period ended 31 March 2011 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 2011. 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 434(5) of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of directors on 17 May 2011.

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 2010, 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 498(2) or (3) of the Companies Act 2006.

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 31/03/11 £000	Six months 31/03/10 £000	Year ended 30/09/10 £000	**Six months 31/03/11 £000**	Six months 31/03/10 £000	Year ended 30/09/10 £000	**Six months 31/03/11 £000**	Six months 31/03/10 £000	Year ended 30/09/10 £000
Revenue	**3,014**	3,098	5,832	**10,126**	10,215	21,167	**13,140**	13,313	26,999
Operating profit*	**527**	536	836	**941**	840	2,257	**1,468**	1,376	3,093
Amortisation†	**—**	—	—	**(662)**	(690)	(1,381)	**(662)**	(690)	(1,381)
Share-based payment charges	**(3)**	(2)	(5)	**(21)**	(22)	(18)	**(24)**	(24)	(23)
Operating profit	**524**	534	831	**258**	128	858	**782**	662	1,689
Net finance expense							**(387)**	(628)	(1,183)
Profit before tax							**395**	34	506

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

Notes to the interim results *continued*

3. Earnings per share

Earnings from continuing operations	**Six months to 31/03/11 £000**	Six months to 31/03/10 £000	Year to 30/09/10 £000
Profit for the period	**319**	5	272
Adjusted* profit	**1,005**	719	1,676
Average number of shares during period	**Number**	Number	Number
In issue at the start of the period	**43,383,946**	43,383,946	43,383,946
Effect of share options	**3,841,708**	1,780,258	3,038,637
Weighted average number of shares (diluted) at period end	**47,225,654**	45,164,204	46,422,583
Earnings per share	**pence**	pence	pence
Continuing – basic	**0.7**	0.01	0.6
– diluted	**0.7**	0.01	0.6
Adjusted* – basic	**2.3**	1.7	3.9
– diluted	**2.1**	1.6	3.6

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

4. Equity dividends paid

	Six months to 31/03/11 £000	Six months to 31/03/10 £000	Year to 30/09/10 £000
Interim dividend	**—**	—	108
Final dividend	**152**	87	87
Total dividend paid in period	**152**	87	195

5. 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.

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