SANDERSON GROUP PLC

Interim Report
for the six months to 31 March 2013

IT solutions driving continual business improvement

2013

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

Contents

SANDERSON GROUP PLC

Highlights

Financial

- Revenues from continuing operations increased to £6.37m (2012: £6.14m)
- An increase in excess of 13% in operating profit from continuing operations amounting to £0.91m (2012: £0.80m)
- Profit before tax from continuing operations of £0.85m (2012: £0.41m)
- Basic earnings per share from continuing operations of 1.8p (2012: 0.4p)
- Net cash at period-end increased to £4.50m (2012: £3.56m)
- 30% increase in interim dividend to 0.65p per share (2012: 0.5p)

Operational

- Continued strong cash generation with net cash balance of £4.50m at period end, representing more than 10p per share
- Good trading momentum; order book of £1.59m at period end and growing
- Gross margins further improved to 87.9% (2012: 84.3%) reflecting delivery of more proprietary software and other ‘owned’ services
- Pre-contracted recurring revenues from continuing operations grew to £3.96m (2012: £3.80m) accounting for approximately 62% of total revenues
- 20% increase in multi-channel retail division operating profit to £0.61m (2012: £0.50m); projects during period for Aspinal of London, JoJo Maman Bébé and Axminster Tool Centre with two new customers gained
- Manufacturing division maintained operating profit performance at £0.30m (2012: £0.29m); projects during the period for Brookfarm, Anstey Wallpaper and Proctor Paper & Board
- Further £0.25m investment in sales and marketing capability
- Continued investment in proprietary solutions using mobile technologies generating high levels of interest and development activity

Chairman's statement

Christopher Winn

"Results for the six month trading period to 31 March 2013 show further improvements in revenues and operating profits. Whilst general UK trading conditions remain challenging, Sanderson has continued to generate cash strongly and to invest both in its products and services as well as in its sales and marketing capacity and capability, together producing an improved performance in the first half."

Introduction

Results for the six month trading period to 31 March 2013 ('the period') show revenues improving to £6.37m (2012: £6.14m) and operating profit rising by over 13% to £0.91m (2012: £0.80m). Sanderson has continued to generate strong cashflow and cash generated from operating activities in the period was £0.89m (2012: Outflow £0.07m). At 31 March 2013, the net cash balance was £4.50m (2012: £3.56m) representing just over 10 pence per ordinary share. The Group's order book at the period end stood at £1.59m (2012: £1.95m).

General UK trading conditions remained challenging during the period and with no discernible improvement in customer and prospective customer confidence, some slippage of expected orders from the period into the second half year occurred. During the period, Sanderson has continued to invest both in its products and services, as well as in its sales and marketing capacity and capability.

Business review

The Sanderson business model has the firm foundation of pre-contracted recurring revenues generated from developing long-term relationships with customers. The Group's solutions comprise Sanderson 'owned' proprietary software integrated, where appropriate, with other market leading products. The Sanderson solution is delivered, installed and supported by the Group's own expert consultants and staff. Solutions are supported and developed on an ongoing basis and offer 'value for money' tangible business benefits for customers, typically providing additional efficiencies and opportunities to make cost savings. Against the current backdrop of challenging economic conditions, the Group has placed an emphasis both on certain sectors which seem more buoyant as well as on the sale of our higher margin proprietary software and services to cover a relative lack of customer capital spend. Partially reflecting the continued transition to more 'owned' software and services, gross margins improved to 87.9% in the period (2012: 84.3%, 2011: 81.4%).

Sanderson solutions are licensed to customers on a 'right to use' basis and are supplemented by support and maintenance services provided by Sanderson staff. Both the licence and ongoing services are pre-contracted and in the period, these recurring revenues grew to £3.96m (2012: £3.80m) representing 62% of total revenues.

Product innovation and investment has continued and over the last three years, the new products and services which have been introduced include Factory & Warehouse automation, Green IT solutions, as well as SaaS (‘Software as a Service’) and Cloud delivery models. Solutions using mobile technologies, both in response to, as well as in anticipation of customer demand, continue to generate high levels of interest and high development activity. New product developments have accounted for over £4m of new sales over the last five years and the latest solutions which are enabled by mobile technologies are currently accounting for around 10% of total sales orders.

Additional investment has been made in the areas of sales and marketing with the aim of more effectively promoting the Group’s solutions. Since 2009, the Group has made cost savings in the management, finance and administrative functions and redeployed this expenditure into the areas of sales and marketing. A further four people were added during the period at an annual cost of approximately £250,000 and it is anticipated that there will be a growing return from this investment during the second half of the current year.

The pre-Christmas trading period is a busy time for both food and drink manufacturers, as well as for businesses operating in the multi-channel retail sector. Whilst Sanderson pre-sales and support activities are high in this first quarter, customer decisions confirming the adoption of new systems are more likely to be made between February and September, giving the Group’s results a level of seasonality. The Group gained three new customers in the period (2012: nine) at an average value of £61k (2012: £76k). As at the date of this report, though we expect UK trading conditions to remain challenging in the short-term, activity levels have improved since the period end and the Group has gained a further four new customers at an average initial contract value of over £200k.

Review of multi-channel retail

Sanderson provides comprehensive IT solutions to businesses operating in the areas of online sales, ecommerce, mail order and catalogue sales, wholesale distribution, cash and carry businesses and retail shops. Whilst traditional mail order markets are currently quite slow, there are better levels of business activity in the wholesale cash and carry, catalogue, online sales and ecommerce markets.

Mobile SOLUTIONS

Two new customers were gained during the period compared with six in the comparative period of 2012. Both new customers operate in the online sales and ecommerce area of business. Projects during the period included a store portal for a large jewellery chain, as well as enhancements to systems for companies such as Aspinal of London, JoJo Maman Bébé, Joe Browns, Axminster Tool Centre and Topgrade Sportswear.

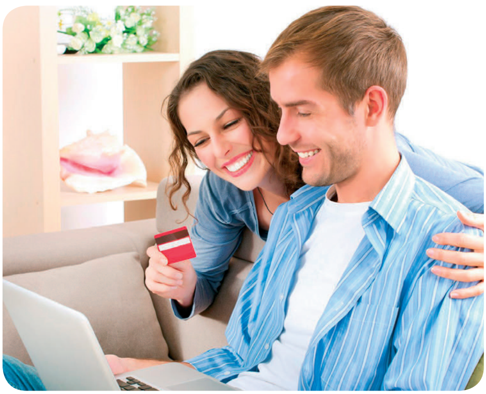
Divisional revenue was £3.40m (2012: £3.20m) and operating profit was up by over 20% at £614k (2012: £508k, 2011: £403k). The period end order book was strong at £822k (2012: £1.27m) and with good sales prospects, the business is well positioned to continue its growth and to achieve trading targets for the current year ending 30 September 2013.

Review of manufacturing

Businesses in the engineering, plastics, aerospace, electronics, print and food and drink manufacturing sectors represent the main areas of specialisation for Sanderson in manufacturing markets. Over the past two years, the Group has invested an additional £500k in some accelerated product development and in its sales and marketing capability for the Sanderson business which addresses the UK food and drink market. Traceability of products and ingredients back through the supply chain is a strong feature of the Sanderson food and drink solution – a key requirement for the food and drink industry. The Group has a number of well advanced sales prospects and continues to be active in this sector.

A Sanderson mobile solution, deploying iPads and touchscreens for a manufacturer who operates a number of direct retail outlets has recently been installed. Since the period end, the Group has gained a large order with another manufacturer who also operates through direct retail outlets. The general manufacturing market has continued to be quite slow with one new customer gained in the period (2012: three new customers). Large projects delivered during the period included Brookfarm, a processor of macadamia nut products, Anstey Wallpaper Company, Tunnock's biscuits and Proctor Paper & Board.

Revenue for the period was £2.97m (2012: £2.95m) and operating profit was £296k



(2012: £293k). Divisional recurring revenues represent 64% (2012: 62%) of total revenues and cover 82% of divisional overheads. The order book of £761k (2012: £784k) is strong and together with a good short-term sales prospect list should ensure an improved trading result for the second half year.

Strategy

The Group strategy is to build upon and develop our position as a provider of modern software solutions which continue to provide customers with competitive advantage and cost efficiencies. This will enable Sanderson to achieve growth, build value and improve shareholder returns. Whilst Sanderson will continue to invest across its businesses, particular emphasis and focus will be made in further developing the range and scope of solutions for online sales and ecommerce businesses as well as the development of mobile solutions across all of the Group's target markets. Selective acquisition opportunities will also be made to augment organic growth and a number of small opportunities are being considered.

Balance sheet

In the current economic climate, the Board feels that a strong balance sheet with readily available cash resources is important. Sanderson has continued to convert substantially all of its profit to cash and has reported a net cash balance of £4.50m at 31 March 2013. Notwithstanding the Group's strategy and the goal to invest cash resources to achieve business objectives, Sanderson will endeavour to continue to accrue cash from ongoing trading operations in order to ensure the strength of the balance sheet.

Dividend

The Board has been committed to improve dividend levels and is pleased to declare an increased interim dividend of 0.65 pence per share (2012: 0.50 pence, 2011: 0.30 pence), to be paid on 16 August 2013, to shareholders on the register at the close of business at 19 July 2013.

Management and staff

The Group employs approximately 150 staff who have a high level of experience and expertise, the majority of which are exclusively focused on the specialist markets which the Group addresses. The Board would like to thank everyone for their support, hard work, dedication and contribution to the development of the business over the period of recovery, business transition and renewed growth, since 2009.

Outlook

The Board is very mindful of the relatively low levels of business confidence and of challenging trading conditions within the UK and so, continues to adopt a very cautious approach. The strong balance sheet and robust business model, coupled with a growing range of products, services and solutions and a good order book, provide the Sanderson Board and management with a good level of confidence of achieving market expectations for the current year to 30 September 2013.

Christopher Winn
Chairman
5 June 2013

Consolidated income statement

for the six months to 31 March 2013

	Note	Unaudited Six months to 31/03/13 £000	Unaudited Six months to 31/03/12 £000	Audited Year to 30/09/12 £000
Revenue – continuing operations	2	**6,370**	6,143	13,374
Cost of sales		**(770)**	(964)	(2,188)
Gross profit – continuing operations		**5,600**	5,179	11,186
Other operating expenses		**(4,690)**	(4,378)	(9,280)
Results from continuing operating activities	2	**910**	801	1,906
Movement in fair value of derivative financial instrument		**–**	16	16
Net finance costs	3	**(58)**	(177)	(214)
Exceptional finance expense	4	**–**	(227)	(227)
Profit before tax – continuing operations		**852**	413	1,481
Tax		**(48)**	(247)	(185)
Profit on discontinued operation, net of tax	4	**–**	1,312	1,110
Profit for the period		**804**	1,478	2,406
Earnings per share				
From profit attributable to the owners of the parent undertaking during the period				
Basic	5	**1.8p**	3.4p	5.5p
Diluted	5	**1.7p**	3.1p	5.2p
From continuing operations				
Basic	5	**1.8p**	0.4p	3.0p
Diluted	5	**1.7p**	0.3p	2.8p
From discontinued operations				
Basic	5	**–**	3.0p	2.5p
Diluted	5	**–**	2.8p	2.4p

Consolidated statement of comprehensive income

for the six months to 31 March 2013

	Unaudited Six months to 31/03/13 £000	Unaudited Six months to 31/03/12 £000	Audited Year to 30/09/12 £000
Profit for the period	**804**	1,478	2,406
Other comprehensive income/(expense)			
Actuarial result on defined benefit pension schemes	**–**	–	(740)
Income tax relating to components of other comprehensive income	**–**	–	185
Other comprehensive expense, net of tax	**–**	–	(555)
Total comprehensive income for the period	**804**	1,478	1,851

Consolidated statement of financial position

at 31 March 2013

	Unaudited As at 31/03/13 £000	Unaudited As at 31/03/12 £000	Audited As at 30/09/12 £000
Non-current assets			
Intangible assets	**22,446**	22,123	22,404
Property, plant & equipment	**333**	230	372
Deferred tax asset	**1,521**	1,357	1,567
	24,300	23,710	24,343
Current assets			
Inventories	**5**	21	9
Trade and other receivables	**3,087**	3,657	3,594
Current tax	**16**	—	—
Other short-term financial assets	**170**	—	131
Cash and cash equivalents	**4,501**	3,559	4,066
	7,779	7,237	7,800
Current liabilities			
Trade and other payables	**(2,674)**	(3,019)	(2,872)
Current tax liabilities	**(9)**	(24)	(9)
Deferred income	**(4,330)**	(4,217)	(4,599)
	(7,013)	(7,260)	(7,480)
Net current assets/(liabilities)	**766**	(23)	320
Non-current liabilities			
Deferred tax liabilities	**(139)**	(35)	(121)
Pension and other employee obligations	**(4,305)**	(3,872)	(4,512)
	(4,444)	(3,907)	(4,633)
Net assets	**20,622**	19,780	20,030
Equity			
Called-up share capital	**4,366**	4,352	4,352
Share premium	**4,205**	4,205	4,205
Retained earnings	**12,051**	11,223	11,473
Total equity	**20,622**	19,780	20,030

Consolidated statement of changes in equity

for the six months to 31 March 2013

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2012	**4,352**	**4,205**	**11,473**	**20,030**
Shares issued	**14**	**—**	**—**	**14**
Dividend paid	**—**	**—**	**(306)**	**(306)**
Share-based payment charge	**—**	**—**	**42**	**42**
Transactions with owners	**14**	**—**	**(264)**	**(250)**
Profit for the period	**—**	**—**	**804**	**804**
Other comprehensive income:				
Change in market value of short-term financial asset	**—**	**—**	**38**	**38**
Total comprehensive expense	**—**	**—**	**842**	**842**
At 31 March 2013	**4,366**	**4,205**	**12,051**	**20,622**

for the six months to 31 March 2012

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2011	4,338	4,178	9,959	18,475
Shares issued	14	27	(41)	—
Dividend paid	—	—	(196)	(196)
Share-based payment charge	—	—	23	23
Transactions with owners	14	27	(214)	(173)
Profit for the period	—	—	1,478	1,478
Balance at 31 March 2012	4,352	4,205	11,223	19,780

Consolidated statement of changes in equity *continued*

for the year ended 30 September 2012

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2011	4,338	4,178	9,959	18,475
Shares issued	14	27	(41)	—
Dividend paid	—	—	(413)	(413)
Share-based payment charge – continuing operations	—	—	65	65
Share-based payment charge – discontinued operations	—	—	52	52
Transactions with owners	14	27	(337)	(296)
Profit for the year	—	—	2,406	2,406
Other comprehensive income:				
Actuarial result on employee benefits	—	—	(740)	(740)
Deferred tax on above	—	—	185	185
Total comprehensive expense	—	—	1,851	1,851
At 30 September 2012	4,352	4,205	11,473	20,030

Consolidated statement of cash flows

for the six months to 31 March 2013

	Note	**Unaudited Six months to 31/03/13 £000**	Unaudited Six months to 31/03/12 £000	Audited Year to 30/09/12 £000
Cash flows from continuing operating activities				
Profit for the period		**804**	1,478	2,406
Adjustments for:				
Depreciation and amortisation		**144**	75	251
Share-based payment charges		**42**	13	65
Post tax profit on discontinued operations		**–**	(1,312)	(1,110)
Net finance expense		**58**	388	425
Income tax expense		**48**	247	185
Operating cash flow from continuing operations before working capital movements		**1,096**	889	2,222
Movement in working capital		**58**	(161)	(206)
Cash generated by continuing operations		**1,154**	728	2,016
Payments to defined benefit pension scheme		**(297)**	(172)	(315)
Discontinued operation – operating cash flows		**–**	(301)	(356)
Interest paid		**–**	(703)	(703)
Interest received		**32**	–	–
Income taxes received		**–**	377	377
Net cash from operating activities		**889**	(71)	1,019
Investing activities				
Purchases of property, plant & equipment		**(19)**	(19)	(194)
Purchase of investment held for resale		**–**	–	(131)
Acquisition of trade and assets		**–**	–	(173)
Dividend received		**–**	–	2
Disposal of discontinued operation, net of cash disposed of	4	**–**	10,856	11,064
Discontinued operation – investing cash flows		**–**	(140)	(140)
Expenditure on product development		**(129)**	(90)	(187)
Net cash (used in)/received from investing activities		**(148)**	10,607	10,241
Financing activities				
Equity dividends paid	6	**(306)**	(196)	(413)
Repayment of bank borrowing		**–**	(7,400)	(7,400)
Net cash used in financing activities		**(306)**	(7,596)	(7,813)
Increase in cash and cash equivalents		**435**	2,940	3,447
Cash and cash equivalents at start of the period		**4,066**	619	619
Cash and cash equivalents at end of the period		**4,501**	3,559	4,066

Notes to the interim results

1. Basis of preparation

The Group's interim results for the six month period ended 31 March 2013 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 2013. 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 4 June 2013.

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 2012, 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 31/03/13 £000	Six months 31/03/12 £000	Year ended 30/09/12 £000	**Six months 31/03/13 £000**	Six months 31/03/12 £000	Year ended 30/09/12 £000	**Six months 31/03/13 £000**	Six months 31/03/12 £000	Year ended 30/09/12 £000
Revenue	**2,974**	2,947	6,201	**3,396**	3,196	7,173	**6,370**	6,143	13,374
Operating profit	**296**	293	800	**614**	508	1,106	**910**	801	1,906
Net finance expense							**(58)**	(388)	(425)
Profit before tax; continuing operations							**852**	413	1,481

Revenue, operating profit and profit before tax shown above report continuing operations only. The Group disposed of its subsidiary undertaking Sanderson RBS Limited on 20 January 2012 (see note 4). The discontinued operation generated revenue in the comparative period of £3.53m (£3.53m for the full year to 30 September 2012). The operating result of the discontinued operation for the comparative period, stated after amortisation of acquisition related intangibles and share-based payment charges, was a loss of £0.4m (full year to 30 September 2012; loss of £0.4m).

3. Net finance costs

	Unaudited Six months to 31/03/13 £000	Unaudited Six months to 31/03/12 £000	Audited Year to 30/09/12 £000
Bank interest receivable	**32**	—	—
Dividend received	**—**	—	2
Expected return on defined benefit pension scheme assets	**170**	228	463
Interest on defined benefit pension scheme obligations	**(260)**	(278)	(552)
Interest on bank overdraft and loans	**—**	(127)	(127)
	(58)	(177)	(214)

4. Discontinued operation

The Group disposed of its wholly owned subsidiary, Sanderson RBS Limited on 20 January 2012. The Consolidated Income Statement for the comparative six month period ending 31 March 2012 and for the financial year ended 30 September 2012 reports the result of Sanderson RBS Limited, together with the profit arising on disposal, as a single line item 'Profit on discontinued operation, net of tax'. Earnings per share disclosures and the Consolidated Statement of Cash Flow also present information in respect of Sanderson RBS Limited separately.

Term debt advanced by the Group's banker, HSBC Bank Plc, was repaid in full ahead of schedule in January 2012 following the disposal. An early repayment fee, together with unamortised arrangement fees relating to the loan were treated as exceptional finance costs in the comparative period.

Further details in respect of the disposal of Sanderson RBS Limited are available in the Annual Report and Accounts for the year ended 30 September 2012.

Notes to the interim results *continued*

5. Earnings per share

	Unaudited Six months to 31/03/13 £000	Unaudited Six months to 31/03/12 £000	Audited Year to 30/09/12 £000
Earnings from continuing operations			
Profit for the period	**804**	166	1,296
Earnings from discontinued operations			
Profit for the period	**–**	1,312	1,110
Average number of shares during period	**No. 000**	No. 000	No. 000
In issue at the start of the period	**43,526**	43,384	43,384
Effect of shares issued during the period	**133**	118	130
Effect of share options	**3,302**	4,768	3,022
Weighted average number of shares (diluted) at period end	**46,961**	48,270	46,536
Earnings per share	**pence**	pence	pence
Continuing operations: – basic	**1.8**	0.4	3.0
– diluted	**1.7**	0.3	2.8
Discontinued operations: – basic	**–**	3.0	2.5
– diluted	**–**	2.8	2.4
Total attributable to owners of parent undertaking:			
– basic	**1.8**	3.4	5.5
– diluted	**1.7**	3.1	5.2

6. Equity dividends paid

	Unaudited Six months to 31/03/13 £000	Unaudited Six months to 31/03/12 £000	Audited Year to 30/09/12 £000
Interim dividend	**—**	—	217
Final dividend	**306**	196	196
Total dividend paid in period	**306**	196	413

7. Interim report

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

Group information

Company Secretary
Adrian Frost

Registered company number
4968444

Registered and head office
Sanderson House
Manor Road
Coventry
CV1 2GF

Nominated adviser and broker
Charles Stanley
25 Luke Street
London
EC2A 4AR

Registrar
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
Birmingham
B63 3DA

Solicitors to the Company
Schofield Sweeney
Springfield House
76 Wellington Street
Leeds
LS1 2AY

Auditors to the Company
Grant Thornton UK LLP
Enterprise House
115 Edmund Street
Birmingham
B3 2HJ

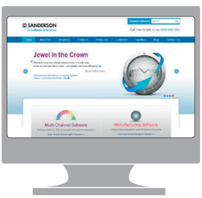
Financial PR
Winningtons
WestPoint
78 Queens Road
Clifton
Bristol
BS8 1QX

Created by
Jonesandpalmer
www.jonesandpalmer.co.uk
empowering corporate communications

SANDERSON GROUP PLC

Registered Office
Sanderson House
Manor Road
Coventry
CV1 2GF

Tel: +44 (0) 333 123 1400
Fax: +44 (0) 333 123 1401



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