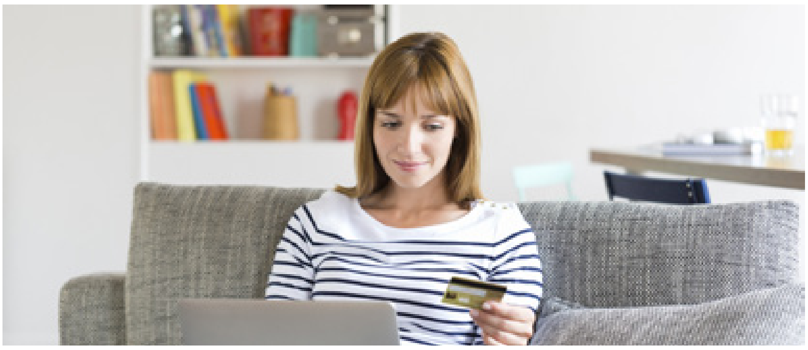
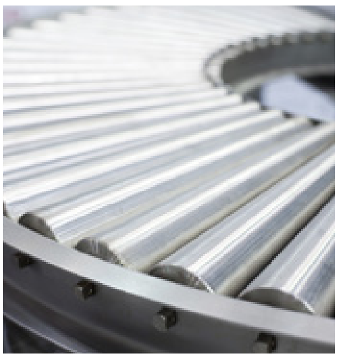
SANDERSON GROUP PLC

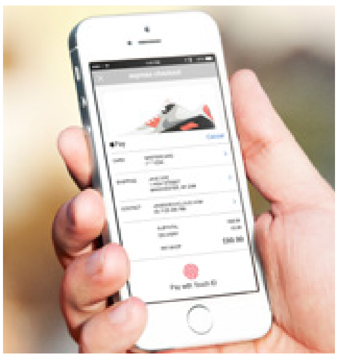
Annual Report and Accounts

for the year ended 30 September 2016

Innovative Technology Solutions







2016

About Sanderson

Sanderson is a publicly-owned UK provider of software solutions and IT services. We supply innovative, market-focused solutions to the **retail**, **manufacturing**, **wholesale distribution** and **logistics** 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

Revenue	Operating Profit*	Total Dividend†
↑ 11%	↑ 12%	↑ 14%
to **£21.32 million** (2015: £19.18 million)	to **£3.69 million** (2015: £3.30 million)	to **2.4 pence** (2015: 2.1 pence)

Financial

- Revenue increased by 11% to £21.32 million (2015: £19.18 million).
- Pre-contracted recurring revenue grew 10% to £10.75 million (2015: £9.77 million), representing approximately 50% of total revenue in the year (2015: 51%).
- Operating profit* increased 12% to £3.69 million (2015: £3.30 million).
- Profit before tax of £2.78 million (2015: £2.03 million), an increase of 37%.
- Diluted earnings per share of 4.4 pence (2015: 3.4 pence), an increase of 29%.
- Adjusted** diluted earnings per share of 5.5 pence (2015: 4.9 pence).
- Cash balance at year end of £4.34 million (2015: £4.61 million) after acquisition-related cash consideration payments of £1.66 million and dividend payments during the year of £1.21 million.
- Proposed final dividend up 16% to 1.4 pence per share (2015: 1.2 pence).

Operational

- New reporting structure comprising two divisions: Digital Retail and Enterprise Software.
- Significantly improved order intake of £12.26 million (2015: £10.03 million).
- Robust order book up by over 25% at year end to £3.02 million (2015: £2.35 million).
- Digital Retail revenue increased by 8.8% to £6.40 million (2015: £5.88 million); with strong demand from existing customers including Axminster Tools & Machinery and Thorntons.
- Enterprise Division had a very successful year with revenues up 12% to £14.92 million (2015: £13.30 million); robust order book up by over 40% at year end to £2.10 million (2015: £1.43 million); strong demand from both existing as well as new customers.
- Mr Philip Kelly, a Non-Executive Director since November 2004, retired from the Board in June after over eleven years of valued service and support to the Group, to the Board and to the shareholders.

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.
** Adjusted for amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.
† Interim and declared final dividend in respect of the financial year.

At a glance

Sanderson Group plc is a well-established and profitable software and IT services business specialising in the retail, manufacturing, wholesale distribution and logistics sectors.

Operating primarily in the UK and Ireland, the Group provides its customers with enterprise systems designed to help them run their businesses efficiently and profitably.

- A robust and resilient business
- 550 customers and 230+ employees
- IT solutions provider with extensive software IPR and expert knowledge of target markets
- Strong market position driven by innovation
- Substantial recurring revenues
- Long-term customer relationships built on high quality service and support

Sanderson serves customers nationwide from seven locations around the UK

550
Customers

Predominantly small & medium enterprises (SMEs)

Revenue
£21m

Strong market position driven by innovation

Well-established, UK-owned provider of IT solutions

Substantial software IPR & expert knowledge of target markets

Digital Retail

Omni-Channel Retail Technology

Sanderson helps retailers bridge the gap between online and in-store shopping to offer the seamless, joined up experience their customers now demand. Solutions include: in-store technology; back-office systems for processing sales and fulfilling orders; and mobile and ecommerce solutions to underpin online operations. Our systems allow retailers to keep pace with new devices, technologies and channels; driving consumer engagement, retention and increased sales.

Enterprise

Manufacturing

Enterprise Resource Planning (ERP) software for modern manufacturing in general manufacturing, engineering and food & drink processing businesses. Streamlines processes and drives growth.

Wholesale Distribution

Industry-specific software and warehouse management systems. Delivering sales growth and profitability, efficiency and control, across wholesale distribution, cash and carry, fulfilment and logistics businesses.

Chairman's statement

Christopher Winn
Chairman

> The trading results are in line with market expectations in terms of profit whilst revenue is slightly ahead of expectations. Revenue has increased by 11% to £21.32 million

Sanderson Group plc ('Sanderson' or 'the Group'), is a software and IT services business specialising in digital retail technology and enterprise software for businesses operating in the manufacturing, wholesale distribution and logistics sectors.

Financial results

The Group's trading results for the year ended 30 September 2016 are in line with market expectations in terms of profit whilst revenue is slightly ahead of expectations. Revenue has increased by 11% to £21.32 million (2015: £19.18 million), with adjusted operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs) growing by almost 12% to £3.69 million (2015: £3.30 million). Profit before tax increased by 37% to £2.78 million (2015: £2.03 million).

Gross margin remains strong at 84% (2015: 85%), reflecting a continuing emphasis on the supply of Sanderson proprietary software and services. Recurring revenue from pre-contracted licence and ongoing support services grew to £10.75 million (2015: £9.77 million) representing 50% of total revenue in the period (2015: 51%). Sales order intake grew by over 20% to £12.26 million (2015: £10.03 million). This increase included over £3.83 million of business gained from new customers, representing almost twice the level of the prior year (2015: £2.00 million). The Group order book at the year end had grown by over 25% to £3.02 million (2015: £2.35 million).

Sanderson has a strong cash-generative business model which resulted in a cash balance at 30 September 2016 of £4.34 million (2015: £4.61 million). This balance is stated after the payment of £1.66 million of deferred consideration in respect of businesses acquired in 2013 and 2014, as well as dividend payments which, in the year, totalled £1.21 million.

Dividend

Strong cash generation has enabled the Board to maintain a progressive dividend policy whilst continuing to invest in the further development of the Group's businesses. Subject to the approval of shareholders at the Annual General Meeting, scheduled to be held on 2 March 2017, the Board is proposing an increase of 16% in the final dividend to 1.4 pence per ordinary share (2015: 1.2 pence). The total of 2.4 pence per ordinary share for the year represents an increase of 14% over the prior year dividend (2015: 2.1 pence). The final dividend, if approved, will be paid on 17 March 2017, to shareholders on the register at the close of business on 3 March 2017.

Strategy

The strategy of the Board is to achieve sustained growth by continuing to build and to develop the Sanderson business. Whilst investment is planned across all of the Group's businesses, particular emphasis will again be placed on enhancing the range of mobile and ecommerce solutions in Digital Retail and on further strengthening the Group's proposition in its Enterprise Software Division, especially in food and drink processing. The Group has enjoyed considerable success and has built a strong reputation over a number of years, within the wholesale distribution market and further investment is planned in this area together with complementary products covering the logistics, fulfilment and supply chain market areas. Mobile solutions continue to be developed to address all of the Group's target markets.

In order to augment organic growth, selective acquisition opportunities are under continued consideration and a number of potential opportunities are currently being developed. Management adopts a careful and measured approach to acquisitions and cautiously considers any risks which might be involved. The Board remains focused upon further increasing shareholder value by continuing to deliver both organic and acquisitive growth, achieving 'on target' results, increased earnings, maintaining strong cash generation and a robust balance sheet. This will enable the Board to maintain progressive dividend returns to shareholders.

Chairman's statement
continued

Emphasis will again be placed on mobile and ecommerce solutions in Digital Retail

Strong cash generation has enabled the Board to maintain a progressive dividend policy whilst continuing to invest in the further development of the Group's businesses

Management and staff

Sanderson now employs 230 staff who have a high level of experience and specialist expertise in the market sectors which the Group addresses. On behalf of the Board, I would again like to express our appreciation and thank everyone for their hard work, support, dedication and contribution to the ongoing development of the Group.

Mr Philip Kelly, a Non-Executive Director since November 2004, retired from the Board following the release of the Interim Results announcement in June, after over eleven years of valued service and support to the Group, the Board and shareholders. On behalf of the Board, I would like to thank Philip, for his support and contribution to the development of the Group.

Christopher Winn
Chairman

Group Chief Executive's business review

Ian Newcombe
Group Chief Executive

> Reflecting investment in sales and marketing, Sanderson achieved a significantly improved level of order intake during the year of £12.26 million compared with £10.03 million in the prior year

The target market for Sanderson products and services primarily comprises of small and medium-sized enterprises. The Group's well-developed business model is to foster long-term customer relationships which result in a high proportion of sales arising from pre-contracted recurring revenue, complemented by incremental sales to its strong, well established and growing customer base. This steady business stream usually accounts for around 90% of Group revenues. Sanderson proprietary software is developed in anticipation of technological developments and in conjunction and collaboration with its large customer base. Sanderson proprietary software is marketed and sold under licence with all sales, marketing, delivery, support and services being carried out by the Group's own expert staff.

Group business solutions are developed and marketed in order to provide customers with 'value for money' IT systems, designed to offer timely and tangible business benefits. These solutions typically enable customers to increase revenue whilst also achieving additional efficiencies by making and maintaining cost savings, both often within twelve months of implementation. The Group continues to invest in the development of its software products and services, as well as in increasing its sales and marketing capacity and capability. Particular emphasis has been placed on the Group businesses specialising in the UK food and drink processing, wholesale distribution sectors and especially, in the market for digital retail solutions with the development of mobile and ecommerce solutions. These solutions enable retailers to capitalise on the significant growth arising from the widespread adoption of smartphones and tablets and to exploit 'mobile' as a sales channel that is fully integrated with existing business systems.

At the core of the Group's well-developed business model is Sanderson proprietary software with both on-premise as well as cloud-based solutions being offered to customers on an ongoing annual contractual basis, together with accompanying consultancy, support and maintenance services. In the year ended 30 September 2016, these pre-contracted recurring revenues amounted to £10.75 million (2015: £9.77 million) representing 50% of total revenues (2015: 51%). The gross margin from recurring revenues covered 63% of total Group overheads in the financial year (2015: 67%).

Reflecting both prior and continuing investment in the Group's sales and marketing function, Sanderson achieved a significantly improved level of order intake during the year of £12.26 million compared with £10.03 million in the prior year. The Group experienced an increase in sales orders in the fourth quarter and overall, during the year, 22 new customers contributed orders to the value of £3.83 million (2015: 21 new customers generated orders to the value of £2.00 million).

Group Chief Executive's business review
continued


Traceability and regulatory compliance are key features of the Group's food and drink solution

Review of Digital Retail

Sanderson provides comprehensive IT solutions to businesses operating in the ecommerce, mobile commerce and retail sectors of the UK. Mobile enablement and deployment continues to be a key business driver in this market sector with increasing levels of business activity. This market is still at a relatively early stage of development.

Revenue increased by 8.8% to £6.40 million (2015: £5.88 million), whilst operating profits (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs) of £0.89 million (2015: £1.29 million) partly reflect the planned further investment of over £0.5 million per annum in management, sales and delivery capacity in anticipation of continued rapid growth within the digital retail market.

Demand from existing customers for the Group's latest release of its ecommerce solution continued to grow with sales orders gained from a number of customers including Axminster Tools & Machinery and Thorntons.

The Digital Retail Division experienced a slower first half year to 31 March 2016, but second half activity levels improved, with some orders which had been delayed in the half year to March coming through in the second half.

A large new customer was gained in the final month of the year. The Sanderson solution is scheduled to be delivered to this customer during the current financial year ending 30 September 2017.

The year-end order book was £0.92 million (2015: £0.92 million) and with a number of developing sales prospects, active pilot projects and strengthening partnerships with existing customers, the Digital Retail business is well positioned to take advantage of the growth in this market.

Review of Enterprise Software Division

The Enterprise Software Division of Sanderson comprises two market-focused businesses which are based upon the manufacturing and the wholesale, distribution and logistics sectors. The Enterprise Software Division has had a very successful year gaining business from a number of new customers some of whom had delayed investment decisions in the prior year.

Divisional revenue increased by 12% to £14.92 million (2015: £13.30 million) and an improvement in efficiency levels produced a 39% increase in operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs) to £2.80 million (2015: £2.01 million).

The Enterprise Division has built up a strong order book which, at the financial year-end, was valued at £2.10 million (2015: £1.43 million), an increase of over 40% from the prior year.

Businesses in the engineering, plastics, aerospace, electronics, print ('general manufacturing') and food and drink processing sectors represent the main areas of specialisation for Sanderson in manufacturing markets. The Group continues to invest in product development and in its sales and marketing capability. Traceability of products and ingredients through the food manufacturing and supply chain and the assurance of product compliance with the latest regulatory standards are strong features of the Group's solution; these are key requirements for businesses operating in the food and drink processing industry. The manufacturing business overall gained seven new customers during the year, including Thistle Seafoods and Peter's Food Service, at an increased average order value of £185,000 (2015: £59,000).

The Enterprise Software Division based upon the manufacturing, wholesale, distribution and logistics sectors, has had a very successful year

Further growth is anticipated from the logistics, fulfilment and supply chain market

Sanderson activities in the wholesale, distribution and logistics sectors have been strengthened by the 2013 and 2014 acquisitions which have expanded the application of Sanderson solutions for the wholesale distribution, cash and carry and fulfilment sectors into the specialist warehousing, logistics and supply chain market sectors. Further potential for growth is anticipated from the logistics, fulfilment and supply chain sector of the Group's target market.

Thirteen new customers were gained during the year, at an average initial order value of £160,000 (2015: £46,000), including Pedigree Wholesale, Robinson's and Purity Soft Drinks. This compares with eight new customers in the prior year. Large orders from existing customers included Hancocks and Kitwave Wholesale Group.

Outlook

The Board has a stated three-year business plan to accelerate the Group's growth and development both organically as well as by making selective acquisitions, to further increase profitability and dividends in order to enhance shareholder value.

The Board will continue to invest in its digital retail solutions as well as in its enterprise software businesses, in order to ensure that product offerings continue to both attract new customers, as well as, maximise and encourage additional investment in system enhancements and new technological developments from existing customers.

The combination of more rapid growth available via the Digital Retail Division and a renewed impetus for growth from the Enterprise Software Business is expected to enable the Group to meet its strategic targets over the next three years and beyond.

The Board and Sanderson senior management carefully monitor the development of sales prospects and the progression of prospects to customers, especially since the Brexit vote in June. The Group has not yet detected any loss of confidence from either existing or prospective customers to invest in Sanderson business solutions. Sanderson has maintained a strong balance sheet and a robust business model which is built upon long-term relationships with customers, generates strong recurring revenues and which the Board believes positions the Group well in its target markets. Together with a strong order book and good sales momentum, the Board has a good level of confidence that, at this relatively early stage of the new financial year, the Group will make further progress and deliver trading results which are again, at least, in line with market expectations for the year ending 30 September 2017.

Ian Newcombe
Group Chief Executive

Digital Retail

> "Sanderson Group's One iota have proved to be the ideal partner for us - developing and implementing a fantastic in-store iPad solution which fully integrates with our existing business systems" Superdry

One iota, a winner at Retail Systems Awards 2016 which recognise technology excellence and innovation

Creating seamless shopping

The Internet and mobile technology have changed the way people shop. Keeping the customer happy used to be relatively straightforward but today's new tech savvy shopper has high expectations.

Digital retail is the application of new and emerging technologies, in particular mobile and social, to connect and transform the shopping experience and give customers what they want, when and where they want it.

Online shopping is easy and convenient. Open 24/7, the customer can shop anywhere, anytime. Internet retailers can offer great discounts, flash sales, and use the data they hold to market to customers, personalise communication and meet needs at the right time. But there remains a place for the High Street; consumers still love to browse and the majority of retail sales are still store-based. What's key for retailers, is to bridge the gap between online and in-store and offer the seamless, joined up shopping experience their customers now demand.

Retailers who fail to provide their customers with a fully connected shopping journey risk missing out on huge sales opportunities and the chance to create a retail experience where shoppers want to spend time and money. Those who do bridge the gap and utilise in-store technology, such as transactional kiosks and assisted-selling iPads, can sell beyond what is simply 'on the shelf'. They can showcase their entire range, upsell, avoid lost sales by allowing customers to order out-of-stock items for next day delivery, or use home delivery so customers don't have to carry heavy bags around.

Similarly, online retailers can provide 'joined-up' shopping. For example, offering click & collect, giving shoppers the option to complete a transaction started online in-store, or returning an item to a convenient location.

Our digital retail proposition

Digital retail is an active and fast developing market. Technology is having a major impact and Sanderson is well positioned in the sector. As a long-standing supplier of software and services to retail, mail order, catalogue, fulfilment, wholesale and online businesses, we have a unique understanding of omni-channel sales and offer a comprehensive range of IT solutions to meet the needs of organisations in this industry.

Our One iota business is at the forefront of retail technology, working with many of the UK's leading retail brands to create and implement exceptional shopping experiences using online, in-store and interactive solutions.

Sanderson provides integrated in-store technology; the back-office systems which are so crucial to processing sales and fulfilling customer orders efficiently; and mobile and ecommerce systems which underpin online operations. Our solutions help retailers keep pace with new devices, technologies and channels and include: desktop solutions, mobile web, mobile apps, in-store till (EPoS) apps, assisted selling iPads, kiosk deployments, mobile payments such as Apple and Android Pay, interactive digital signage and beacon technology which allows retailers to communicate with customers' mobile devices for marketing.

Working with our retail customers, we help them transform the shopping experience; driving consumer engagement, retention and increased sales.

Enterprise - Manufacturing

"The Sanderson system is a great system: I've no doubt that it will continue to support this business for many years and I would certainly recommend it to others" English Provender Company

Boosting efficiency and profitability

Sanderson has been helping UK manufacturers succeed with IT for over 30 years, delivering proven software and long-term value. Our latest business systems, ERP (Enterprise Resource Planning) software and cloud-based solutions, support many sectors and types of manufacturing and are specifically developed for the markets they address - discrete manufacturing, food and drink processing, print and distribution.

Designed for modern manufacturing, our software helps manufacturers improve processes, manage the supply chain and provide excellent customer service. Whilst our range of Green IT and Factory and Warehouse Automation solutions improve efficiency in manufacturing and bring many cost saving benefits to customers.

Specialist software for food and drink processing

Our specialist ERP software is the software choice for the UK's fast-growing food and beverage processors.

Most other ERP suppliers try to serve multiple industries, leaving food and drink manufacturers with gaps they have to fill with add-on systems. Not so Sanderson with its purpose-designed solution which allows processors to manage their recipes, production, supply chain and new product development along with sales, finance, regulatory compliance, traceability and reporting. Just some of the reasons why well-known food and drink manufacturers nationwide choose Sanderson.

Food and drink, the UK's largest manufacturing sector

Recipe weighing software assures product quality and minimises wastage

Fuelled by growing food sales and new product development as consumer tastes and shopping habits change, food and drink processors are investing in technology to run their businesses more efficiently and manage the complexities of their tightly regulated industry.

Whilst some manufacturing sectors are more volatile and susceptible to economic uncertainty, the UK food sector has remained relatively recession proof. Although the industry is facing enormous costs pressures, particularly after the EU referendum, there are efficiency gains and cost savings to be had from implementing new systems and Sanderson is well positioned to deliver them.

Enterprise - Wholesale Distribution & Logistics

> "Other IT systems can go past their sell by date, but the Sanderson solution has never gone stale. It is always fit for purpose for us because Sanderson don't stand still, they continue to develop the product and create solutions that make sense for our business." Barry Group

Growth for wholesalers adopting technology

The wholesale distribution sector is a vital sector, linking manufacturers with all types of food and non-food retailers and foodservice businesses.

As the retail arena has developed sophisticated methods to attract sales, offer more shopping channels and retain customers with higher levels of service and increased convenience, so the use of technology and data is picking up pace in the wholesale industry.

Wholesale businesses are reappraising the way their customers want to buy from them, and the use of technology is instrumental in achieving success in these areas.

Wholesalers are embracing new technology in light of rising customer expectations and offering services such as click & collect and web ordering. They're also using business intelligence data on customers and sales to enhance their offerings and increase loyalty. And it's paying off, with double digit growth being reported for wholesalers adopting technology according to IGD, the global food and grocery experts.

Industry-specific software for wholesale distribution

Sanderson has been supplying wholesale-specific solutions to the market for more than 20 years and our innovative software is a key element of the continued success being achieved by over 120 wholesale businesses across the UK and Republic of Ireland.

We combine extensive knowledge of the industry with innovative IT solutions to increase sales, profitability and control for our wholesale customers. Our solutions support wholesalers' financial and operational needs, delivering significant cost savings, improved efficiency, a fast return on investment and business growth.

Increased IT in logistics

The logistics and fulfilment sector employs one in twelve people in the UK. Fuelled by an increase in delivery options, together with a rise in orders due to mobile and online ordering, growth is significant. It is estimated that 450 million parcels will be delivered by fulfilment suppliers each year by 2017, an increase from 333 million in 2014. 75% of operators in the sector expect increased capex in IT to drive efficiency and productivity according to the UK Logistics Confidence Index.

Intelligent fulfilment and warehouse management

For any fulfilment business, it is important to develop a fulfilment service to satisfy consumers' delivery expectations, plan appropriate flexibility to meet seasonal peaks, and ensure sophisticated returns management. Sanderson fulfilment solutions enable all of this and more.

Sanderson is a proven supplier of fulfilment and warehouse management systems which cover the entire supply chain. From procurement to warehouse management, and from forecasting to logistics, our solutions automate operations and manage the smooth and fast fulfilment of multi-channel sales orders.

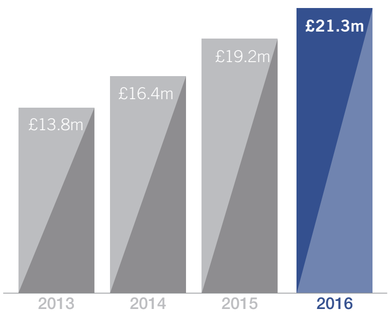
We nurture long-term partnerships with businesses that seek to continually improve their performance through the intelligent use of technology, people and processes.

Strategic report

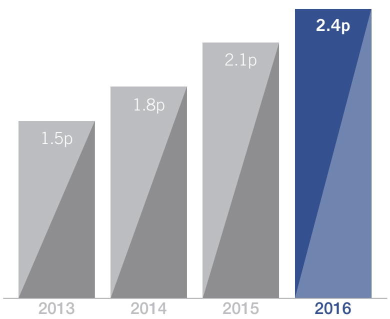
Adrian Frost
Finance Director

With over 30% of order intake derived from new customers contracting with Sanderson for the first time, the Board believes this demonstrates that the Group is well positioned in its target markets

Revenue



Dividend for financial year



Trading results

The Group's strategy is to achieve growth by continuing to build upon and to further develop the Group's businesses operating within the digital retail and enterprise software markets. Organic growth will be augmented by earnings-enhancing acquisitions that can be identified as complementing the Group's existing operations, whilst retaining a strong balance sheet.

Revenue increased by 11% to £21.32 million (2015: £19.18 million). The majority of this increase is as a result of investment made by the Group over the last four years. In the year ended 30 September 2012, the Group invested £1.38 million in sales and marketing related activity. In the year to 30 September 2016, this figure had increased to £2.59 million. The Group continues to operate in competitive markets and must therefore ensure that solutions offered to customers are modern and functionally rich, whilst also ensuring the Sanderson profile remains prominent in the Group's chosen markets. Operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs) increased by 12% to £3.69 million (2015: £3.30 million), notwithstanding the further investment made in both sales and marketing, as well as technical resources.

A more detailed review of the financial year is provided in the Chairman's statement and Group Chief Executive's business review.

Statement of financial position

The Sanderson Board remains committed to pursuing a growth strategy based upon a conservative financing policy, the cornerstone of which is a strong balance sheet. The Group has an established history of converting substantially all of its profit to cash. At 30 September 2016, after the payment of £1.66 million deferred consideration in respect of acquired businesses, the Group has no debt and a net cash balance of £4.34 million (2015: £4.61 million).

The Group continues to invest in product development to ensure the solutions marketed by Sanderson remain modern and competitive, whilst at the same time adopting a conservative accounting policy in respect of the treatment of such development expenditure that ensures a significant proportion of the annual development spend is expensed in line with revenues generated. During the year expenditure totalling £2.99 million (2015: £2.64 million) was incurred, of which £2.11 million (2015: £1.82 million) was expensed against operating profit.

Treasury

The Group manages its treasury function as part of the central finance department. Whilst substantially all of the Group's operations are UK based, approximately £700,000 of revenue was denominated in euros rather than sterling and an equivalent balancing value of purchases were denominated in US dollars. As the value of sterling weakened in approximately equal measure against both the euro and the US dollar, the trading flows acted as a natural hedge during the year ended 30 September 2016. Whilst currency markets are expected to remain volatile for the foreseeable future, the Group will continue to review its strategy in this area. At 30 September 2016 cash balances were £4.34 million, of which approximately £270,000 was held in euros. The Board has reviewed the Group's medium-term strategy and believes that key strategic developments are achievable whilst retaining a strong balance sheet.

Strategic report
continued

The Group continues to invest in product development to ensure its solutions remain competitive

Key performance indicators ('KPIs')

The following KPIs are some of the tools used by management to monitor the performance of the operating businesses within the Group, in addition to the more traditional income statement, statement of financial position and cash flow analysis reviewed at regular Board meetings.

Indicator	2016	2015
Revenue per employee	**£92,000**	£88,000
Operating profit* as a percentage of revenue	**17.3%**	17.2%
Order intake	**£12.26m**	£10.03m
Debtors more than 30 days overdue as percentage of total debtors	**10.5%**	19.4%
Dividend cover	**2.29**	2.33

* stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs

Revenue per employee is used as a broad measure of efficiency. The Group has set a target of £100,000 for revenue per employee and has continued to make progress towards this target during the year.

Operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs) as a percentage of revenue has remained constant. Both revenue and operating profit have increased by approximately 12%. This indicator, together with the revenue per employee measure, are useful in assessing efficiency levels within the business. The Board is conscious that a higher ratio could be achieved if investment in technical, sales and marketing and management were to be scaled back, but that such decisions may adversely impact on the long-term prospects for the business.

The regular monitoring of order intake is an important indicator of likely trading performance in the short term as well as providing an indication as to confidence levels within the customer community. Whilst the figures presented above show annual order intake, management monitors this measure on a monthly basis. The measure is monitored in conjunction with the value of the order book as a strong order book enables the Group to continue to trade profitably when a temporary downturn in order intake is experienced. Order intake increased by 22% in the year to 30 September 2016. With over 30% of the order intake derived from new customers contracting with Sanderson for the first time, the Board believes this demonstrates the Group as being well positioned in its target markets.

There has been a marked improvement in overdue debt levels during the course of 2016, which the Board has attributed to the changes in responsibilities within the credit control function implemented in 2015. Whilst payment terms are not contingent on project milestones, a number of customers may delay payment until milestones are met and management would normally assess the potential loss of goodwill that may arise on a case-by-case basis should contractual payment terms be enforced.

Dividend cover compares adjusted diluted earnings per share to the dividend per share declared for the financial year, which is subject to approval at the Annual General Meeting due to be held on 2 March 2017. The Board intends to pursue a progressive dividend policy as trading results continue to improve. The dividend cover measure provides an indication as to the proportion of overall earnings paid as dividends.

Principal risks and uncertainties

Risk management is an important part of the management process throughout the Group. Regular reviews are undertaken to assess the nature of risks faced, the magnitude of the risk presented to business performance and the manner in which the risk may be mitigated. Where controls are in place, their adequacy is regularly monitored.

The risks considered to be particularly important at the current time are set out below:

Risks	Potential impact	Mitigation
Economic	As a supplier to the digital retail and enterprise software markets, a downturn in the economic climate affecting these sectors may lead to a reduced spend on IT systems and services by customers and prospective customers.	The Group strives to offer solutions that provide a demonstrable return on investment for both existing as well as new customers, as a strategy to capture more of our customers' budgeted IT spend. Forward-looking indicators such as order intake are regularly reviewed to identify potential deterioration in market conditions.
Product development	The Group operates in dynamic markets and must ensure the solutions it offers remain competitive. Failure to do so may lead to a loss of business with customers and prospective customers obtaining more relevant solutions from elsewhere.	Sanderson regularly discusses business requirements with customers and prospective customers. Approximately 75% of product development is in response to specific requirements ensuring new product offerings accurately reflect the needs of the markets served.
People	An experienced and knowledgeable workforce is required to develop technically complex products and to deliver the services required to enable customers to deploy Sanderson solutions in their businesses. The market for skilled staff remains competitive and a failure to recruit and retain experienced staff could impact on the Group's ability to develop and deliver solutions.	Providing existing staff with relevant training and career progression opportunities is a key priority for the business. Recruiting and developing new employees, when required, is undertaken by experienced staff to ensure the correct calibre of individual is identified.
Project delivery	Significant revenue is generated from projects that require the delivery of software and services over extended timescales. Project failure could result in contracts being cancelled, impacting on profitability and cash collection.	Established procedures are used in the delivery and management of projects.
Financial	Inaccurate financial information may result in sub-optimal decisions being taken by management and staff. Inadequate internal controls may fail to prevent the Group suffering a financial loss.	The systems of internal control deployed within the Group are designed to prevent financial loss. Controls are strongest in areas where management considers the potential exposure to the Group of material loss to be at its greatest, such as contract management and credit control. The adequacy and effectiveness of internal controls are reviewed by management.
Acquisition risk	The Group will consider complementary and earnings-enhancing acquisitions as part of its overall growth strategy. Acquisitions may not always realise the benefits expected at the time of completion.	Due diligence appropriate to the size and nature of the acquisition will be undertaken and warranties and indemnities will be sought from vendors wherever possible.
	A failure to successfully integrate acquisitions may impact on Group profitability.	An integration plan will be formulated as part of the due diligence process and executed as rapidly as is appropriate to the nature of the business acquired.
Reputational	The quality of references obtained from existing users of Sanderson software is an important part of the decision-making process for a potential customer seeking to appoint Sanderson as a new supplier. Similarly, existing customers are more likely to extend the use of current solutions and purchase new products when they are confident solutions will be delivered on time and to budget. Poor performance or the provision of sub-standard products may therefore result in customer disputes as well as a negative impact on solution sales.	Sanderson strives to maintain its reputation as a supplier of highly functional, value for money solutions. Quality control is an important part of the product development process and senior staff are involved in managing project delivery to ensure, wherever possible, solutions are delivered on time and to budget.

Approved by order of the Board

Adrian Frost
Secretary
29 November 2016

Sanderson Group plc, Sanderson House,
Manor Road, Coventry, CV1 2GF

Some of our senior team and recent appointments

Christian Brooks

Managing Director One iota

Christian joined One iota, the Group's cloud-based retail technology specialist, in September 2016. He has understanding of the retail sector having worked for WHSmith and through subsequent experience in the technology industry, selling into retail with companies such as Torex Retail, QAS, Quantiv and Experian. A graduate with a BSc in Business & Management, Christian has a proven track record in growing businesses and inspiring teams. His focus at Sanderson will be on working with the team to accelerate One iota's growth.

Geoff Brook

Operations Director Multi-Channel

Geoff was appointed Operations Director for multi-channel retail solutions (part of the Group's Digital Retail Division) in September 2016. He is highly experienced in delivering business improvement, growth and robust, lasting change. Prior to joining Sanderson, Geoff held operations, logistics and business development director roles at Civica, Exel Logistics and Greenalls Group, as well as at software companies developing ecommerce payment systems and transport ERP solutions. Geoff's remit at Sanderson is to improve operational capability whilst generating revenue and continued profitable growth.

Roger Stares

Managing Director Food & Drink

Roger qualified in electrical engineering with Newman Industries then moved into its IT department which was acquired by Sanderson in 1987. He has been instrumental in the design and development of the Group's food & drink solution with over 25 years' experience supplying IT to this sector. Roger celebrates 50 years' continuous service with Sanderson and its acquired companies, in 2016.

The senior team at One iota, Sanderson Group's cloud-based retail technology specialist. From left to right: Paul Aspden (Director of Customer Service); Damian Hanson (Commercial Director); Ross McFarlane (Technical Director); David Hague (Chief Technology Officer); Christian Brooks (Managing Director)

The Sanderson sales, marketing and senior management team

Sanderson continues to invest in product development as well as in its sales and marketing. Reflecting this, sales order intake grew by over 20%, including over £3.83 million from new customers, almost twice the level of the prior year

Investing in people

Our employees are one of our most significant assets. They have detailed knowledge not only of the IT industry but also of the markets in which we operate. This means they can develop, implement and support solutions which add real value to our customers' businesses.

We continually invest in the technology skills and business know-how of our staff. Because we develop our own software, we offer outstanding opportunities to define and deliver the technology roadmap for our solutions. Our people are passionate about digital and emerging technologies in ecommerce and mobile, working at the cutting edge of retail technology with some of the UK's biggest retailers and brands. Whilst in the manufacturing sector, our experienced staff help customers manage complex and stringent regulatory demands along with driving profitability and efficiency.

Engaging with our community

In September, members of the Sanderson marketing team spent half a day putting their skills to good use at Tiny Tim's Children's Centre in Coventry. Tiny Tim's is a registered charity which provides free treatments to children and young people with disabilities, health problems and special needs. They offer treatments either not available or limited on the NHS, or not affordable to families via the private sector. Care is the highest priority for staff at the Centre, so marketing often slips to the bottom of the pile, despite being so important for reaching eligible children as well as attracting donations.

The marketing team focused on tangible deliverables and tasks that were either accomplished on the day or shortly after and came up with a new poster design, a press release template, letters to donors, Facebook marketing and an event plan for the Centre's 30th birthday in 2017.

A member of the Group's marketing team shares knowledge with local children's charity

Board of directors

Christopher Winn

Chairman, aged 66

Following graduation from Nottingham University (BA Honours in History), Christopher worked for British Olivetti until 1974 when he joined the ACT Group, the second UK IT company to be listed on the London Stock Exchange in 1979. He served on the ACT Group plc Board between 1983 and 1994, undertaking a number of senior roles. In 1995, he joined the former Sanderson Group, becoming Group Chief Executive later that year. In 1999, Christopher led a 'take private' of the former Sanderson Group with the support and backing of the Alchemy Plan. Following restructuring and the demerger of the original Group, the business focused primarily on UK commercial markets, which retained the Sanderson name, gained admission to the London Stock Exchange AIM market in 2004.

Ian Newcombe

Chief Executive Officer, aged 61

Ian was appointed to the Sanderson Group plc Board in 2013 and has over 30 years' experience in software and IT services. He began his career in electronics before moving on to the computer industry in 1979 when he joined ACT Group plc. As a local board member, he helped establish an international IT business. In 1996, Ian joined Mitsubishi Electric as International Project Director. In 1999, he was appointed Consulting Director of Talgentra Ltd, where he developed a new consulting business which rapidly expanded overseas. In 2005, Ian became Managing Director of the multi-channel retail division of Sanderson. Having made a major contribution to the Group's strategy and driven the development of the multi-channel business, Ian was appointed Group Chief Executive in June 2015.

Adrian Frost BA, ACA

Finance Director, aged 49

A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. In 1996, he joined Hadley Industries plc as Group Financial Controller. Adrian joined Sanderson in 2000, shortly after the management buyout, and worked closely with the Board in restructuring the former Group into three separate businesses – Sanderson, Civica and Talgentra. Adrian was appointed Finance Director of Talgentra following the formal demerger of the Group, and rejoined Sanderson Group plc in May 2005, as Group Finance Director.

John Paterson

Non-Executive Director, aged 70

John has extensive City experience as an investment analyst. He was Managing Director of Albert E Sharp Securities stockbrokers from 1993 until the acquisition of Albert E Sharp by Old Mutual in 1998, and he was instrumental in setting up Arden Partners in 2002 where he was a Director until November 2004. John is Chairman of the Remuneration Committee.

David Gutteridge

Non-Executive Director, aged 65

David has considerable business experience including with Financial Objects plc, Cyan Technology plc and Sanderson Group plc as a non-executive director between IPO in 2004 up until 2012. David was Chairman of Tinglobal Group plc until May 2014, when he led a successful trade sale to Singapore Listed, Declout Plc. David is Chairman of the Audit Committee.

Group information

Company Secretary
Adrian Frost

Registered company number
4968444

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

Nominated advisor and broker
N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

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

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

Auditor to the Company
Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Financial PR
Walbrook PR Limited
4 Lombard Street
London
EC3V 9HD

Governance statement

As the Company's shares are traded on AIM, the Company has chosen not to fully comply with the UK Corporate Governance Code ('the Code') nor is it required to. However, the Company is committed to high standards of corporate governance and draws upon best practice available, including those aspects of the Code considered appropriate.

Board of directors

The Board is broadly balanced with three executive and two non-executive directors. All executive directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at regular intervals thereafter.

The Board meets on a monthly basis and retains full and effective control of the Group. Additional meetings are arranged as appropriate to consider Group strategy, acquisition and disposal strategies, internal controls and risk analysis, and the annual budget. Day-to-day management of the Group is delegated to the executive directors and senior management team.

Board committees

The Board has established three committees each consisting of, as a minimum, the two non-executive directors. Each committee has defined terms of reference.

The Audit Committee is chaired by David Gutteridge, and meets at least twice a year with the executive directors and representatives of the external auditor in attendance. The Committee's duties include the review of interim and preliminary announcements, compliance with accounting standards, consideration of the Annual Report and Accounts prior to submission to the Board for approval, the appointment and remuneration of the external auditor together with their scope of work and consideration of their findings, and the review of internal controls.

The Remuneration Committee is chaired by John Paterson, and is referred to below.

The Nominations Committee comprises the non-executive directors and Christopher Winn, and is responsible for making recommendations on the appointment of additional directors and for reviewing the composition of the Board and the Board committees. It is chaired by Christopher Winn.

Shareholder communication

The directors seek to visit institutional shareholders at least twice a year. In addition, all shareholders are welcome to attend the Annual General Meeting, where there is an opportunity to question the directors as part of the agenda, or more informally after the meeting. Communication with shareholders is seen as an important part of the Board's responsibilities and care is taken to ensure that all price sensitive information is made available to all shareholders at the same time.

Funding

At the financial year end the Group reported cash balances of £4.34 million. The Group's medium-term strategy is to maintain a strong balance sheet with positive cash balances. The Board believes strategic objectives regarding the development of existing businesses and complementary acquisitions are achievable whilst retaining a positive cash balance. The Group remains profitable and cash generative. Accordingly, the directors have prepared the accounts on a going concern basis.

Directors' remuneration

The Company adheres to the principles of good governance when deciding remuneration strategy and has delegated responsibility for remuneration policy to the Remuneration Committee. The Remuneration Committee meets at least once a year and its broad responsibility is to ensure the remuneration packages of the executive directors and senior management are competitive and designed to attract, retain and motivate individuals of high quality. The Remuneration Committee is made up of the two non-executive directors and is chaired by John Paterson.

The policy of the Group on directors' remuneration is to provide competitive packages that reward Group and individual performance. Remuneration packages comprise a basic salary, an annual performance-related bonus measured against targets set each year by the Remuneration Committee, pension contributions and other benefits. Where appropriate, participation in share incentive plans is also offered.

Details of directors' remuneration are provided in note 8 to the accounts. Details of options to purchase ordinary shares in the Company that have been granted to directors of the Company are set out below:

	In issue at year end	Financial year issued	Exercise price	Performance conditions	Earliest exercise date	Expiry date
Adrian Frost	59,000	2005	57p	Yes	01.10.2007	30.09.2017
Adrian Frost	215,579	2005	56p	Yes	01.10.2007	15.12.2017
Ian Newcombe	300,000	2010	23p	Yes	21.05.2013	21.05.2017
Ian Newcombe	35,000	2011	27p	No	05.04.2014	05.01.2021
Ian Newcombe	118,750	2011	30p	No	29.06.2014	29.06.2018
Ian Newcombe	31,250	2011	30p	No	29.06.2014	29.06.2018
Ian Newcombe	200,000	2012	45.75p	No	27.11.2015	27.11.2019
Ian Newcombe	200,000	2013	71p	No	13.12.2016	13.12.2023

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal controls. Control systems are designed to meet the particular needs of the Group and to address the risks to which the Group is exposed. By their nature, internal control systems are designed to manage rather than eliminate risk, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has adopted a policy of continuous improvement by regular review for assessing the adequacy of internal controls.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2016.

Business review

A comprehensive analysis of the Group's development and performance is contained in the Chairman's statement and Strategic report. Information on the financial risk management strategy of the Group and of the exposure of the Group to currency risk, interest rate risk, credit risk and liquidity risk is set out in note 24 to the accounts. Details of the key performance indicators used by management are set out in the Strategic report.

Dividend

A final dividend of 1.20 pence per share was paid on 18 March 2016 (2015: 1.00 pence) relating to the financial year ended 30 September 2015. An interim dividend of 1.00 pence per ordinary share was paid on 19 August 2016 (2015: 0.90 pence per share) in respect of the financial year ended 30 September 2016. The directors propose the payment of a final dividend in respect of the year ended 30 September 2016 of 1.40 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting, expected to be held on 2 March 2017 and, if approved, will be paid on 17 March 2017 to shareholders on the register at the close of business on 3 March 2017.

Employees

The Group's policy of providing employees with information about the Group has continued and regular meetings are held between management and employees to allow exchanges of information and ideas. The Group continues to consider ways to encourage the involvement of employees in the Group's performance.

The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

Directors and directors' interests

Philip Kelly resigned as a non-executive director on 8 June 2016. All other directors served throughout the year.

The directors who held office at the end of the financial year are set out below, together with their interests in the ordinary shares of the Company according to the register of directors' interests:

	Interest at end of year	Interest at start of year
Ordinary shares of 10 pence		
Christopher Winn	11,786,924	11,786,924
Adrian Frost	277,421	247,421
Ian Newcombe	112,500	72,500
John Paterson*	90,000	90,000
David Gutteridge*	575,000	545,000

* Denotes non-executive directors.

Details of options to purchase ordinary shares in the Company granted to the executive directors are set out in the Governance statement.

All directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

None of the directors who held office at the end of the financial year had any other disclosable interest in the shares of Sanderson Group plc or any other Group companies.

Substantial shareholdings

The Company has been advised of the following notifiable interests in more than 3% of its ordinary share capital as at the date of this report:

	Number of shares	%
Christopher Winn	11,786,924	21.5
Hargreave Hale & Co	8,046,079	14.7
Living Bridge	4,818,257	8.8
Miton Asset Management	4,254,522	7.8
Unicorn Asset Management	2,407,572	4.4
Downing ONE VCT Plc	2,421,959	4.4
Helium Rising Stars Fund	1,833,753	3.3

Research and development

The Group undertakes a continuous programme of development expenditure, both as part of a long-term development programme and in response to specific customer or market requirements. Development expenditure is capitalised only when the end product is technically and commercially feasible and when sufficient resource is available to complete the development. All other development expenditure, including projects on which revenue of an amount equal to or greater than the cost of development has been generated in the same period as that in which the cost is incurred, is recognised in the income statement as an expense.

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, Directors' report, Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare Group and parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for the period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

Grant Thornton UK LLP is willing to continue in office. In accordance with s489(4) of the Companies Act 2006 a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Adrian Frost
Secretary
29 November 2016

Sanderson Group plc, Sanderson House,
Manor Road, Coventry, CV1 2GF

Independent auditor's report to the members of Sanderson Group plc

We have audited the Group financial statements of Sanderson Group plc for the year ended 30 September 2016 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 21, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2016.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
29 November 2016

Consolidated income statement

for the year ended 30 September 2016

	Note	2016 £000	2015 £000
Revenue	3, 4	**21,320**	19,182
Cost of sales		**(3,399)**	(2,964)
Gross profit		**17,921**	16,218
Technical and development costs		**(8,428)**	(7,858)
Administrative and establishment expenses		**(3,875)**	(3,774)
Sales and marketing costs		**(2,592)**	(2,165)
Profit from operating activities		**3,026**	2,421
Profit from operating activities before adjustments in respect of the following:	7	**3,686**	3,303
Amortisation of acquisition-related intangibles	15	**(513)**	(483)
Acquisition-related and restructuring costs	16	**(62)**	(310)
Share-based payment charges	6	**(85)**	(89)
Profit from operating activities		**3,026**	2,421
Finance income	9	**27**	47
Finance expenses	10	**(180)**	(185)
Acquisition-related finance expense	10	**(92)**	(252)
Profit before taxation		**2,781**	2,031
Taxation	11	**(354)**	(164)
Profit for the year		**2,427**	1,867

All operations are continuing.

All of the profit for the year is attributable to equity holders of the parent undertaking.

Earnings per share

From profit attributable to the owners of the parent undertaking during the year

Basic earnings per share	13	**4.4p**	3.4p
Diluted earnings per share	13	**4.3p**	3.3p

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 30 September 2016

	Note	2016 £000	2015 £000
Profit for the year		**2,427**	1,867
Other comprehensive income/(expense)			
Items that will not subsequently be reclassified to profit or loss			
Remeasurement of net defined benefit pension liability	27	**(3,678)**	(90)
Deferred taxation effect of defined benefit pension plan items	17	**568**	18
		(3,110)	(72)
Items that may subsequently be reclassified to profit or loss			
Change in fair value of available for sale financial asset		**19**	(31)
Foreign exchange translation differences		**31**	(78)
Total other comprehensive expense		**(3,060)**	(181)
Total comprehensive (expense)/income attributable to equity holders of the parent		**(633)**	1,686

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of financial position

at 30 September 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	14	**524**	469
Intangible assets	15	**30,473**	30,627
Deferred tax assets	17	**1,755**	1,319
		32,752	32,415
Current assets			
Inventories		**20**	83
Trade and other receivables	18	**7,032**	5,472
Other short-term financial assets	19	**209**	190
Cash and cash equivalents		**4,344**	4,607
		11,605	10,352
Current liabilities			
Trade and other payables	21	**(4,570)**	(3,909)
Deferred consideration	20	**(155)**	(1,594)
Income tax payable		**(337)**	—
Deferred income		**(5,270)**	(4,830)
		(10,332)	(10,333)
Net current assets		**1,273**	19
Total assets less current liabilities		**34,025**	32,434
Non-current liabilities			
Pension obligations	27	**(8,155)**	(4,627)
Deferred consideration	20	**(115)**	(244)
Deferred tax liabilities	17	**(824)**	(936)
		(9,094)	(5,807)
Net assets		**24,931**	26,627
Equity attributable to equity holders of the parent company			
Share capital	22	**5,485**	5,460
Share premium		**9,056**	9,023
Available for sale reserve		**79**	60
Foreign exchange reserve		**(56)**	(87)
Retained earnings		**10,367**	12,171
Total equity		**24,931**	26,627

These financial statements were approved and authorised for issue by the Board of directors on 29 November 2016 and were signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of changes in equity
for the year ended 30 September 2016

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2015	**5,460**	**9,023**	**60**	**(87)**	**12,171**	**26,627**
Exercise of share options	**25**	**33**	**—**	**—**	**—**	**58**
Dividend paid	**—**	**—**	**—**	**—**	**(1,206)**	**(1,206)**
Share-based payment charge	**—**	**—**	**—**	**—**	**85**	**85**
Transactions with owners	**25**	**33**	**—**	**—**	**(1,121)**	**(1,063)**
Profit for the year	**—**	**—**	**—**	**—**	**2,427**	**2,427**
Other comprehensive income:						
Remeasurement of net defined benefit liability	**—**	**—**	**—**	**—**	**(3,678)**	**(3,678)**
Deferred tax on above	**—**	**—**	**—**	**—**	**568**	**568**
Foreign exchange translation differences	**—**	**—**	**—**	**31**	**—**	**31**
Change in fair value of available for sale financial asset	**—**	**—**	**19**	**—**	**—**	**19**
Total comprehensive income/(expense)	**—**	**—**	**19**	**31**	**(683)**	**(633)**
At 30 September 2016	**5,485**	**9,056**	**79**	**(56)**	**10,367**	**24,931**

for the year ended 30 September 2015

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2014	5,406	8,809	91	(9)	11,520	25,817
Exercise of share options	54	214	—	—	(150)	118
Settlement of share options	—	—	—	—	(48)	(48)
Dividend paid	—	—	—	—	(1,035)	(1,035)
Share-based payment charge	—	—	—	—	89	89
Transactions with owners	54	214	—	—	(1,144)	(876)
Profit for the year	—	—	—	—	1,867	1,867
Other comprehensive income:						
Remeasurement of net defined benefit liability	—	—	—	—	(90)	(90)
Deferred tax on above	—	—	—	—	18	18
Foreign exchange translation differences	—	—	—	(78)	—	(78)
Change in fair value of available for sale financial asset	—	—	(31)	—	—	(31)
Total comprehensive income/(expense)	—	—	(31)	(78)	1,795	1,686
At 30 September 2015	5,460	9,023	60	(87)	12,171	26,627

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 September 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit for the year after taxation	**2,427**	1,867
Adjustments for:		
Amortisation of intangible assets	**1,026**	982
Depreciation	**199**	156
Share-based payment charge	**85**	89
Net finance expense	**245**	390
Income tax charge	**354**	164
Operating cash flow before changes in working capital	**4,336**	3,648
Movement in trade and other receivables	**(1,560)**	(105)
Movement in inventories	**63**	(37)
Movement in trade and other payables	**1,135**	(629)
Cash generated from operations	**3,974**	2,877
Payments to defined benefit pension scheme	**(330)**	(450)
Income tax paid	**—**	(5)
Net cash flow from operating activities	**3,644**	2,422
Cash flow from investing activities		
Purchase of property, plant and equipment	**(254)**	(296)
Acquisition of subsidiary undertakings, net of cash acquired	**—**	(1,041)
Payment of deferred consideration in respect of subsidiary undertakings	**(1,660)**	(895)
Dividend received	**15**	12
Bank interest received	**12**	35
Development expenditure capitalised	**(872)**	(824)
Net cash flow from investing activities	**(2,759)**	(3,009)
Cash flow from financing activities		
Issue of shares, net of costs	**58**	118
Settlement of share options	**—**	(48)
Equity dividends paid	**(1,206)**	(1,035)
Net cash flow from financing activities	**(1,148)**	(965)
Net decrease in cash and cash equivalents	**(263)**	(1,552)
Cash and cash equivalents at beginning of year	**4,607**	6,159
Cash and cash equivalents at the end of the year	**4,344**	4,607

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the consolidated financial statements

forming part of the financial statements

1. Reporting entity

Sanderson Group plc is a company domiciled in the United Kingdom. The address of the Company's registered office is Sanderson House, Manor Road, Coventry, CV1 2GF. The consolidated financial statements for the year ended 30 September 2016 comprise the results of the Company and its subsidiary undertakings (together referred to as the Group). The Group is primarily involved in the development and supply of IT software and services. The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange.

2. Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, the Companies Act 2006 that applies to companies reporting under IFRS and IFRIC interpretations.

The Company has elected to prepare its parent company financial statements in accordance with IFRS as adopted by the European Union. These parent company financial statements appear after the notes to the consolidated financial statements.

The Group financial statements have been prepared on a going concern basis. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance that may arise as a result of current economic conditions and other risks faced by the Group, show that the Group should remain profitable and cash generative. At the financial year end the Group reported cash balances of £4.34 million. The Group's medium-term strategy is to maintain a strong balance sheet with positive cash balances. The Board believes strategic objectives regarding the development of existing businesses and complementary acquisitions are achievable whilst retaining a strong balance sheet.

Basis of measurement

The financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below.

Functional and presentation currency

The consolidated financial statements are presented in sterling, which is the functional currency of the Group.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Information about significant areas of estimation and critical judgements that have the most significant impact on the financial statements are described in the following notes:

Estimates

Note 15: *Measurement of intangible assets:* In testing for impairment of intangible assets, management has made certain assumptions concerning the future development of the business that are consistent with the annual budget and business plan. Should these assumptions regarding the growth in profitability be unfounded then it is possible that intangible assets included in the statement of financial position could be impaired. Management is confident that this will not be the case. The Group has a history of retaining customers, with the average length of customer relationships in excess of ten years. The time and resources required by organisations to change enterprise systems is significant and therefore discourages change. Management therefore believes the existing business will continue to generate revenues, profits and positive cash flows for many years. Accordingly, when assessing the recoverable value attributable to goodwill and other intangible assets, management has estimated cash flows attributable to existing businesses and extrapolated forward budgets for the financial year ending 30 September 2017 in line with the average length of customer relationships. The calculations involve the use of a discount rate when measuring the present value of future cash flows. The discount rate is a further estimate. The results of this review are disclosed in note 15.

Note 16: *Measurement of intangible assets relating to acquisitions:* In attributing value to intangible assets arising on acquisition, management has made certain assumptions in terms of cash flows attributable to intellectual property and customer relationships. The key assumptions relate to the trading performance of the acquired business and discount rates applied to calculate the present value of future cash flows. The directors consider the resulting valuations to be reasonable approximations as to the value of the intangibles acquired.

Note 18: *Measurement of trade receivables:* Management assesses the likely recoverability of amounts invoiced to customers on the basis of the creditworthiness of customers and the age of debts at the period end. The directors consider the carrying amount of trade receivables approximates to their fair value.

Note 27: *Measurement of defined benefit pension obligations:* The Group's interests in a defined benefit pension scheme have been accounted for in accordance with IAS 19 'Employee Benefits'. The main area of judgement is the valuation of pension scheme liabilities, which represent the net present value of future pension obligations. These calculations are performed by the scheme actuary, with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are rates of increases in pension benefits, mortality rates, inflation and the discount rate applied to produce the net present value. The discount rate is derived from market rates on AA corporate bonds at the year-end date.

Judgements

Note 15: *Intangible assets:* Development expenditure is recognised on the statement of financial position when certain criteria are met, as described more fully in the accounting policy on the treatment of research and development expenditure. Management uses its judgement in assessing development projects against the criteria.

Note 17: *Deferred tax:* The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties.

Notes to the consolidated financial statements
continued

3. Accounting policies

New and revised accounting standards applied for the first time in the current year

The Group has adopted the following new standards, or new provisions of amended standards:

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRS 2010–2012 Cycle

There has been no material impact on either amounts reported or disclosure in the financial statements arising from first time adoption.

Adopted IFRS not yet applied

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been applied early by the Group. Management anticipates that the following pronouncements relevant to the Group's operations will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement, once adopted by the EU:

- IFRS 9 Financial Instruments (not yet adopted by the EU, effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11, effective 1 January 2016)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective 1 January 2016)
- Annual Improvements to IFRS 2012-2014 Cycle (effective 1 January 2016)
- Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective 1 January 2016)
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016)
- IFRS 16 Leases (not yet adopted by the EU, effective 1 January 2019)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (not yet adopted by the EU)
- Classification and Measurement of Share-Based Payment Transactions (Amendments to IFRS 2) (not yet adopted by the EU)
- Disclosure Initiative: Amendments to IAS 7 (not yet adopted by the EU)

Other than in respect of IFRS 15 and IFRS 16, the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. With regard to IFRS 15 and IFRS 16, the Group has commenced an assessment of the impact likely from adopting the standard, but is not yet in a position to state whether the impact will be material to the Group's reported results or financial position.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Basis of consolidation

The consolidated financial information comprises a consolidation of the accounts of the Company and its subsidiary undertakings at the statement of financial position date. The results of subsidiary undertakings acquired during the financial year are included from the date of acquisition. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its powers over the investee.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation and impairment charges.

Depreciation is calculated to write off the cost of property, plant and equipment less the estimated residual value on a straight-line basis over the expected useful economic life of the assets concerned. Estimated residual values are revised annually.

The annual rates used are:

- leasehold improvements - over life of the property leases, which vary between 3 and 50 years
- plant and equipment - 15%-33⅓%

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and bank overdrafts where they form an integral part of the Group's cash management. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. The only equity instrument applicable to the Group is its issued share capital.

Share premium includes any premium received on the issue of share capital. Transaction costs associated with the issuing of shares are deducted from share premium, net of any related tax benefits. Retained earnings includes all current and prior period retained profits and losses.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than sterling are translated into sterling upon consolidation. Assets and liabilities (including goodwill and fair value adjustments arising on acquisition) are translated into sterling at the closing rate. Income and expenditure is translated at an average rate. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity.

Accounting for financial assets

The Group has financial assets in the following categories:

- loans and receivables
- available for sale financial assets

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expense is recognised in the income statement or statement of other comprehensive income. All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Sanderson Group plc's trade and other receivables fall into this category of financial instruments.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the year-end date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write-down is then based on recent historical counterparty default rates for each identified group.

Available for sale ('AFS') financial assets

AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets comprise listed securities and are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except dividend income which is recognised in profit or loss.

Accounting for financial liabilities

The Group's financial liabilities include trade and other payables which, subsequent to initial recognition at fair value, are measured at amortised cost using the effective interest rate method. Conditional deferred consideration (contingent consideration) is classified as fair value through profit and loss. Movements subsequent to initial recognition at fair value are recognised in the Consolidated income statement.

Notes to the consolidated financial statements
continued

3. Accounting policies continued

Pension benefits

The Group operates defined contribution pension schemes and a subsidiary company is the principal employer to a closed defined benefit scheme. The Group's net obligation in respect of the defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The liability is calculated using the projected unit method. The discount rate is based on the annualised yield on AA credit-related corporate bonds. The calculation is performed by a qualified actuary.

Net interest expense on the net defined benefit liability is included in finance costs. Gains or losses resulting from remeasurement of the net defined benefit liability are included in other comprehensive income.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Consolidated income statement as incurred.

Revenue

Revenue comprises the fair value of sales of licences, support and maintenance contracts, training, consulting and implementation services and hardware. Value added tax and transactions between Group companies are excluded.

Revenues are recognised on the basis of the performance of contractual obligations and to the extent that the right to consideration has been earned. In cases where a single contractual arrangement involves the sale of licences, support, maintenance and services, the consideration received is allocated to the components of the arrangement on a relative fair value basis.

Initial licence fees are recognised upon the provision of software to the customer, providing that payment terms are contractually binding, collection is reasonably certain and there are no material contract conditions or warranties. If any conditionality exists, licence fees are recognised when the conditions have been met. Revenue from the provision of professional services including support, maintenance, training and consultancy services is recognised as the services are performed. Hardware sales are recognised on delivery. Annual licence, maintenance and support revenues are recognised evenly over the period to which they relate. When amounts are invoiced in advance, the unearned element remains in deferred income until recognition is appropriate.

Segmental reporting

IFRS 8 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker ('CODM'). The CODM has been determined to be the executive directors.

The Group has two main operating divisions: Digital Retail and Enterprise Software. These two divisions represent the Group's reportable segments under IFRS 8. Each segment has a manager who is directly accountable to the CODM.

Each segment is managed separately as the characteristics of the markets served differ. All inter-segment transfers take place on an arm's-length basis. Accounting policies used for reporting the results of segments are the same as those adopted in preparing the financial statements of the Group. The activities of, and products and services offered by, the segments are described in the Group Chief Executive's business review.

The Group operates a number of bank accounts including certain accounts specific to shared operations. Whilst information contained in the income statement can be allocated between divisions, certain items in the statement of financial position, such as cash balances, cannot be so allocated. For this reason, the cash and cash equivalents figure shown in note 4 to the financial statements does not correspond with the cash and cash equivalents figure of the Group disclosed in the Consolidated statement of financial position. Bank balances in respect of shared operations are included in unallocated assets and liabilities.

Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved or paid.

Goodwill

Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset and represents the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets acquired. Identifiable net assets are those which are capable of being sold separately or which arise from legal rights regardless of whether those legal rights are separable. Where contingent consideration arises on acquisition as a result of performance targets, it is recognised at fair value, being the weighted average probability of potential outcomes. At each year end the fair value is recalculated and gains or losses arising are recognised in the Consolidated income statement. The carrying value of goodwill relating to subsidiaries disposed of is deducted from sale proceeds in arriving at reported profit or loss on disposal. Goodwill is not amortised but is tested annually for impairment.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development activity is recognised in the Consolidated statement of financial position if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the Group intends to complete the development of the asset and has the ability to do so;
- the Group has the technical and financial resources to complete the asset and exploit the economic benefits arising from it;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be reliably measured.

Internally generated intangible assets are amortised over their useful economic life, typically between three and five years. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Leases

Assets financed by leasing arrangements, which give rights approximating to ownership, are treated as if they had been purchased outright and are capitalised and depreciated over the shorter of the estimated useful life of the assets and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged against profits in proportion to the balances outstanding. All other leases are operating leases and rental costs are charged against profits on a straight-line basis over the lease term.

Other intangible assets

Intangible assets separately purchased, such as intellectual property rights, are capitalised at cost and amortised on a straight-line basis over their useful economic life. Intangible assets acquired through a business combination are measured at fair value and amortised over their useful economic lives.

The following periods are used when assessing useful economic lives for purposes of calculating amortisation charges:

Intellectual property rights	3–10 years
Customer relationships	3–10 years

Impairment

The carrying amount of the Group's assets, other than inventories, deferred tax assets and available for sale financial assets (see accounting policies above), is reviewed at each year-end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. Impairment losses in respect of goodwill cannot be reversed.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets of the unit (group of units) on a pro rata basis.

Share-based payments

The equity-settled share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured using the Black-Scholes model at grant date and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Deferred taxation is recognised over the vesting period. Payments made to employees on cancellation of an equity-settled award are accounted for as a repurchase of an equity interest and deducted from equity. Any excess of the payment over the fair value of the award calculated at the date of cancellation is treated as an expense. On exercise, shares are issued and the nominal value of each share is credited to share capital. The difference between the exercise price paid and the nominal value of each share is credited to share premium. The exercise of options issued pursuant to the Company's Long Term Incentive Plan gives rise to a charge against reserves equal to the market price per share at the date of exercise.

Notes to the consolidated financial statements
continued

3. Accounting policies continued

Taxation

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity. Current income tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods that remain unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full, deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively. Deferred tax is calculated on the basis of rates and laws enacted or substantially enacted.

4. Segmental reporting

The Group is managed as two separate divisions, providing IT solutions and associated services to the digital retail and enterprise software sectors. The information provided to the CODM is analysed between the divisions as follows:

	Digital Retail		Enterprise Software		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Revenue – external customers	**6,398**	5,877	**14,922**	13,305	**21,320**	19,182
Cost of sales	**(1,099)**	(719)	**(2,300)**	(2,245)	**(3,399)**	(2,964)
Gross profit	**5,299**	5,158	**12,622**	11,060	**17,921**	16,218
Depreciation†	**(58)**	(52)	**(141)**	(104)	**(199)**	(156)
Operating profit before adjustments	**885**	1,293	**2,801**	2,010	**3,686**	3,303
Amortisation*	**(266)**	(266)	**(247)**	(217)	**(513)**	(483)
Acquisition-related and restructuring costs	**—**	—	**(62)**	(310)	**(62)**	(310)
Share-based payment charges	**(53)**	(53)	**(32)**	(36)	**(85)**	(89)
Result from operating activities	**566**	974	**2,460**	1,447	**3,026**	2,421
Net finance expense					**(245)**	(390)
Taxation					**(354)**	(164)
Profit attributable to equity holders					**2,427**	1,867

* Amortisation of acquisition-related intangibles
† Depreciation charged to operating profit

The CODM uses both gross profit and operating profit measures in assessing the performance of the Group's divisions. The largest customer of the Digital Retail Division accounted for 41% (2015: 28%) of divisional revenue. No other customer accounts for 10% or more of the revenue of either division.

Revenue amounting to £705,000 (2015: £658,000) was derived from customers domiciled in Eire. Substantially all other revenue is generated within the UK.

An analysis of items contained within the statement of financial position is set out below. The Group's assets are held in the United Kingdom. Included within other unallocated assets and liabilities are cash balances totalling £0.72 million (2015: £1.60 million) and an investment held for resale. Amounts in respect of shared operations cannot be allocated between operating divisions.

Additions to property, plant and equipment during the year amounted to £254,000 (2015: £296,000). A total of £43,000 (2015: £119,000) was attributable to the Digital Retail Division, with £211,000 (2015: £177,000) incurred by the Enterprise Software Division.

Analysis of items contained within the statement of financial position

	Digital Retail		Enterprise Software		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Property, plant and equipment	**135**	76	**389**	393	**524**	469
Intangible assets	**6,092**	6,127	**24,381**	24,500	**30,473**	30,627
Deferred tax assets	**117**	83	**1,638**	1,236	**1,755**	1,319
Inventory	**20**	83	**—**	—	**20**	83
Cash and cash equivalents	**860**	257	**2,765**	2,754	**3,625**	3,011
Trade and other receivables	**1,912**	1,634	**5,120**	3,838	**7,032**	5,472
Total assets	**9,136**	8,260	**34,293**	32,721	**43,429**	40,981
Trade and other payables	**(1,214)**	(246)	**(3,356)**	(3,663)	**(4,570)**	(3,909)
Deferred income	**(717)**	(695)	**(4,553)**	(4,135)	**(5,270)**	(4,830)
Income tax	**(56)**	—	**(281)**	—	**(337)**	—
Deferred taxation	**(275)**	(174)	**(549)**	(762)	**(824)**	(936)
Deferred consideration	**(50)**	(1,384)	**(220)**	(454)	**(270)**	(1,838)
Pension obligations	**—**	—	**(8,155)**	(4,627)	**(8,155)**	(4,627)
Total liabilities	**(2,312)**	(2,499)	**(17,114)**	(13,641)	**(19,426)**	(16,140)
Allocated net assets	**6,824**	5,761	**17,179**	19,080	**24,003**	24,841
Other unallocated assets and liabilities					**928**	1,786
Net assets					**24,931**	26,627

5. Related parties

The Group's related parties are its key management personnel and the Sanderson Group Retirement Benefit Scheme (the 'Scheme'), a legacy defined benefit pension scheme that closed to new members in 1995 and to future accrual in 2004.

The defined benefit plan does not hold shares in Sanderson Group plc. The Group provides payroll services to facilitate the payment of pensions to retired members of the Scheme and accounting services to the Scheme trustee for the preparation of the Scheme accounts. Certain of the Group's employees act as directors of the corporate trustee of the Scheme. No charge is made for these services. The Group's only transactions with the Scheme relate to contributions paid to the plan as set out in note 27 and administrative expenses incurred by the Scheme that are charged to the employer and expensed by the Group as incurred.

Key management personnel of the Group comprises the executive directors, members of the senior management team and the non-executive directors, a total of 11 individuals. Remuneration paid to key management personnel during the year is set out in note 8.

6. Share-based payments

The Group operates an HMRC approved executive management incentive plan ('EMI'), an unapproved share option plan and a Company Share Option Plan ('CSOP'). Details of the total number of shares under option at the year end and conditions on qualification and exercise are set out below:

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	75,700	Earnings per share growth	54.25	01/10/2007	30/09/2017
27/05/2005	Management	215,579	Earnings per share growth	56.00	01/10/2007	15/12/2017
27/05/2005	Management	59,000	Earnings per share growth	57.00	01/10/2007	30/09/2017
21/05/2010	Management	300,000	*	23.00	21/05/2013	21/05/2017
05/01/2011	Management	85,000		27.50	05/04/2014	05/01/2021
29/06/2011	Management	190,000		30.00	29/06/2014	29/06/2018
27/11/2012	Management	200,000		45.75	27/11/2015	27/11/2019
18/12/2012	Management	40,000		49.00	18/12/2015	18/12/2019
13/12/2013	Management	375,000		71.00	13/12/2016	13/12/2023
17/12/2013	Management	140,000	†	70.50	17/12/2016	17/12/2023
17/12/2013	Employees	34,696	‡‡	10.00	17/12/2014	17/12/2021
03/03/2014	Management	400,000		57.50	03/03/2017	03/03/2023
05/09/2016	Management	554,000		70.50	05/09/2019	05/09/2026
		2,668,975				

* Performance conditions relating to options issued after 2005 have included targets based on operating profit, growth in earnings per share and total shareholder return.

† Performance conditions relating to options issued to certain managers at One iota Limited are based on target profitability and are in line with the conditions relating to the measurement and payment of deferred conditional consideration payable to the former shareholders of the business.

‡ Options granted to employees of One iota Limited were issued without performance conditions and with an exercise price at a discount to the market value at the time of issue. The options were originally exercisable in three equal annual tranches commencing December 2014.

Notes to the consolidated financial statements
continued

6. Share-based payments continued

The number and weighted average exercise price of share options are as follows:

	2016 Weighted average exercise price	2016 Number of options (number)	2015 Weighted average exercise price	2015 Number of options (number)
Outstanding at start of year	**45.4p**	**2,456,409**	40.7p	3,007,650
Granted during the year	**70.5p**	**554,000**	—	—
Exercised during the year	**(22.5)p**	**(251,434)**	(37.0)p	(536,742)
Forfeited during the year	**(27.0)p**	**(90,000)**	(10.0)p	(14,499)
Outstanding at end of the year	**53.4p**	**2,668,975**	45.4p	2,456,409
Exercisable at end of the year	**39.1p**	**1,165,279**	33.3p	1,165,279

Options exercised during the year were in respect of the following schemes:

	Quantity	Exercise price
EMI	31,434	10.00p
CSOP	70,000	27.50p – 49.00p
Unapproved	150,000	10.00p – 23.00p

Options outstanding at 30 September 2016 have exercise prices in the range 10.0 pence to 71.0 pence per share. The weighted average contractual life of the options is 4.2 years (2015: 4.9 years).

On 30 September 2016 the closing share price of Sanderson Group plc was 68.5 pence. During the year ending on that date the closing share price varied in the range 61.0 pence to 87.0 pence.

Fair value assumptions of share-based payments

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of fair value is measured using the Black–Scholes model. Details of the fair value of share options granted in the period, together with the assumptions used in determining the fair value, are summarised below. No share options were granted in the prior period.

	30 September 2016
Weighted average share price at date of grant (pence)	70.5
Weighted average exercise price (pence)	70.5
Weighted average contractual life (years)	10
Weighted average expected volatility	6%
Weighted average expected dividend yield	3.0%
Weighted average risk free interest rate	2.3%
Weighted average fair value of options granted (pence)	2.0

The volatility assumption, measured at the standard deviation of expected share price movements, is based on a statistical analysis of historic movements over a three-year period ending on the date of grant.

Charge to the income statement

The charge to the income statement comprises:

	2016 £000	2015 £000
Share-based payment charges	**85**	89

7. Expenses and auditor's remuneration

Included in the income statement are the following items:

	2016 £000	2015 £000
Auditor's remuneration:		
Fees payable to the Group's auditor for the audit of the Group's Annual Accounts	10	10
Amounts received by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries	49	45
Taxation advice	16	7
Depreciation and other amounts written off property, plant and equipment:		
Owned, in respect of continuing activities	199	156
Amortisation of acquisition-related intangible assets	513	483
Amortisation of development costs	513	499
Aggregate charge against income in respect of research and development	2,114	1,819
Cost of inventory recognised as an expense	3,399	2,964
Rentals payable under plant and machinery operating leases	11	10
Leasehold property rentals	401	341

The aggregate charge in respect of research and development represents the total cost incurred during the year, less amounts capitalised in accordance with IAS 38 Intangible Assets. Cost of inventory represents the cost of third party products provided to customers in conjunction with the Group's own proprietary software and services.

8. Personnel expenses

The average number of persons employed by the Group during the period was as follows:

	2016 No.	2015 No.
Technical	180	169
Sales and marketing	30	29
Administrative	21	20
	231	218

The aggregate payroll costs of the persons employed, including directors, were as follows:

	2016 £000	2015 £000
Wages and salaries	9,155	8,484
Social security costs	1,106	957
Contributions to defined contribution pension plans	696	686
Share-based payment charge	85	89
	11,042	10,216

Notes to the consolidated financial statements
continued

8. Personnel expenses continued

Salary costs in respect of the directors of the Company are set out below:

	Salary or fees £000	Payments to defined contribution pension £000	Benefits in kind £000	Value arising on exercise of options £000	Total 2016 £000
For the year ended 30 September 2016					
Executive directors					
Christopher Winn	**297**	**—**	**5**	**—**	**302**
Ian Newcombe	**234**	**50**	**3**	**18**	**305**
Adrian Frost	**150**	**23**	**3**	**35**	**211**
Non-executive directors					
John Paterson	**34**	**—**	**—**	**—**	**34**
Philip Kelly*	**28**	**—**	**—**	**—**	**28**
David Gutteridge	**34**	**—**	**—**	**—**	**34**
	777	**73**	**11**	**53**	**914**

	Salary or fees £000	Payments to defined contribution pension £000	Benefits in kind £000	Value arising on exercise of options £000	Total 2015 £000
For the year ended 30 September 2015					
Executive directors					
Christopher Winn	300	—	9	—	309
Ian Newcombe	150	26	4	—	180
Adrian Frost	128	46	4	115	293
Non-executive directors					
John Paterson	33	—	—	—	33
Philip Kelly	33				33
David Gutteridge†	10	—	—	—	10
	654	72	17	115	858

* Figures in respect of Philip Kelly are stated up to the date of his resignation on 1 June 2016.

† Figures in respect of David Gutteridge are stated from his appointment on 9 June 2015.

Salaries paid to the executive directors include car allowances to compensate for the use of personal vehicles on Company business. Mr Winn's salary also includes an amount paid in lieu of Company pension contributions. In addition to the amounts set out above, Mr Newcombe received salary of £23,193 by way of a pay review backdated to the date of his appointment as Chief Executive.

Executive directors' bonuses are payable when targets in respect of Group operating profit, set by the Remuneration Committee, are achieved. Bonuses for the year ending 30 September 2017 will be based on targets in respect of Group operating profit, growth in earnings per share and cash generation.

The executive directors are provided with life assurance, permanent health insurance and private medical insurance. The cost to the Group is reflected in the value of benefits in kind disclosed above. Contracts of employment for executive directors include mutual notice periods of twelve months.

The following table provides details of remuneration paid to key management personnel during the year. For purposes of this disclosure, key management personnel are defined as the executive directors, members of the senior management team and the non-executive directors, a total of 11 individuals (2015: 10 individuals).

	2016 £000	2015 £000
Short-term employee benefits	**1,395**	1,059
Post-employment benefits	**118**	110
Share-based payments	**22**	20
	1,535	1,189

The directors received dividends from the Company by virtue of their shareholdings in the Company, details of which are disclosed in the Directors' report.

No director had a material interest in any contract in relation to the business of the Company or its subsidiary undertakings.

9. Finance income

	2016 £000	2015 £000
Bank interest received	**12**	35
Dividend received	**15**	12
	27	47

10. Finance expenses

	2016 £000	2015 £000
Net interest on defined benefit pension scheme deficit	**180**	185

The Company is required by International Accounting Standards to calculate the fair value of deferred consideration by discounting expected future cash payments using the Company's cost of capital. The charge of £92,000 (2015: £252,000) has been reported as an acquisition-related finance expense.

11. Taxation

	2016 £000	2015 £000
Current tax expense		
UK corporation tax for the current year	**334**	—
Relating to prior periods	**—**	26
Total current tax	**334**	26
Deferred tax		
Deferred tax for the current year	**29**	216
Relating to prior periods	**51**	(78)
Arising on change in rate of deferred tax	**(60)**	—
Total deferred tax	**20**	138
Taxation charged to the income statement	**354**	164

Notes to the consolidated financial statements
continued

11. Taxation continued

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2015: lower) than the average standard rate of corporation tax in the UK during the period of 20% (2015: 20.5%). The differences are explained below.

	2016 £000	2015 £000
Profit before taxation	**2,781**	2,031
Tax using the average UK corporation tax rate of 20% (2015: 20.5%)	**556**	416
Effects of:		
Expenses not deductible for tax purposes	**70**	74
Utilisation and recognition of losses	**(153)**	(262)
Under/(over) provision in previous years	**51**	(52)
Change in tax rate	**(60)**	(12)
Expenses not reported in the income statement	**(110)**	—
Total tax in income statement	**354**	164

12. Dividends

	2016 £000	2015 £000
Interim dividend of 1.00p per share (2015: 0.90p)	**549**	491
Final dividend relating to previous financial year of 1.20p per share (2015: 1.00p)	**657**	544
Total dividend for the financial year	**1,206**	1,035

A final dividend of 1.40 pence per ordinary share in respect of the financial year ended 30 September 2016 will be proposed at the Annual General Meeting of the Company, expected to be held on 2 March 2017. If approved by shareholders, the total final dividend payment will amount to £767,928. The directors will receive a proportion of this dividend by virtue of their shareholdings in the Company, details of which are disclosed in the Directors' report.

13. Earnings per share

Basic and diluted earnings per share are calculated by dividing the result after tax for the year by the weighted average number of ordinary shares at the end of the year and the diluted weighted average number of ordinary shares at the end of the year respectively. In order to better demonstrate the performance of the Group, an adjusted earnings per share calculation has been presented below which adds back items typically adjusted for by users of the accounts. The calculations for earnings and the number of shares relevant to all of the measures of earnings per share described in the foregoing are set out below:

Earnings:	2016 £000	2015 £000
Result for the year	**2,427**	1,867
Amortisation of acquisition-related intangibles	**513**	483
Share-based payment charges	**85**	89
Acquisition-related and restructuring costs	**62**	310
Adjusted profit for the year	**3,087**	2,749

Number of shares:	2016 No.	2015 No.
In issue at the start of the year	**54,600,550**	54,063,808
Effect of shares issued in the year	**173,846**	347,143
Weighted average number of shares at year end	**54,774,396**	54,410,951
Effect of share options	**1,520,615**	1,446,115
Weighted average number of shares (diluted)	**56,295,011**	55,857,066

Earnings per share:	**2016 pence**	**2015 pence**
Total attributable to equity holders of the parent undertaking:		
Basic	**4.4**	3.4
Diluted	**4.3**	3.3
Earnings per share, adjusted, from continuing operations:		
Basic	**5.6**	5.1
Diluted	**5.5**	4.9

14. Property, plant and equipment

	Leasehold improvements £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 October 2014	232	549	781
Additions	89	207	296
Additions as part of acquisition of subsidiary undertaking	—	35	35
Balance at 30 September 2015	321	791	1,112
Additions	—	254	254
Balance at 30 September 2016	321	1,045	1,366
Depreciation			
Balance at 1 October 2014	106	381	487
Charge for the year	24	132	156
Balance at 30 September 2015	130	513	643
Charge for the year	32	167	199
Balance at 30 September 2016	162	680	842
Net book value			
At 30 September 2015	191	278	469
At 30 September 2016	**159**	**365**	**524**

15. Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Development costs* £000	Total £000
Cost					
Balance at 1 October 2014	26,130	2,912	1,468	1,953	32,463
Acquired	1,273	781	217	—	2,271
Internally developed	—	—	—	824	824
Balance at 30 September 2015	27,403	3,693	1,685	2,777	35,558
Internally developed	—	—	—	872	872
Balance at 30 September 2016	27,403	3,693	1,685	3,649	36,430
Amortisation and impairment					
Balance at 1 October 2014	1,499	1,127	333	990	3,949
Amortisation for the year	—	298	185	499	982
Balance at 30 September 2015	1,499	1,425	518	1,489	4,931
Amortisation for the year	—	321	192	513	1,026
Balance at 30 September 2016	1,499	1,746	710	2,002	5,957
Net book value					
Balance at 30 September 2015	25,904	2,268	1,167	1,288	30,627
Balance at 30 September 2016	**25,904**	**1,947**	**975**	**1,647**	**30,473**

* Additions to development costs include £54,000 (2015: £nil) in respect of products and services supplied by third parties. All other development costs are internally generated.

Notes to the consolidated financial statements
continued

15. Intangible assets continued

The amortisation charges are recognised in the following line items in the income statement:

	2016 £000	2015 £000
Administrative and establishment expenses	**1,026**	982

Amortisation and impairment

Intangible assets other than goodwill are amortised over their useful economic lives. In the case of intellectual property and customer relationships, the useful economic life is assessed by reference to the anticipated minimum period over which the asset is expected to remain separately identifiable and cash generative. This is typically between five and ten years. Intellectual property and customer relationship assets have between two and nine years' unamortised economic life. In the case of development costs, amortisation is charged over the period during which the development is expected to generate revenue.

Goodwill, analysed by reference to cash-generating units, is set out below:

	2016 £000	2015 £000
Digital Retail	**3,330**	3,330
Enterprise Software	**22,574**	22,574
Goodwill	**25,904**	25,904

The Group tests goodwill annually for impairment, or more frequently if an event occurs to warrant a review. The recoverable amounts attributed to each CGU are based on value in use calculations. The key assumptions made in undertaking the value in use calculations involve estimating operating profit growth rates and are set out below. Budgeted profit and cash flow forecasts for the financial year ending 30 September 2017 have been extrapolated for periods of between ten and twelve years (based on the average length of customer relationship) and used as the basis of the calculations.

Digital Retail CGU: 5-10% operating profit growth from operating in a market exhibiting growth rates in excess of this figure. Based on independent estimates of industry-specific growth rates where available and previous experience where not. Independent estimates suggest the retail software economy is likely to grow by more than 10% per annum in the short to medium term.

Enterprise Software CGU: 2-3% operating profit growth based on management estimates of achievable growth through greater market share. The recent introduction of new products specifically developed by the Group for the target markets in which Sanderson operates are expected to enable the growth assumptions to be met.

Discount rate assumptions are based on management estimates of the internal cost of capital likely to apply over the expected useful economic life of the goodwill and management's view of the risk associated with each CGU. A discount rate of 8% has been applied to the Enterprise Software CGU, whereas 10% has been applied to the Digital Retail CGU.

The directors have formulated profit and cash flow forecasts for the financial year ending 30 September 2017 on the basis of the growth rates set out above. The value in use of the goodwill of the Digital Retail CGU exceeds the carrying value by £6.50 million. The value in use of the goodwill of the Enterprise Software CGU exceeds the carrying value by £8.39 million. In the event that economic conditions worsen and growth in revenue and gross margin is not achievable, the directors are of the view that judicious management of the Group's cost base will enable the profit growth targets to be achieved. The directors have sensitised the profit and cash flow forecast relating to both CGUs. The Digital Retail CGU profit forecast would need to fall by 56% to trigger an impairment charge. In the case of the Enterprise Software CGU, a profit reduction of 20% would be required.

16. Acquisitions

Current year

The Group did not complete any acquisitions during the year ended 30 September 2016. Complementary acquisitions continue to be assessed and during the year the Group commenced due diligence on two acquisitions that did not progress to completion. Costs incurred in respect of the due diligence process have been shown in the Consolidated income statement as acquisition-related costs.

Prior year

On 5 December 2014 the Group acquired control of Proteus Software Limited by purchasing the entire issued ordinary share capital. Cash consideration of £1.40 million was paid at completion and deferred consideration of £213,745 has been paid during the financial year ended 30 September 2016. No further amounts are payable. The business provides warehouse management solutions to businesses operating in the areas of third party logistics, warehouse management and supply chain distribution.

On 8 June 2015 the Group acquired control of Evogenic Limited by purchasing the entire issued ordinary share capital for a maximum aggregate consideration of £445,000. Cash consideration of £110,000 was paid at completion. Unconditional deferred consideration of £60,000 will be paid in five equal instalments at six-monthly intervals commencing in December 2015. Further conditional deferred consideration of up to £275,000 will be payable subject to the Evogenic trading activity achieving certain performance targets in the three years to June 2018. The business has developed an ERP solution to meet the unique demands of SME manufacturers and distributors.

The deferred consideration referred to above has been discounted to present value in accordance with IAS 39 using a discount rate of 8% based on management's estimate of the internal cost of capital appropriate to the investments.

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following and are disclosed as non-current assets and liabilities in the Consolidated statement of financial position:

	Assets		Liabilities		Net	
	2016 £000	**2015 £000**	**2016 £000**	**2015 £000**	**2016 £000**	**2015 £000**
Property, plant and equipment	**108**	231	**—**	—	**108**	231
Intangible assets	**—**	—	**(824)**	(936)	**(824)**	(936)
Share-based payment expense	**55**	55	**—**	—	**55**	55
Trade and other payables	**51**	107	**—**	—	**51**	107
Employee benefits	**1,468**	926	**—**	—	**1,468**	926
Tax losses	**73**	—	**—**	—	**73**	—
	1,755	1,319	**(824)**	(936)	**931**	383

Movement in deferred tax for the year ended 30 September 2016

	As at 1 October 2015 £000	Income statement £000	Statement of comprehensive income £000	**As at 30 September 2016 £000**
Property, plant and equipment	231	(123)	—	**108**
Intangible assets	(936)	112	—	**(824)**
Share-based payment expense	55	—	—	**55**
Trade and other payables	107	(56)	—	**51**
Employee benefits	926	(26)	568	**1,468**
Tax losses	—	73	—	**73**
	383	(20)	568	**931**

Notes to the consolidated financial statements
continued

17. Deferred tax assets and liabilities continued

Movement in deferred tax for the year ended 30 September 2015

	As at 1 October 2014 £000	Income statement £000	Acquisition of subsidiary undertaking £000	Statement of comprehensive income £000	As at 30 September 2015 £000
Property, plant and equipment	69	158	4	—	231
Intangible assets	(486)	(384)	(66)	—	(936)
Share-based payment expense	42	13	—	—	55
Trade and other payables	(95)	201	1	—	107
Employee benefits	960	(52)	—	18	926
Tax losses	74	(74)	—	—	—
	564	(138)	(61)	18	383

A deferred tax asset of £557,000 (2015: £560,000) in respect of tax losses has not been recognised, as its future economic benefit is uncertain. The gross value of losses in respect of which the unrecognised deferred tax asset relates is £3.09 million (2015: £2.80 million).

The rate of UK corporation tax changed during the financial year ending 30 September 2016 resulting in a change to the rate at which deferred tax assets could be utilised. This reduced the charge to the income statement by £52,000 (2015: reduction of £12,000).

18. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	**5,197**	4,018
Prepayments and accrued income	**1,835**	1,454
	7,032	5,472

All trade and other receivables are short term. The directors consider that the carrying amount of trade receivables approximates to their fair value. All trade and other receivables have been reviewed for indications of impairment.

The Group invoices all pre-contracted recurring revenues up to six weeks before the renewal date. Payment terms require the invoices to be paid by the renewal date. Such invoices are only shown as overdue when the invoice remains outstanding after the renewal date has passed. Unless specific agreement has been reached with individual customers, all other invoices are due 30 days after the date of the invoice. The Group's terms and conditions of sale permit the Group to charge interest, at 4% above bank base rates, on all invoices that remain unpaid 30 days after their due date.

Due to the nature of the Group's trade, certain customers may delay payment until project-related milestones have been met. Payment terms are not contingent on milestones being met, but an assessment as to the remaining work required to be done and the potential loss of customer goodwill arising from enforcement of contractual payment terms may take place when considering actions to be taken to secure payment. The Group has a good record in respect of invoiced amounts proving difficult to recover and does not ordinarily write off amounts due.

Of the total trade receivables shown above, £1,163,000 (2015: £1,520,000) are past due but not impaired. An analysis of these trade receivables is set out below:

	2016 £000	2015 £000
0–30 days overdue	**619**	740
30–60 days overdue	**147**	280
60–90 days overdue	**147**	236
90+ days overdue	**250**	264
Total	**1,163**	1,520
Movement in impairment provisions:		
Balance at the beginning of the year	**42**	60
Impairment losses recognised	**51**	15
Amounts written off as uncollectible	**(40)**	(33)
Balance at the end of the year	**53**	42

19. Other short-term financial assets

Available for sale financial assets

The Group has invested in the ordinary share capital of an unrelated company whose shares are traded on the London Stock Exchange. The shareholding represents less than 3% of the total issued share capital of the company and is recorded at market value.

20. Deferred consideration

	2016 £000	2015 £000
Current liabilities:		
Arising on the acquisition of One iota Limited		
Unconditional deferred consideration	**50**	94
Conditional deferred consideration	**—**	1,245
Arising on the acquisition of Proteus Software Limited		
Conditional deferred consideration	**—**	191
Arising on the acquisition of Evogenic Limited		
Unconditional deferred consideration	**24**	23
Conditional deferred consideration	**81**	41
	155	1,594

	2016 £000	2015 £000
Non-current liabilities:		
Arising on the acquisition of One iota Limited		
Unconditional deferred consideration	**—**	45
Arising on the acquisition of Evogenic Limited		
Unconditional deferred consideration	**11**	31
Conditional deferred consideration	**104**	168
	115	244

21. Trade and other payables

	2016 £000	2015 £000
Trade payables	**1,236**	560
Other taxation and social security	**1,658**	1,288
Accruals	**1,225**	1,757
Customer deposits	**451**	304
	4,570	3,909

All trade and other payables are short term. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

22. Share capital

	2016 No. '000	2015 No. '000
Authorised		
Equity: 535,000,000 Ordinary shares of 10 pence each	**53,500**	53,500

	2016 £000	2015 £000
Allotted, called up and fully paid		
At 1 October 2015: Equity — 54,600,550 Ordinary shares of 10 pence each	**5,460**	5,406
Issued during the year	**25**	54
At 30 September 2016: Equity — 54,851,985 Ordinary shares of 10 pence each	**5,485**	5,460

Notes to the consolidated financial statements
continued

22. Share capital continued

The following share issues occurred during the year, all as a result of the exercise of share options:

Current year date	Quantity	Price	Prior year date	Quantity	Price
12/01/16	31,434	10.00p	19/12/14	220,000	68.25p
13/01/16	50,000	23.00p	19/12/14	50,000	54.25p
13/01/16	30,000	49.00p	23/12/14	34,670	10.00p
05/02/16	40,000	27.50p	13/02/15	3,234	10.00p
31/03/16	50,000	10.00p	08/03/15	52,421	57.00p
21/04/16	50,000	23.00p	25/03/15	34,000	57.00p
			25/03/15	50,000	27.50p
			25/03/15	40,000	30.00p
			31/03/15	2,417	10.00p
			07/07/15	50,000	23.00p

23. Capital and reserves

Reconciliation of movements in capital and reserves

Movements in capital and reserves are set out in the Consolidated statement of changes in equity on page 26.

The accumulated amount of current and deferred tax relating to items that are charged or credited directly to equity is a credit of £1,277,000 (2015: a credit of £709,000).

The following capital and reserves accounts are maintained by the Company:

Called up share capital: Represents the nominal value of shares that have been issued.

Share premium: Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Profit and loss account: Includes all current and prior period retained profits and losses.

Foreign exchange reserve: Comprises all current and prior period foreign exchange gains and losses recognised on consolidation of a foreign subsidiary.

Available for sale reserve: Represents all current and prior period fair value gains and losses on the revaluation of available for sale assets recognised.

24. Financial instruments disclosure

Capital risk management

Capital management objectives are to ensure the Group's ability to continue as a going concern and to provide a return to shareholders by adopting a progressive dividend policy.

The capital structure of the Group currently consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated statement of changes in equity. The Group's Audit Committee reviews the capital structure as part of its risk analysis. As part of this review, the Committee considers the cost of capital and the risks associated with each class of capital.

The Group is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding serious reduction of capital, as imposed by the Companies Act 2006 on all public limited companies.

Categories of financial assets and financial liabilities

The Group held the following categories of financial instruments:

	2016 £000	2015 £000
Financial assets		
Cash and cash equivalents	**4,344**	4,607
Loans and receivables (including trade and other receivables)	**5,197**	4,018
Available for sale assets	**209**	190
	9,750	8,815
Financial liabilities at amortised cost		
Trade payables, accruals and customer deposits	**2,912**	2,621
Unconditional deferred consideration	**85**	193
	2,997	2,814
Financial liabilities at fair value through profit and loss		
Conditional deferred consideration	**185**	1,645

The fair value of the financial instruments set out above is not materially different to the book value.

Market risk management

The Group is exposed to price risk in respect of its investment in the listed equity securities of an unrelated company whose shares are traded on the London Stock Exchange. For the listed equity securities, an average volatility of 4.5% has been observed since the year end to November 2016. The volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, other comprehensive income and equity would have changed by £9,500. The listed securities are classified as available for sale ('AFS') assets; therefore, no effect on profit or loss would have occurred.

The investments in listed equity securities are considered strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in the Group's favour.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring both forecast as well as actual cash flows to enable matching of the maturity profiles of financial assets and liabilities. Sufficient cash is retained to service short-term financing needs.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities. The table includes principal only cash flows in respect of trade and other payables and gross amounts payable as deferred consideration.

	Current		**Non-current**	
2016	**Within 6 months £000**	**6 to 12 months £000**	**1 to 2 years £000**	**2 to 5 years £000**
Trade payables and accruals	**2,912**	**—**	**—**	**—**
Deferred consideration	**62**	**96**	**128**	**—**
Trade and other payables	**2,974**	**96**	**128**	**—**

	Current		Non-current	
2015	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
Trade payables and accruals	2,621	—	—	—
Deferred consideration	1,553	106	155	125
Trade and other payables	4,174	106	155	125

Interest rate sensitivity analysis

At the year-end date there was no material exposure to movements in interest rates as the Group reported a cash balance in excess of £4.34 million.

Notes to the consolidated financial statements
continued

24. Financial instruments disclosure continued

Other financial assets and liabilities

The financial assets and liabilities measured at fair value in the statement of financial position are measured in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets measured at fair value in the statement of financial position at 30 September 2016 are available for sale financial assets which are in Level 1 and valued as set out in note 19.

The financial liability measured at fair value in the statement of financial position at 30 September 2016 is deferred consideration which is in Level 3 in the fair value hierarchy. The fair value of deferred consideration relates to the acquisitions completed in prior years and is estimated using a present value technique. Fair value is estimated by discounting the estimated future cash flows at 8%. The cash flows of consideration payable before discounting are £0.29 million and reflect management's estimates of consideration that will become payable in the future. The discount rate is based on the Group's weighted average cost of capital. The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the estimated cash flows rather than adjusting the discount rate. Should any of the acquired businesses not achieve its performance targets then the estimated future cash flows may be reduced.

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	2016 £000	2015 £000
Balance at 1 October 2015	**(1,838)**	(2,028)
Acquired through business combination	**—**	(453)
Payments made during the year	**1,660**	895
Discount unwound and recognised as acquisition-related finance expense	**(92)**	(252)
	(270)	(1,838)

Foreign currency risk management

The Group has no material currency exposure. The Group's financial instruments are denominated in sterling.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has an excellent history in terms of the level of trade receivables written off as irrecoverable.

The credit risk on liquid funds is minimised because the counterparties are UK banks with high credit ratings assigned by international credit-rating agencies.

Management of other risks

The Group's policies on interest rate and liquidity risk are described above.

25. Contingent liabilities

Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities available to each subsidiary are secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. At 30 September 2016 the Group held net cash balances of £4.34 million.

26. Commitments

Capital commitments, approved by the Board and existing at 30 September 2016, amounted to £nil (2015: £nil).

Total commitments under non-cancellable operating leases are as follows:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Payable:				
Within one year	**368**	**11**	342	7
In the second to fifth years inclusive	**756**	**27**	908	13
Over five years	**2,686**	**—**	2,799	—
	3,810	**38**	4,049	20

Operating leases relate to land, buildings and other assets used to support the operational requirements of the Group.

27. Pension schemes

The Group operates a defined contribution pension scheme. The pension cost charge for the year relating to this scheme was £696,000 (2015: £686,000).

A wholly owned subsidiary undertaking, Sanderson Limited, contributes to one defined benefit pension scheme. The scheme is now funded solely by employer contributions as it is closed to future accrual and as a result has no contributing members. Benefits are paid to members by reference to their length of service and final pensionable salary on the date the scheme closed to future accrual. The latest actuarial valuation of the scheme, as at 1 April 2014, showed the scheme to have a deficit of £3.70 million. The valuation was performed by the scheme actuary, who is independent of the Group. The valuation is based on the projected unit method.

The scheme falls within the statutory funding framework under the requirements of which the scheme must meet the statutory funding objective to have sufficient and appropriate assets to cover its technical provisions. Technical provisions are an estimate based on actuarial principles, of the assets needed to cover the scheme liabilities. Liabilities include pensions in payment, benefits payable to the spouses or dependants of deceased members and benefits accrued by members yet to reach their prescribed retirement age, which will be payable in the future. Technical provisions are calculated using an accrued benefits funding method and assumptions chosen by the trustees, after taking the actuary's advice and obtaining the employer's agreement.

The defined benefit pension scheme is a separate legal entity from the Sanderson Group and is independently responsible for managing the assets and liabilities of the scheme. The scheme trustee is required by the scheme's trust deed to act in the best interests of the members of the scheme. Certain of the Group's employees act as directors of the corporate trustee of the scheme. The scheme exposes the Group to actuarial risks such as:

Projection risk: IAS 19 does not require a full actuarial valuation each period end. The results of the 1 April 2014 actuarial valuation have therefore been projected forward to 30 September 2016. By its nature such a projection involves a degree of estimation.

Investment mismatch risk: The discount rate used to calculate the defined benefit obligation under IAS 19 should reflect the yield available on a high quality corporate bond. The actual investment strategy adopted by the trustee is not to be fully invested in corporate bonds, which means movements in the scheme's assets may not correspond to movements in the value of liabilities as measured under IAS 19.

Longevity risk: If pensions are not bought out and members live longer than expected, the benefits will be payable for longer than allowed for in the calculation of the liabilities leading to an experience loss on the plan liabilities. Conversely, should members not live as long as expected, an experience gain may arise.

Benefit risk: In calculating the liabilities the Company must make a number of assumptions about the way the scheme's benefits will increase over time, such as the impact of inflation. If the increase in benefits does not follow the assumptions made, there is a risk that an experience gain or loss may arise.

Equalisation risk: The Department for Work and Pensions has taken legal advice on GMP equalisation and is currently considering options for implementation. There is a risk that additional benefits payable to members may arise as a result of implementation.

Solvency risk: The IAS 19 liabilities are calculated on an ongoing basis, which assumes the sponsoring employer remains solvent and the scheme remains in existence. Should the sponsoring employer no longer be in a position to support the scheme, the scheme would commence winding up and benefits may have to be bought out with an insurance company. The cost of this action is likely to exceed the value of liabilities as calculated under IAS 19.

Notes to the consolidated financial statements
continued

27. Pension schemes continued

The principal assumptions used for the purpose of the IAS 19 valuation were as follows:

	2016	2015
Inflation — RPI	**3.1%**	3.1%
Inflation — CPI	**2.3%**	2.3%
Pension revaluation in deferment	**3.1%**	3.1%
Pension escalation in payment*	**0.0–5.0%**	0.0–5.0%
Discount rate	**2.3%**	4.0%

* Different categories of member within the scheme are entitled to different rates of escalation.

Mortality tables PMA08 and PFA08 have been used in arriving at the 2016 valuation. The valuation applies the CMI 2014 projection model with a long-term improvement of at least 1% for both males and females. The 2015 valuation used S1PMA and S1PFA mortality tables and applied the CMI 2013 projection model with long cohort improvements of at least 1% for both males and females. A male member retiring at 30 September 2016 is assumed to have a life expectancy of 22.8 years (2015: 22.0), a female member 25.2 years (2015: 24.3). A male member retiring in 20 years is assumed to have a life expectancy from their retirement date of 24.1 years (2015: 23.4) and a female member 26.6 years (2015: 25.8).

Amounts recognised in the income statement in respect of the scheme, before taxation:

	2016 £000	2015 £000
Included within operating profit:		
Current service cost; administration fees	**(21)**	(20)
Included within finance expense:		
Net interest cost on scheme deficit	**(180)**	(185)

Remeasurements recognised in the statement of comprehensive income, before taxation:

	2016 £000	2015 £000
Actual return on scheme assets	**1,560**	(237)
Expected return on scheme assets	**(320)**	(348)
Financial actuarial gain/(loss)	**1,240**	(585)
Experience gains or losses arising on the scheme liabilities	**(174)**	(15)
Effect of changes in actuarial assumptions	**(4,744)**	510
Remeasurement recognised in the statement of comprehensive income	**(3,678)**	(90)

The cumulative actuarial gains and losses recognised in the statement of comprehensive income are as follows:

	2016 £000	2015 £000
Cumulative actuarial loss at 1 October	**(6,656)**	(6,566)
Recognised during the year	**(3,678)**	(90)
Cumulative actuarial losses at 30 September	**(10,334)**	(6,656)

The fair value of the scheme assets and present value of the scheme liabilities at each statement of financial position date were:

	2016 £000	2015 £000
Fair value of defined benefit obligation	**(17,172)**	(13,227)
Fair value of scheme assets	**9,017**	8,600
Deficit in the scheme	**(8,155)**	(4,627)
Deferred taxation on above	**1,468**	926
Net pension liability	**(6,687)**	(3,701)

The Group's share of the assets of the scheme are invested as follows:

	2016 £000	2015 £000
Equities	**6,468**	6,030
Bonds	**2,130**	1,346
Unitised with-profits fund	**281**	292
Property	**130**	135
Cash and cash equivalents	**8**	797
Closing fair value of scheme assets	**9,017**	8,600

None of the scheme's assets have quoted prices in an active market.

The assets of the scheme do not comprise any of the Group's own financial instruments or any assets used by Group companies.

An analysis of the Group's share of the scheme's assets by investment type is provided below:

	2016 %	2015 %
Equities	**72**	70
Bonds and gilts	**24**	16
Cash and cash equivalents	**—**	9
Other (including unitised with profits)	**4**	5
	100	100

Changes in the Group's share of the fair value of the scheme's assets, before taxation:

	2016 £000	2015 £000
Opening fair value of scheme assets at 1 October	**8,600**	8,563
Return on plan assets	**320**	348
Financial actuarial gain/(loss)	**1,240**	(585)
Benefit payments made including transfers out	**(1,473)**	(176)
Contributions paid	**330**	450
Closing fair value of scheme assets at 30 September	**9,017**	8,600

Changes in the Group's share of the fair value of the defined benefit obligations, before taxation:

	2016 £000	2015 £000
Opening defined benefit obligation at 1 October	**(13,227)**	(13,367)
Interest cost	**(500)**	(531)
Benefit payments made including transfers out	**1,473**	176
Actuarial gains/(losses): financial	**(4,805)**	96
Actuarial gains/(losses): demographic	**(113)**	399
Closing defined benefit obligation at 30 September	**(17,172)**	(13,227)

The weighted average duration of the defined benefit obligation at 30 September 2016 was 20 years.

Total committed contributions to the defined benefit scheme for the financial year ending 30 September 2017 amount to £360,000 in respect of agreed monthly contributions.

The results of the IAS 19 valuation at 30 September 2016 are sensitive to the assumptions adopted. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Change in liabilities
Discount rate	Decrease by 0.5%	Increase by 11%
Rate of inflation	Increase by 0.5%	Increase by 4%
Life expectancy	Increase by 1 year	Increase by 2%

The above analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the liabilities of the scheme.

Independent auditor's report to the members of Sanderson Group plc

We have audited the parent company financial statements of Sanderson Group plc for the year ended 30 September 2016 which comprise the company statement of financial position, company statement of cash flows and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 21, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2016;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2016.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
29 November 2016

Company statement of financial position

at 30 September 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	31	**76**	66
Investments	32	**18,278**	18,193
Deferred tax asset	33	**34**	81
		18,388	18,340
Current assets			
Trade and other receivables	34	**5,234**	4,024
Income tax		**39**	451
Other short-term financial assets		**209**	190
Cash and cash equivalents		**720**	1,595
		6,202	6,260
Current liabilities			
Trade and other payables	35	**(3,752)**	(3,319)
Deferred consideration	35	**—**	(191)
		(3,752)	(3,510)
Net current assets		**2,450**	2,750
Net assets		**20,838**	21,090
Equity attributable to the equity holders of the Company			
Called up share capital	36	**5,485**	5,460
Share premium account		**9,056**	9,023
Available for sale reserve		**79**	60
Retained earnings		**6,218**	6,547
Total equity		**20,838**	21,090

The Company statement of financial position was approved and authorised for issue by the Board of directors on 29 November 2016 and signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

Company statement of cash flows

for the year ended 30 September 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit for the year after taxation	**792**	858
Adjustments for:		
Net finance expense	**(5)**	(45)
Depreciation	**25**	—
Income tax	**48**	(262)
Operating cash flow before changes in working capital	**860**	551
Movement in trade and other receivables	**(64)**	(71)
Movement in amounts due to/from subsidiary undertakings	**(405)**	1,455
Movement in trade and other payables	**103**	200
Cash generated from continuing operations	**494**	2,135
Interest paid	**—**	(2)
Income tax received	**—**	—
Net cash flow from operating activities	**494**	2,133
Cash flow from investing activities		
Acquisition of subsidiary undertaking	**—**	(1,400)
Payment of deferred consideration relating to subsidiaries	**(213)**	—
Purchase of property, plant and equipment	**(35)**	—
Bank interest received	**12**	35
Dividend received	**15**	12
Net cash flow from investing activities	**(221)**	(1,353)
Cash flow from financing activities		
Issue of shares, net of costs	**58**	118
Settlement of share options	**—**	(48)
Equity dividends paid	**(1,206)**	(1,035)
Net cash flow from financing activities	**(1,148)**	(965)
Net (decrease)/increase in cash and cash equivalents	**(875)**	(185)
Cash and cash equivalents at beginning of year	**1,595**	1,780
Cash and cash equivalents at the end of the year	**720**	1,595

Company statement of changes in equity

for the year ended 30 September 2016

	Share capital £000	Share premium £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
At 1 October 2015	5,460	9,023	60	6,547	21,090
Dividend paid	—	—	—	(1,206)	(1,206)
Exercise of share options	25	33	—	—	58
Share-based payment charge	—	—	—	85	85
Transactions with owners	25	33	—	(1,121)	(1,063)
Profit for the year	—	—	—	792	792
Other comprehensive income:					
Change in fair value of available for sale asset	—	—	19	—	19
At 30 September 2016	5,485	9,056	79	6,218	20,838

for the year ended 30 September 2015

	Share capital £000	Share premium £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
At 1 October 2014	5,406	8,809	91	6,833	21,139
Settlement of share options	—	—	—	(48)	(48)
Dividend paid	—	—	—	(1,035)	(1,035)
Exercise of share options	54	214	—	(150)	118
Share-based payment charge	—	—	—	89	89
Transactions with owners	54	214	—	(1,144)	(876)
Profit for the year	—	—	—	858	858
Other comprehensive income:					
Change in fair value of available for sale asset	—	—	(31)	—	(31)
At 30 September 2015	5,460	9,023	60	6,547	21,090

Notes to the Company financial statements

28. Accounting policies

Basis of preparation

As used in the financial statements and related notes, the term "Company" refers to Sanderson Group plc. The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements of the Company have been prepared and approved by the directors in accordance with International Reporting Financial Standards ('IFRS') as adopted by the European Union. For the purposes of the financial statements of the Company, the date of transition to IFRS was 1 October 2010.

A separate income statement dealing with the results of the Company only has not been presented, as permitted by Section 408 of the Companies Act 2006.

Basis of measurement

The financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below.

Functional and presentation currency

The financial statements are presented in sterling, which is the functional currency of the Company.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Information about significant areas of estimation and critical judgements that have the most significant impact on the financial statements are described in the following notes:

Estimates

Note 34: *Measurement of trade receivables:* Management assesses the likely recoverability of amounts invoiced to customers on the basis of the creditworthiness of customers and the age of debts at the period end. The directors consider the carrying amount of trade receivables approximates to their fair value.

Judgements

Note 33: *Deferred tax:* The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Investment income is recognised on a receivable basis.

Share-based payments

The equity-based share option programme allows Group employees to acquire shares of the Company.

The fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent company. An equal amount is credited to a share-based payments reserve.

Taxation

The current tax charge is based on the profit for the year and is measured at the amounts expected to be paid based on the tax rates and laws substantively enacted by the year-end date. Current and deferred tax is recognised in the profit and loss account for the year except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of comprehensive income.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the year-end date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax. Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse.

Personnel expenses

The Company employed three non-executive directors during the course of the year (2015: three non-executives). John Paterson and David Gutteridge served throughout the year. Philip Kelly resigned on 8 June 2016. Fees paid in respect of these appointments amounted to £96,000 (2015: £75,000). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 8 to the accounts.

The Company employed the executive directors Christopher Winn, Ian Newcombe and Adrian Frost throughout the year. Note 8 to the financial statements provides details of remuneration paid.

Accounting for financial liabilities

The Company's financial liabilities include trade and other payables which are measured at amortised cost using the effective interest rate method.

Financial liabilities recorded at fair value through the income statement are initially recognised, net of issue costs, when the Company becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line 'movement in fair value of derivative financial instrument'.

Accounting for financial assets

The Company has financial assets in the following categories:

- loans and receivables
- available for sale ('AFS') financial assets

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expense is recognised in the income statement or statement of other comprehensive income. All financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Sanderson Group plc's trade and most other receivables fall into this category of financial instruments.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the year-end date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write-down is then based on recent historical counterparty default rates for each identified group.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and bank overdrafts where they form an integral part of the Company's cash management. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The only equity instrument applicable to the Company is its issued share capital.

Share premium includes any premium received on the issue of share capital. Transaction costs associated with the issuing of shares are deducted from share premium, net of any related tax benefits. Retained earnings includes all current and prior period retained profits and losses.

29. Employee share option schemes

Details of options granted over the shares of the Company are set out in note 6 to the financial statements. Of the options granted during the year, a total of 50,000 were in respect of an employee of the Company. The share-based payment charge in respect of these awards amounted to £28 (2015: £nil). The Company has adopted IFRS 2 in accounting for options issued to employees of subsidiary companies.

Notes to the Company financial statements
continued

30. Dividends

	2016 £000	2015 £000
Interim dividend of 1.00p per share (2015: 0.90p)	**549**	491
Final dividend relating to previous financial year of 1.20p per share (2015: 1.00p)	**657**	544
Total dividend for the financial year	**1,206**	1,035

A final dividend of 1.40 pence per ordinary share in respect of the financial year ended 30 September 2016 will be proposed at the Annual General Meeting of the Company, expected to be held on 2 March 2017. If approved by shareholders, the total final dividend payment will amount to £767,928. The directors will receive a proportion of this dividend by virtue of their shareholdings in the Company, details of which are disclosed in the Directors' report.

31. Property, plant and equipment

	Plant and equipment £000
Cost	
Balance at 1 October 2015	320
Additions	35
Balance at 30 September 2016	355
Depreciation	
Balance at 1 October 2015	254
Charge for the year	25
Balance at 30 September 2016	279
Net book value	
At 30 September 2015	66
At 30 September 2016	**76**

32. Non-current asset investments

	Shares in Group undertakings £000
Cost	
At 1 October 2014	27,897
Fair value of share options granted to employees of subsidiaries	89
Acquisition of Proteus Software Limited	1,591
Transfer of investment from subsidiary undertaking	2,000
Disposal of investment to subsidiary undertaking	(8,630)
At 30 September 2015	22,947
Fair value of share options granted to employees of subsidiaries	85
At 30 September 2016	23,032
Impairments	
At 1 October 2014, 30 September 2015 and 30 September 2016	(4,754)
Net book value	
At 30 September 2015	18,193
At 30 September 2016	**18,278**

The subsidiary undertakings of Sanderson Group plc consist of the following wholly owned companies, with all trading entities being denoted by an asterisk:

*Sanderson Multi-Channel Solutions Limited
*Sanderson Limited
*One iota Limited
*Proteus Software Limited
Sonarsend Limited
*Sanderson Australia Pty Limited
*Sanderson Multi-Channel Retail Solutions Limited
Evogenic Limited
Priam Retail Solutions Limited
Sanderson Logistics Limited
Sanderson Support Limited
Sanderson Commercial Services Limited
Sanderson Ireland Limited
Sanderson Retail Systems Limited
Deals Joy Limited

Sanderson Australia Pty Limited is incorporated in Australia. Sanderson Ireland Limited is incorporated in the Republic of Ireland. All other companies are incorporated in England.

33. Deferred taxation

Recognised deferred tax assets

Deferred tax assets are attributable to the following and are disclosed as non-current assets in the Consolidated statement of financial position:

	2016 £000	2015 £000
Temporary differences re capital allowances	—	41
Share-based payment expense	**33**	37
Trade and other payables	**1**	3
	34	81

Movement in deferred tax

	As at 1 October 2014 £000	Income statement £000	Arising on business transfers £000	As at 30 September 2015 £000	Income statement £000	As at 30 September 2016 £000
Property, plant and equipment	—	—	41	41	(41)	**—**
Trade and other payables	—	—	3	3	(2)	**1**
Share-based payment expense	10	27	—	37	(4)	**33**
	10	27	44	81	(47)	**34**

A deferred tax asset of £146,000 (2015: £236,000) in respect of tax losses has not been recognised, as its future economic benefit is uncertain. The gross value of losses in respect of which the unrecognised deferred tax asset relates is £813,000 (2015: £1,182,000).

34. Trade and other receivables

	2016 £000	2015 £000
Current assets		
Prepayments	**141**	77
Amounts due from subsidiary undertakings	**5,093**	3,947
	5,234	4,024

Amounts due to subsidiary companies are repayable on demand.

Notes to the Company financial statements
continued

35. Trade and other payables

	2016 £000	2015 £000
Current liabilities		
Trade and other payables	**64**	25
Accruals	**277**	213
Deferred consideration	**—**	191
Amounts due to subsidiary companies	**3,411**	3,081
	3,752	3,510

Amounts due to subsidiary companies are repayable on demand.

36. Called up share capital

	2016 No. '000	2015 No. '000
Authorised		
Equity: 535,000,000 Ordinary shares of 10 pence each	**53,500**	53,500

	2016 £000	2015 £000
Allotted, called up and fully paid		
At 1 October 2015: Equity – 54,600,550 Ordinary shares of 10 pence each	**5,460**	5,406
Issued during the year	**25**	54
At 30 September 2016: Equity – 54,851,985 Ordinary shares of 10 pence each	**5,485**	5,460

The following share issues occurred during the year:

Date	Reason	Quantity	Price
12/01/16	Exercise of options	31,434	10.00p
13/01/16	Exercise of options	50,000	23.00p
13/01/16	Exercise of options	30,000	49.00p
05/02/16	Exercise of options	40,000	27.50p
31/03/16	Exercise of options	50,000	10.00p
21/04/16	Exercise of options	50,000	23.00p

The following share issues occurred during the prior year:

Date	Reason	Quantity	Price
19/12/14	Exercise of options	220,000	68.25p
19/12/14	Exercise of options	50,000	54.25p
23/12/14	Exercise of options	34,670	10.00p
13/02/15	Exercise of options	3,234	10.00p
08/03/15	Exercise of options	52,421	57.00p
25/03/15	Exercise of options	34,000	57.00p
25/03/15	Exercise of options	50,000	27.50p
25/03/15	Exercise of options	40,000	30.00p
31/03/15	Exercise of options	2,417	10.00p
07/07/15	Exercise of options	50,000	23.00p

37. Financial instruments disclosure

Capital risk management

Capital management objectives are to ensure the Company's ability to continue as a going concern and to provide a return to shareholders.

The capital structure of the Company currently consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in the Company statement of changes in equity. The Group's Audit Committee reviews the capital structure as part of its risk analysis. As part of this review, the Committee considers the cost of capital and the risks associated with each class of capital.

The Company is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding serious reduction of capital, as imposed by the Companies Act 2006 on all public limited companies.

Categories of financial assets and financial liabilities

The Company held the following categories of financial instruments:

	2016 £000	2015 £000
Financial assets		
Cash and cash equivalents	**720**	1,595
Loans and receivables (including trade and other receivables)	**5,093**	3,947
Available for sale assets	**209**	190
	6,022	5,732
Financial liabilities		
Trade payables and accruals	**3,752**	3,319
Financial liabilities at fair value through profit and loss		
Conditional deferred consideration	**—**	191

The fair value of the financial instruments set out above is not materially different to the book value.

Market risk management

The Company is exposed to price risk in respect of its investment in the listed equity securities of an unrelated company whose shares are traded on the London Stock Exchange. For the listed equity securities, an average volatility of 4.5% has been observed since the year end to November 2016. The volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, other comprehensive income and equity would have changed by £9,500. The listed securities are classified as available for sale ('AFS') assets; therefore, no effect on profit or loss would have occurred.

The investments in listed equity securities are considered long-term, strategic investments. In accordance with the Company's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in the Company's favour.

Liquidity risk management

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring both forecast as well as actual cash flows to enable matching of the maturity profiles of financial assets and liabilities. Sufficient cash is retained to service short-term financing needs.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities. The table includes principal only cash flows in respect of trade and other payables.

	Current		Non-current	
2016	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
Trade payables and accruals	**341**	—	—	—
Amounts due to subsidiary companies	**3,411**	—	—	—
	3,752	—	—	—

Notes to the Company financial statements
continued

37. Financial instruments disclosure continued

2015	Current Within 6 months £000	Current 6 to 12 months £000	Non-current 1 to 2 years £000	Non-current 2 to 5 years £000
Deferred consideration	191	—	—	—
Trade payables and accruals	238	—	—	—
Amounts due to subsidiary companies	3,081	—	—	—
	3,510	—	—	—

Interest rate sensitivity analysis
At the year-end date there was no material exposure to movements in interest rates as the Company reported a cash balance of £0.72 million.

Other financial assets and liabilities
The financial assets and liabilities are measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets measured at fair value in the statement of financial position at 30 September 2016 are available for sale financial assets which are in Level 1 and valued as set out in note 19.

Foreign currency risk management
The Company has no material currency exposure. The Company's financial instruments are denominated in sterling.

Credit risk management
The Company has no material credit risk exposure.

Management of other risks
The Company's policies on interest rate and liquidity risk are described above.

38. Contingent liabilities
Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities available to each subsidiary are secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. At 30 September 2016 the Group held net cash balances of £4.34 million.

39. Related party transactions

The Company levied management charges on the following subsidiary companies during the year:

	2016 £000	2015 £000
Sanderson Limited	**250**	—
Sanderson Multi-Channel Retail Solutions Limited	**100**	—
Sanderson Multi-Channel Solutions Limited	**250**	—
One iota Limited	**100**	—
Proteus Software Limited	**100**	—

The Company received dividends from the following subsidiary companies during the year:

	2016 £000	2015 £000
One iota Limited	**250**	500
Sonarsend Limited	**—**	478
Sanderson Multi-Channel Retail Solutions Limited	**500**	—
Sanderson Multi-Channel Solutions Limited	**250**	250
Proteus Software Limited	**250**	100

Amounts due from/(to) subsidiary companies at 30 September 2016 are set out below:

	2016 £000	2015 £000
Sanderson Limited	**332**	344
Sanderson Multi-Channel Solutions Limited	**(1,439)**	3,058
Sanderson Multi-Channel Retail Solutions Limited	**3,799**	—
One iota Limited	**179**	(664)
Proteus Software Limited	**191**	(220)
Sanderson Australia Pty Limited	**—**	108
Poplar 600 Limited (dormant subsidiary)	**(2,080)**	(2,080)
Priam Retail Solutions Limited (dormant subsidiary)	**25**	25
Sanderson Retail Systems Limited (dormant subsidiary)	**(117)**	(117)

Directors of the Company received dividends during the year by virtue of their shareholdings in the Company, details of which are disclosed in the Directors' report.

Shareholder notes

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