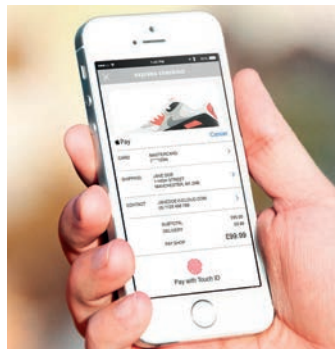
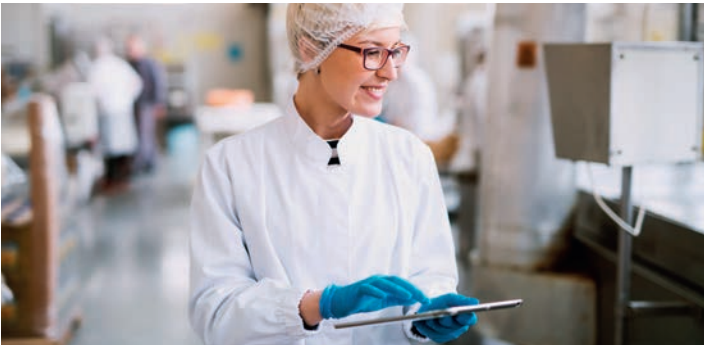


SANDERSON GROUP PLC

Annual Report and Accounts
for the year ended 30 September 2018

Innovative Technology Solutions



2018



About Sanderson

Sanderson is a publicly-owned UK provider of digital technology solutions, innovative software and managed services. We supply market-focused solutions to the **retail, wholesale, supply chain logistics, food and drink processing** and **manufacturing** sectors.

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

Established in 1983, Sanderson has a multi-million pound turnover and a track record of profitable trading. We strive to be the best in our chosen fields and achieve market leadership through the quality of our products, people and services.

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Highlights



Financial

- Revenue increased by 49% to £32.05 million (2017: £21.56 million); like-for-like revenue (excluding the acquisition of Anisa, acquired by Sanderson in November 2017) rose to £22.97 million (2017: £21.56 million).
- Pre-contracted recurring revenues now £17.61 million (2017: £11.18 million) representing 55% of total revenue in the period (2017: 52%); like-for-like recurring revenues grew by nearly £1.00 million to £12.17 million (2017: £11.18 million).
- High gross margin at 80% (2017: 82%).
- Operating profit* rose by 33% to £5.18 million (2017: £3.90 million).
- Cash balance at 30 September 2018, ahead of market expectations, at £6.47 million (2017: £6.18 million).
- Recommended Final Dividend and Full Year Dividend both increased by 13% to 1.75 pence per share (2017: 1.55 pence) and 3.00 pence per share (2017: 2.65 pence) respectively.
- Basic earnings per share of 5.2 pence (2017: 5.2 pence); adjusted basic earnings per share‡ of 7.9 pence (2017: 6.4 pence).

Operational

- Good sales order intake at £15.07 million (2017: £13.69 million).
- Total order book at year-end (including the acquisition) stood at £7.58 million (2017: £5.79 million).
- Strong performances from both Digital Retail and the acquisition.
- Digital Retail revenue grew over 20% to £8.82 million (2017: £7.28 million) whilst operating profit* grew by a third to £1.56 million (2017: £1.18 million).
- Enterprise Division was enhanced and strengthened by the acquisition, recording revenue and operating profit* (including the acquisition) of £23.23 million (2017: £14.28 million) and £3.62 million (2017: £2.71 million) respectively.
- A large order was gained with Port of Dover Cargo Limited.

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items, the latter totalling £0.39 million.

† Interim and declared final dividend in respect of the financial year.

‡ Adjusted for amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items.

At a glance

Sanderson Group plc is a well-established and profitable software and IT services business specialising in the retail, wholesale, supply chain logistics, food and drink processing and manufacturing 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
 - 800 customers and c.315 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 eight locations around the UK



- Sales & Marketing
- Technical
- Finance & Admin



Predominantly small & medium enterprises (SMEs)



Revenue
£32m+

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.

Enterprise

Manufacturing

Enterprise Resource Planning (ERP) software for modern manufacturing and food & drink processing.

Wholesale Distribution

Industry-specific software systems for wholesale distribution, cash & carry and fulfilment businesses.

Supply Chain Logistics

World-class integrated transport and warehouse management software. Streamlining complex distribution environments in supply chain logistics.

Chairman's statement



Christopher Winn
Chairman

The Group trading results are significantly ahead of the prior year and also ahead of market expectations. Revenue has increased by 49% to £32.05 million and operating profit by 33% to £5.18 million.

Sanderson Group plc ('Sanderson' or 'the Group'), the specialist provider of digital technology solutions, innovative software and managed services for the retail, wholesale, supply chain logistics, food and drink processing and manufacturing market sectors, announces Preliminary Results for the financial year ended 30 September 2018.

Financial results

The Group trading results for the year ended 30 September 2018 are significantly ahead of the prior year and also ahead of market expectations. Revenue has increased by 49% to £32.05 million (2017: £21.56 million) and operating profit by 33% to £5.18 million (2017: £3.90 million). The operating profit is stated after adjusting for the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items. Of the 'one-off' non-recurring items totalling £0.39 million, £0.30 million relates to acquisition costs and £0.09 million to restructuring costs which are partly offset by the realisation and sale of a small investment.

All Sanderson businesses traded strongly in the second half of the year with the highlight being the performance of the Digital Retail division, with revenue growing by over 20% and operating profit rising to £1.56 million for the full year (2017: £1.18 million) (stated after adjusting for the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items). Sanderson was expanded and enhanced by the acquisition of Anisa Consolidated Holdings Limited on 23 November 2017, which accounted for £1.00 million of the £3.62 million (2017: £2.71 million) operating profit of the Enterprise division (stated after adjusting for the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items). The acquired business, which specialises in the delivery and support of world-class integrated supply chain and enterprise resource planning ('ERP') solutions on a global basis, has made a good start as part of the Group.

Gross margin remained high at 80% (2017: 82%) and now reflects the blended sales mix with the inclusion of the acquisition. On a like-for-like basis, gross margin was 81% and this strong gross margin reflects the Group's continued emphasis and focus on the supply of Sanderson-owned proprietary software and services. Pre-contracted recurring revenues increased to £17.61 million (2017: £11.18 million) accounting for 55% of total revenue (2017: 52%). Like-for-like recurring revenues increased to £12.17 million (2017: £11.18 million). The Group continues to focus on building this revenue stream including growing subscription, cloud and managed services.

Sanderson continues to generate cash at least in line with its operating profit very much reflecting the Group's strong, cash-generative business model. The cash balance at 30 September 2018 was £6.47 million (2017: £6.18 million) and was ahead of market expectations. This balance is stated after increased dividend payments of £1.67 million (2017: £1.38 million) and after a net outflow of £2.65 million comprising £1.29 million consideration for the acquisition and £1.36 million of acquisition related items. As part of the terms of the acquisition, the Group assumed a five-year term debt facility with an outstanding balance of £4.13 million. After scheduled repayments, this reduced to £3.44 million, leaving the Group in a positive, net cash position of £3.03 million at 30 September 2018.

Dividend

Sanderson continues to generate cash in line with operating profit enabling the Board to maintain its progressive dividend policy whilst continuing to invest further in the ongoing development of the Group's businesses. Subject to the approval of shareholders at the Annual General Meeting, scheduled to be held at 11am on 22 January 2019, the Board is proposing an increase of 13% in the final dividend to 1.75 pence per ordinary share (2017: 1.55 pence). This makes the total dividend payable for the year 3.00 pence per ordinary share and represents an increase of 13% over the prior year (2017: 2.65 pence) and an increase in excess of 40% over the past three years (2015: 2.10 pence). The final dividend, subject to approval at the Group's Annual General Meeting, will be paid on 1 March 2019 to shareholders on the register at the close of business on 15 February 2019.

Chairman's statement

continued



The Group continues to invest in solutions capitalising on digital transformation in retail, wholesale distribution and logistics

Strategy

The strategy of the Board is to sustain growth by continuing to develop and to further build the Sanderson business. The deployment and adoption of the Group's solutions allow customers to increase revenues whilst making productivity and efficiency gains, thereby reducing operating costs. Investment is planned across all of the Group's businesses, but particular emphasis will again be placed on enhancing mobile and ecommerce solutions in order to capitalise on the drive for digital transformation in the retail, wholesale distribution and logistics sectors. Mobile solutions continue to be developed to address all of the Group's markets. The acquisition in November 2017 strengthens the Group's offering with complementary products covering the logistics and supply chain sectors and brings exciting new opportunities to further grow and to develop subscription, cloud and managed services revenue across the Group.

In order to supplement organic growth, selective acquisition opportunities continue to be considered. Management adopts a measured approach to acquisitions and carefully considers any risks which might be involved. The Board remains focused on maintaining a robust balance sheet, continuing to deliver growth, achieving 'on target' results, generating cash and thereby further increasing shareholder value and growing dividend returns.

Management and staff

Sanderson now employs over 315 staff who have specialist expertise and a high level of experience of the market sectors which the Group addresses. I would like to express the appreciation of the Sanderson Board of directors and thank everyone for their hard work, support, dedication and valued contribution to the ongoing development of the Group.

Christopher Winn

Chairman

Group Chief Executive's business review



Ian Newcombe
Group Chief Executive

The Group has a clear growth strategy. Organic growth is planned from the fast expanding Digital Retail division and renewed growth impetus from the enlarged Enterprise division. There is an ongoing plan to accelerate the Group's growth with selective acquisitions.

Sanderson products and services are primarily targeted at the SME (small and medium-sized enterprise) market. The well-developed business model is based on forging long-term relationships with customers. These relationships result in a large proportion of sales arising from pre-contracted recurring revenue, complemented by incremental sales to the Group's large, well-established and growing customer base. This robust revenue stream typically accounts for around 90% of Group revenue.

A pillar of the well-developed business model is the Sanderson proprietary software which is marketed and sold under a 'right to use' licence, with all sales, marketing, delivery, support and services carried out by the Group's own expert staff. On-premise, cloud-based and managed services solutions are available to customers on an ongoing annual contractual basis, together with accompanying consultancy, support and maintenance services.

Sanderson proprietary solutions are designed in anticipation of technological developments, often in conjunction and collaboration with customers. These solutions provide value for money, cost-effective, timely and tangible business benefits. Benefits typically enable customers to grow their sales whilst increasing productivity, making additional efficiencies and effecting cost savings. Sanderson customers usually reap a rapid return from their investment, often within a year of implementation.

The Group continues to invest in the further development of its software products and services, as well as increasing its sales and marketing capacity and capability. Investment has been focused on the Sanderson businesses specialising in food and drink processing, wholesale distribution and supply chain logistics, with particular emphasis on the growing market for digital retail solutions. Digital transformation is a key business driver for retailers as they strive to adapt to the changing retail environment and modernise the in-store shopping experience. Sanderson effectively partners with retailers to deliver in-store technology, mobile and ecommerce solutions that capitalise on the trend towards a fully integrated mobile, online and in-store platform. This provides the opportunity for increased sales and a seamless customer shopping experience.

Following record levels of Group revenue and a strong sales performance, the sales order intake was good at £15.07 million (2017: £13.69 million) and the total order book at 30 September 2018 was £7.58 million (2017: £5.79 million). This order book includes the acquisition and the remaining element of a large order gained in June 2017, which is being delivered 'on schedule'. The year-end order book on a like-for-like basis was £2.91 million (2017: £2.67 million). The order book is also now better balanced across the Group's businesses and together with this growth of the order book and high level of sales prospects there is a good level of confidence going into the current financial year.

Review of Digital Retail

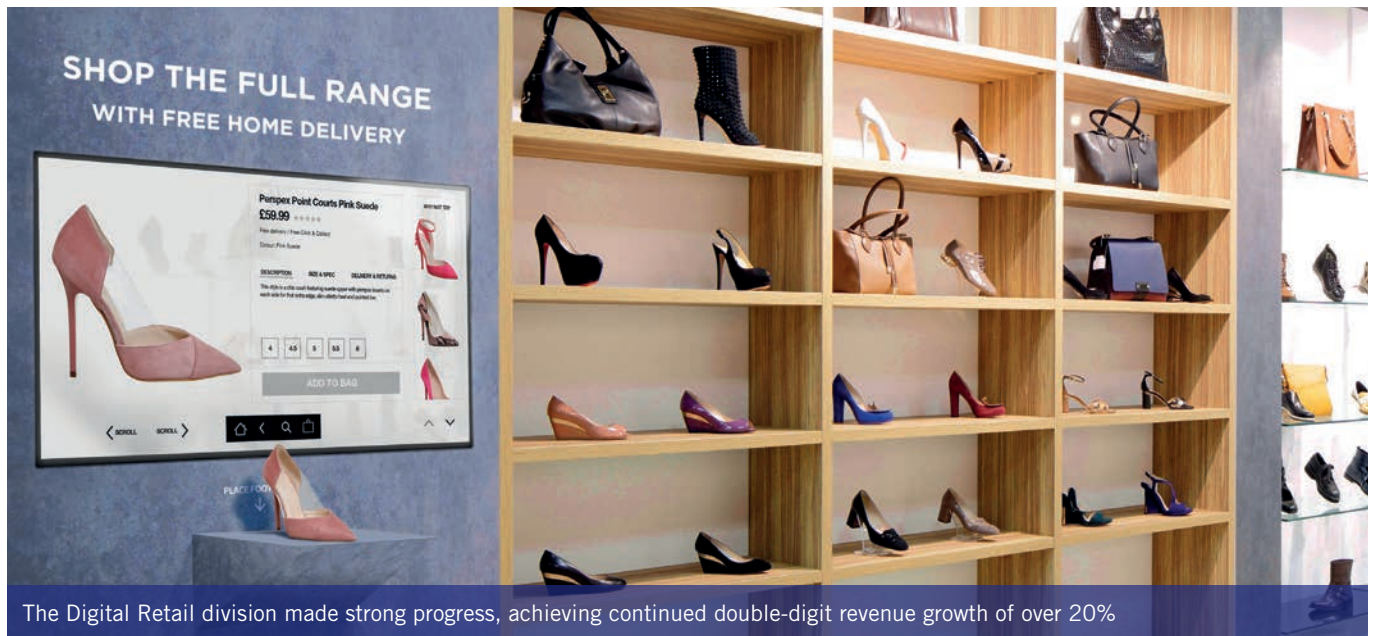
Sanderson provides comprehensive IT solutions to businesses operating in the ecommerce, mobile commerce and retail sectors of the UK. Digital retail continues to be a highly active and fast-developing sector of the market.

The Digital Retail division works with leading retailers such as Richer Sounds plc, JD Sports Fashion plc and Superdry and again made strong progress achieving continued double-digit revenue growth, rising by over 20% to £8.82 million (2017: £7.28 million). Operating profits grew by a third to £1.56 million (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) (2017: £1.18 million). Sanderson continues to invest in product innovation and delivery capacity in order to address this rapidly growing market.

The UK retail market has reported mixed results reflecting changing consumer shopping habits. With greater emphasis towards utilising online and mobile shopping channels, we are pleased to report that levels of sales activity remain high. We previously reported that following a successful pilot scheme, a phase one order had been secured with the iconic global brand, Hugo Boss. A pilot project has also been secured with a leading retailer of formal wear to deploy in-store assisted-sale mobile technology for enhanced customer service. Demand for the Group's latest omni-channel solutions is strong, with additional new customers including luxury womenswear retailer, ME+EM, as well as large orders having been gained from existing customers including Richer Sounds plc and Beaverbrooks The Jewellers Limited.

Group Chief Executive's business review

continued



The Digital Retail division made strong progress, achieving continued double-digit revenue growth of over 20%

The underlying year-end order book, excluding the remaining element of the large order gained in June 2017, grew 24% to £1.07 million (2017: £0.86 million). With a number of developing sales prospects, current active pilot schemes, continued innovation and strong partnerships with existing customers, the Digital Retail business is well positioned for further growth.

Review of Enterprise

The enlarged Enterprise division, which has been significantly strengthened by the November 2017 acquisition, now comprises three market-focused businesses which operate in manufacturing, wholesale and supply chain logistics. Productivity gains, improved efficiency and cost savings are key drivers in these markets.

Following a stronger second half performance, 18 new customers were gained in the year. The division invested almost £3.00 million in software product development, a key focus being the Wholesale business which successfully secured a number of new orders for the digital suite of products launched earlier in the year. Towards the end of the financial year an innovative business intelligence product with enhanced capability was launched and this has generated a high level of early interest.

The Enterprise division achieved a good set of results, strengthened by the acquisition. Divisional revenue was £23.23 million (2017: £14.28 million). Operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) was £3.62 million (2017: £2.71 million). On a like-for-like basis, having adjusted for the acquisition, revenue was £14.14 million (2017: £14.28 million) with operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) of £2.49 million (2017: £2.71 million). The business performance improved in the second half of the financial year ending 30 September 2018 and is expected to continue into the current financial year. The order book at the financial year-end was £5.36 million (2017: £1.81 million) and, excluding the acquisition, the underlying order book was healthy at £1.84 million (2017: £1.81 million).

Enterprise – Manufacturing

Businesses in the engineering, plastics, aerospace, electronics, print and, most especially, food and drink processing sectors represent the main areas of specialisation for Sanderson. Activity is very much driven by developments in the food and drink processing market. Here, traceability of ingredients through the supply chain and the need for compliance with increasingly stringent regulatory standards are key industry requirements and strong features of the Sanderson solution. Four new customers were gained during the year (2017: six new customers), including Omega Ingredients Limited and Nitron Racing Systems Limited, with large orders gained from existing customers such as Adelle Foods Group Limited and Cereform Limited. Prospects continue to be healthy but sales cycles remain protracted.

Hosted managed services, delivered from our own dedicated, specialist data centre, provide an opportunity to exploit and accelerate market trends towards subscription and cloud-based options for solution delivery.



Supply chain logistics – the acquisition has made a good start as part of Sanderson

Enterprise – Wholesale Distribution

Sanderson supplies solutions to the wholesale distribution, cash and carry and fulfilment sectors, as well as to the specialist warehousing market. Six new customers were gained during the year, the same as the previous year, with an average initial order value of £120,000 (2017: £89,000). New customers include East N West Cash & Carry Limited and Windsor Foodservice, with major sales orders gained from several existing customers such as PRL Group and Pedigree Wholesale Limited. Following the drive towards digital transformation, the Group launched an innovative suite of digital solutions in the wholesale industry which capitalise on the growing use of mobile devices. The level of interest and prospects for the solutions are very positive and product innovation, together with the Group's track record in the wholesale industry, position our business well for growth in the coming financial year ending 30 September 2019.

Enterprise – Anisa Supply Chain Logistics

This business specialises in the delivery of world-class integrated supply chain and ERP solutions. Over 90 staff are employed in office locations across the UK and in smaller operations in Singapore and Australia, providing 250 customers with 24-hour, 365 days a year support on a worldwide basis.

The acquisition has made a good start as part of Sanderson, is well managed and has successfully integrated into the Group. Eight new customers have been gained and earlier in the year we reported that a scoping exercise was under way at a major UK port for a new supply chain system. We are pleased to confirm that the Port of Dover Cargo Limited has appointed the Group to supply warehouse management and cargo terminal management software for its new refrigerated cargo terminal. A number of exciting sales prospects are being developed and the customer base is very active with major orders from Moran Logistics Limited, Culina Group, DX plc and NHS Blood and Transplant during the year.

The acquisition considerably enhances the range of solutions and services which Sanderson can now offer. In particular hosted managed services, delivered from our own dedicated, specialist data centre, provide an opportunity to exploit and accelerate market trends towards subscription and cloud-based options for solution delivery going forward.

Outlook

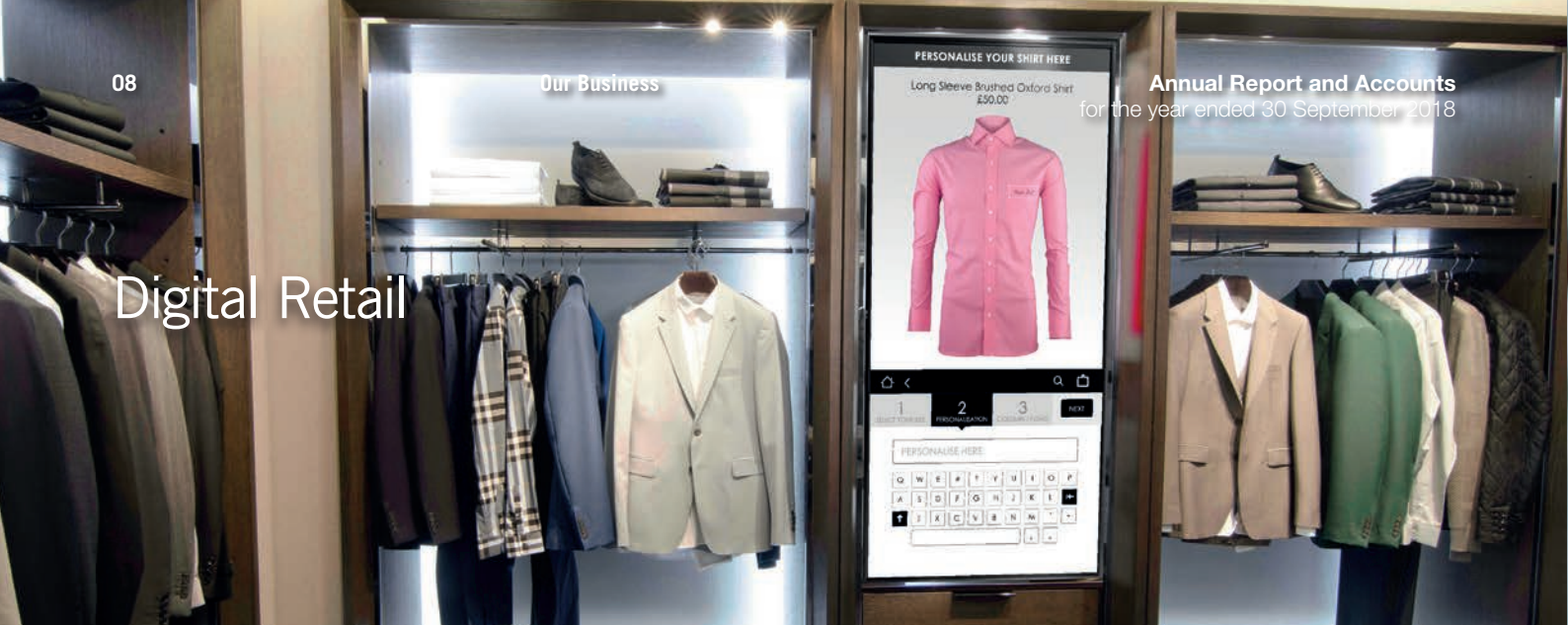
The Group has a clear growth strategy. Organic growth is planned from the fast expanding Digital Retail division and renewed growth impetus from the enlarged Enterprise division. There is an ongoing plan to accelerate the Group's growth with selective acquisitions.

Sanderson has a good reputation having built up a strong track record of delivering customer-centric solutions. Whilst the Board is mindful of potential ongoing uncertainty surrounding economic conditions post the Brexit outcome, the Board believes that Sanderson is well positioned in its target markets and has good sales prospects, backed by a healthy order book. This provides a good level of confidence that, at this relatively early stage of the new financial year, the Group will make further progress and once again deliver trading results which are, at least, in line with market expectations for the year ending 30 September 2019.

Ian Newcombe

Group Chief Executive

Digital Retail



“As a brand that prides itself on customer service, choosing a technology partner that could ensure we continue to improve our customers’ experience was paramount.”

Richer Sounds

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 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, and 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 return 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.

BOSS
HUGO BOSS

Sanderson has secured an order with global luxury fashion house HUGO BOSS for digital store transformation

Enterprise – Manufacturing



“Our recall team completed our first ‘mock recall’. The scenario was one of the most challenging, yet the exercise was completed in record time, a very impressive display of the traceability capabilities of the Sanderson product.”

Steggall Nutrition

ERP solutions boosting efficiency and profit

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. Our solutions improve efficiency and productivity in manufacturing and bring many cost saving benefits to customers.

Specialist software for food and drink processing

Our specialist ERP software is the software of 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.

Strong position in 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 cost 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

“The system has provided the framework to facilitate growth that could not have otherwise been achieved. Visibility, efficiency, improved communication and an expanding online business presence have all helped open up new lines of opportunity. It really adds value to our business.”

Regal Wholesale

Digital solutions providing growth for wholesalers

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

Just as the retail arena has developed sophisticated methods to attract sales, offer more shopping channels and retain customers via 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 this area. It's paying off; with double digit growth being reported for wholesalers adopting technology according to IGD, the global food and grocery experts.

In light of this move to embrace new technology, Sanderson has invested in product development and was first to launch, in the wholesale market, an innovative suite of digital solutions to drive wholesalers' future growth and prosperity.

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.

Intelligent fulfilment and warehouse management

For any fulfilment business, it is important to develop a service to satisfy customers' 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. From procurement to warehouse management, and from forecasting to delivery, our solutions automate operations and manage the smooth and fast fulfilment of omni-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.

As a result of using our systems, our customers have transformed their businesses with increased growth, improved turnover and significantly reduced costs on account of time savings and streamlined operations.



Enterprise – Supply Chain Logistics

Our transport and warehouse management software is used by well-known organisations across the UK. From managing 30,000 deliveries per month for a leading soft drinks manufacturer to handling the movement of water samples for a UK utility company, or consolidating food and duty-free products into airline trolleys for sale on flights, our solutions can be applied to a diverse set of logistics management needs.

Increased IT in supply chain logistics

The logistics sector employs one in twelve people in the UK and contributes £91 billion to the economy with ecommerce and the complexity of modern supply chains driving growth. Fuelled by an increase in delivery options, together with a rise in orders due to mobile and online ordering, logistics is fast becoming 'the new retail'. Technology is driving competitive advantage as retail activity shifts from shop to warehouse, with growth in fulfilment centres rather than stores. Seventy-five per cent of operators in the sector expect increased capex in IT to drive efficiency and productivity according to the UK Logistics Confidence Index.

World-class integrated supply chain solutions

The acquisition of integrated supply chain and ERP solutions provider Anisa has enlarged and complemented the Sanderson Group. The Group's Supply Chain Logistics business now supplies leading organisations with warehouse or transport operations, delivering complete supply chain visibility and competitive advantage. We are the market-leading integrated transport and warehouse management systems company in the UK. Our software, delivered as a cloud-based managed service or installed on premise, streamlines complex distribution environments. Businesses that work with us win and retain more customers, grow quicker and are more profitable, with happier staff using the latest technology on the market.

Port of Dover choose Sanderson Group software solutions



The Port of Dover is Europe's busiest ferry port, a vital international gateway for the movement of people and trade. In another milestone for the Port's flagship Dover Western Docks Revival (DWDR), Sanderson has been appointed to supply the Warehouse Management and Cargo Terminal Management software for the new Refrigerated Cargo Terminal (RCT).

Sanderson software solutions will manage operations across the terminal including ships unloading at the quay and dispatch from warehouse to road, with live tracking of vehicle and container movements. The solution will make a huge difference to the business: growing revenue, boosting efficiencies and delivering service improvements.

Strategic report



Richard Mogg
Finance Director

Following another year of excellent cash generation, the Group will continue to invest in product development and is well positioned to deliver both organic and acquisitive growth.

Adjusted diluted eps*

↑ **21%**

to **7.6 pence**
(2017: 6.3 pence)

* Adjusted for amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items.

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 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 49% to £32.05 million (2017: £21.56 million) reflecting the acquisition of Anisa Consolidated Holdings Limited in November 2017 and organic growth of over 6%. Whilst the Group continues to operate in competitive markets, the Board remains confident of future growth in its chosen markets, particularly in Digital Retail which has 21% revenue growth in 2018. As such, the Group continues to invest in ensuring our portfolio of solutions is both innovative and aligned to the latest demands of the markets it serves. Operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items) increased by 33% to £5.18 million (2017: £3.90 million) in a year where the Group has incurred significant costs in successfully completing a large acquisition. The Group also had a reduced level of management changes in the period and benefited from the sale of a small equity investment. Consequently, reflecting the net impact of these items, unadjusted profit from operating activities is £3.59 million (2017: £2.88 million).

As a software solutions provider, the Group has a low effective tax rate with continued benefit arising from tax credits in respect of research and development claims. Basic earnings per share remained consistent at 5.2 pence (2017: 5.2 pence) with 2017 benefitting from large tax credits relating to a catch-up of prior years' claims. Adjusted diluted earnings per share has grown by 21% to 7.6 pence (2017: 6.3 pence).

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 operating profit to cash and this continues to be the case. At 30 September 2018, the Group has a cash balance of £6.47 million (2017: £6.18 million) and a remaining five year term debt facility (final instalment due in 2021) of £3.44 million, bringing the total net bank position to £3.03 million. These balances are after the payment of £1.67 million in dividends and £2.65 million cash outflow, comprising £1.29 million consideration and £1.36 million acquisition related items.

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 £4.50 million (2017: £3.21 million) was incurred, of which £3.55 million (2017: £2.21 million) was expensed against operating profit.

The majority of the Group's cash balances are held in pounds sterling, with a small proportion of cash denominated in foreign currency. Whilst this is actively monitored and managed through the finance department, the risk of impact from adverse exchange movements is considered low.

Under the terms of the acquisition made in November 2017, the Group took on £1.05 million of loan notes. In October 2018, £0.79 million of these were paid down with the remaining £0.26 million retained on revised terms for a maximum of three years. In the same month, the Group also paid £0.56 million of deferred consideration in respect of this acquisition, with the remaining contingent balance due in April 2019. The Group's deferred income balance has also been further enhanced by the acquisition and continues to underpin the Group's high proportion of recurring revenues.

The Board has reviewed the Group's medium-term strategy and believes that key strategic developments are achievable whilst retaining a strong balance sheet.

Key performance indicators

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	2018	2017
Revenue per employee	£101,000	£95,000
Operating profit as a percentage of revenue	11.2%	13.4%
Operating profit* as a percentage of revenue	16.1%	18.1%
Order intake	£15.07m	£13.69m
Debtors more than 30 days overdue as percentage of total debtors	9.8%	6.2%
Dividend cover	2.53	2.38

* Stated before amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring costs.

Revenue per employee is used as a broad measure of efficiency. The Group has previously set a target of £100,000 for revenue per employee and, pleasingly, this has now been exceeded reflecting improved efficiency and the well-managed business acquired in November 2017.

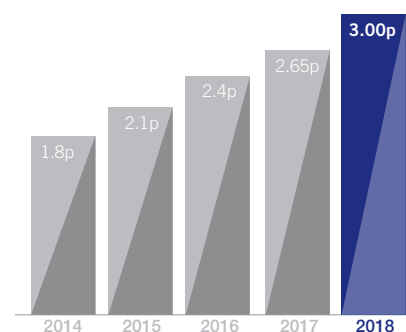
Both operating profit margin indicators have decreased by similar levels from last year, reflecting the Group's slight change in revenue mix with the inclusion of Anisa. Overall gross margin remains strong at 80% (2017: 82%) reflecting the continued focus on the supply of Sanderson proprietary software and services. Whilst efficiency continues to be a focus, the Board also remains conscious of the need to invest in technical, sales and marketing and management in order to protect and enhance the longer 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 10% in the year to 30 September 2018 including the impact of Anisa. Like-for-like order book at 30 September 2018, having adjusted for the acquisition and the large order gained in June 2017 which is being delivered 'on schedule', grew 9% on prior year. This, together with the fact that over 14% of the order intake was derived from new customers contracting with Sanderson for the first time, provides the Board with confidence that the Group continues to be well positioned in its target markets.

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 22 January 2019. 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.

Dividend for financial year



Strategic report

continued

Risk

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:

Risk category ▼	Potential impact ▼	Mitigation ▼
Economic	<p>As a supplier to the digital retail and enterprise 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.</p> <p>In addition, the uncertainty surrounding Brexit may lead to further slowdown in customer decision making and increased costs.</p>	<p>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 customers' budgeted IT spend. Forward-looking indicators such as order intake are regularly reviewed to identify potential deterioration in market conditions.</p> <p>Through a well-established account management framework, the Group regularly monitors customer buying behaviour. In addition, the Group continues to investigate opportunities arising from the potential outcome of Brexit.</p>
Product development	<p>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.</p>	<p>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. Product roadmaps are regular reviewed by senior management.</p>
People	<p>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.</p>	<p>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. The Group also offers share options to senior members of staff, to mitigate the risk of key personnel leaving.</p>
Project delivery	<p>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.</p>	<p>Established procedures are used in the delivery and management of projects.</p>
Financial	<p>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.</p> <p>The Group's two largest customers account for approximately 15% to 20% of revenue.</p>	<p>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.</p> <p>Sanderson will continue to invest in strengthening sales & marketing capability in order to gain further new customers thereby diluting specific customer revenue over time. Contractual relationships with larger customers are reviewed regularly.</p>
Acquisition risk	<p>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.</p> <p>A failure to successfully integrate acquisitions may impact on Group profitability.</p>	<p>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.</p> <p>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.</p>
Reputational	<p>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 substandard products may therefore result in customer disputes as well as a negative impact on solution sales.</p>	<p>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.</p>

Approved on behalf of the Board

Richard Mogg

Director

23 November 2018

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

Some of our senior team and recent appointments



Dave Renshaw
CEO, Supply Chain Logistics

After graduating with a BSc (Hons) in Computing and Mathematics, Dave joined software house Fraser Williams as a Graduate Trainee. He was a founding member of the Group's logistics software business which grew to employ 300 people and provide systems to customers across the world. He was appointed COO and joined the main Board in 2002. When Anisa acquired the business in 2006, Dave became CEO of OBS Logistics, merging the acquired business with Anisa's existing logistics business. During Dave's time with Anisa, its Managed Services capability has developed to be a successful cornerstone of the business. Dave joined Sanderson when Anisa was acquired in November 2017.



Paul Tooth
Business Development Director

Paul is both an experienced Sales Director and Managing Director with a proven track record in leading tech businesses. He joined Sanderson in June 2018. Reporting to the CEO, his remit is to improve business processes, integrate acquisitions, develop new markets and increase revenue across the Group. Prior to Sanderson, Paul was CEO of BrightHR, a rapidly growing SaaS HR solutions provider. Before this, he spent eight years with Sage Group plc: Head of Sales for the HCM (Human Capital Management) software business, then General Manager of the HCM Division, then MD of the Accountants Division. Paul is a graduate of Lancaster University where he gained a BSc in Marketing/Marketing Management.



Steve Hart
FD, Supply Chain Logistics

Steve has 14 years' software sector experience with focus on financial control, financial and management reporting and providing commercial support. He qualified as a Chartered Management Accountant while working for American manufacturing conglomerate, Rockwell International. In 2004, Steve joined FWL Technologies, a business acquired by Anisa in 2006. He became Finance Manager of the merged Supply Chain Logistics and Managed Services business. Since Sanderson acquired Anisa, Steve has been responsible for financial control and performance reporting of the Sanderson Supply Chain Logistics business, with commercial and general management remits alongside.



Edward Lawrenson
Head of Product, One iota

Ed is a graduate of Lancaster University where he studied politics. After university, he embarked on a career in business to business marketing, specialising in online and social media. He joined One iota, the Group's digital retail business, in 2012. Following a brief spell at online retailer AO.com, he re-joined Sanderson in 2014, as Client Solutions Manager for One iota. Now Head of Product, Ed works closely with existing customers to develop their solutions as well as conceiving innovative new products to offer to the retail market.



Mark Leeming
Operations Manager, Proteus

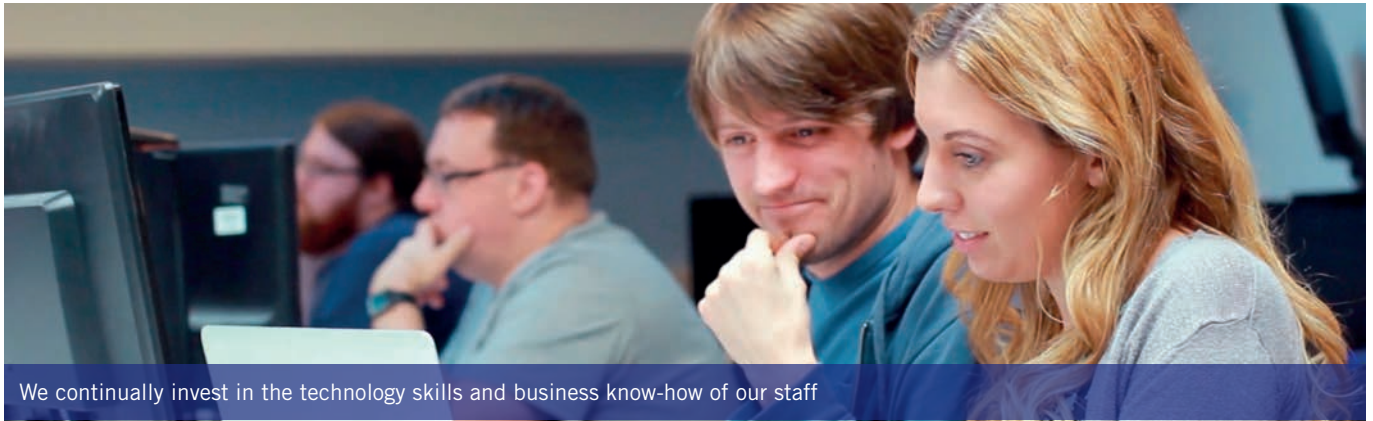
Mark joined Sanderson in 2018 as Operations Manager for the Group's Proteus Warehouse Management Software. He has extensive experience working in the ERP software sector. Prior to Sanderson, he was a senior project manager at Epicor. Mark has a proven track record in delivering complex programmes of work, across the UK and Europe; leading and inspiring project delivery teams and managing business change. His focus at Sanderson is to ensure growth of the Group's warehouse management solutions and expand the Proteus customer base.



Julie Scott
Director of Customer Services

Julie started her career in IT over 30 years ago as a trainee programmer. Progressing through the ranks of project management and senior management, she became Director of Customer Services for Anisa (acquired by Sanderson in 2017), four years ago. Julie has been instrumental in establishing and developing 'managed services' which continue to be a growing part of the Company's business. She has driven Company standards and improvement initiatives including ISO 9001 and ISO 27001 (key standards for managed services) and her 'can do' approach is respected by customers and colleagues alike.

Investing in people and our community



We continually invest in the technology skills and business know-how of our staff

Sanderson now employs over 315 staff who have specialist expertise and a high level of experience of the market sectors which the Group addresses.

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 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 and logistics with some of the UK's biggest retailers, distributors and brands. While in manufacturing, our experienced staff help customers manage complex and stringent regulatory demands along with driving profitability and efficiency.

Engaging with our community

We work hard every day to provide our customers with the best digital retail solutions possible. But once a year, the Group's One iota team set aside their daily tasks and come together for the 'Hackathon', a competition designed to let the creativity of our staff run wild as they aim to produce the best innovative customer service solution. Teams identify a potential gap in the current retail market, whether that be augmented reality mirrors, real-time shopping or a whole range of other technological advances and spend two days developing a prototype to present and demonstrate.

For the first year ever, we were joined by students and apprentices from local colleges and businesses, to provide us with a fresh outlook, as well as allowing the students to participate in bringing innovative ideas to real life commercial use. The students thoroughly enjoyed themselves and we look forward to welcoming many more in the years to come.



Students and apprentices joined our Hackathon, a competition to promote staff creativity

Board of directors



Christopher Winn
Chairman, aged 68

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



Ian Newcombe
Chief Executive Officer, aged 63

Ian was appointed to the Board in 2013 and to the position of Chief Executive in June 2015. Ian has over 30 years' experience in software and IT services. Beginning his career in electronics, he moved into the computer industry in 1979 when he joined ACT Group plc where, as a local board member, he helped establish an international IT support and software services business. In 1996, Ian joined Mitsubishi Electric of Japan and as International Project Director, he was instrumental in the formation of an ISP (Internet Service Provider) and online financial services business, successfully launching a range of innovative projects in the UK and Europe. In 1999, he was appointed Consulting Director of Talgentra Limited, where he developed a new consulting services business which rapidly expanded overseas. In 2005, Ian became Managing Director of what is now the enlarged multi-channel retail division of Sanderson and has since driven the growth of the division.



Richard Mogg
Finance Director, aged 42

Richard joined the Board in October 2017 bringing significant commercial and finance experience predominantly from software and IT services businesses. After graduating from the University of Plymouth, Richard worked for RM plc where he trained to become a Chartered Management Accountant and undertook various financial management roles across the business. In 2003, Richard joined Capita plc and in 2005 was appointed as Finance Director of Service Birmingham. He moved to Capita's IT services business as Finance Director in 2008 and undertook a number of acquisitions leading to promotion to Divisional Finance Director of Capita's IT Services Consulting Division. In 2012, Richard left to become Commercial Finance Director at Pattonair before rejoining Capita in 2015, where most recently he was Chief Operations Officer for Education Software Services.

John Paterson

Non-Executive Director, aged 72

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 67

David has considerable business experience including with Financial Objects plc, Cyan Technology plc and Sanderson Group plc as a non-executive director from 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.

Governance statement

The Group has chosen to apply the Quoted Companies Alliance (QCA) corporate governance code following the recent changes to the AIM rules which require all AIM companies to comply with a recognised corporate governance code. Details of the Group's compliance with the code are set out below.

1. Establish a strategy and business model which promote long-term value for shareholders

Sanderson is a well-established, profitable, specialist provider of digital technology solutions, innovative software and managed services for the retail, wholesale, supply chain logistics, food and drink processing and manufacturing market sectors. Operating primarily in the UK and Northern Ireland, the Group provides its customers with enterprise systems designed to help them grow and run their businesses efficiently and profitably. Sanderson maintains a strong market position due to the quality of its products and services and its successful track record.

The Group has a strong revenue model, with typically 50% of revenue arising from recurring licence, support and maintenance contracts. A further 40% is derived from the existing customer base, with the balance represented by revenue from new customers. With the exception of a small amount of revenue (less than 10%), all software solutions sold are designed in-house and the Group owns all associated IP.

The Group's continuing strong cash generation enables the Board to maintain a progressive dividend policy whilst continuing to invest in the further development of the Group's businesses.

Further details are provided in the Chairman's statement, Chief Executive's business review and Strategic report.

2. Seek to understand and meet shareholder needs and expectations

Sanderson highly values regular two-way engagement with shareholders to discuss strategy and performance levels. The executive directors invest considerable time in ensuring both current and potential future investors have opportunity to fully understand the business alongside being able to understand what investors and analysts think about.

We meet with all institutional investors that wish to do so at least twice a year in the results period. These meetings include a presentation of the latest financial performance, a wider business update, and discussion on the longer-term plan. These meetings are normally attended by the Chairman, Group Chief Executive Officer and Group Finance Director. We also welcome engagement with our key shareholders throughout the year.

We answer and respond to any shareholder calls or correspondence on an individual and personal basis as they are received and then endeavour to keep in contact with the shareholder.

The AGM presents the main opportunity for engagement with private shareholders. This meeting is typically well attended by the full Board and often several senior managers from across the business.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The main mechanisms for wider stakeholder engagement and feedback can be summarised as follows:

Customers

We have dedicated staff in each of the businesses that are responsible for customer relationships. In addition, the technical support and development teams will regularly engage with customers as a fundamental part of delivering ongoing services. Through these well-established channels Sanderson can ensure that the needs of our customers are fully understood. We are then well positioned to initiate appropriate actions in response.

Recent actions have included updating some of the Group's websites to ensure they are easy for our customers to understand and navigate, and considerable investment in developing new products and solutions to address customers' ever evolving needs.

Suppliers

The third-party supply base can be key to the success of the Sanderson business. As such, there are processes in place within each of the business units to actively manage supplier relationships in the normal course of business, taking appropriate feedback and developing actions as necessary.

Employees

Regular staff briefings are held at all of our main offices which are normally attended by at least one executive director. These serve not only as a valuable opportunity to keep staff up to speed with the overall Group, but also as an important mechanism for staff to provide feedback.

As a result, recent actions include initiating a refurbishment project on one of our key offices, implementing an online solution for expense claim processing and also introducing secure electronic payslips.

Community

Sanderson actively engages with the local communities where practical. For example, the marketing team has provided additional support to the Tiny Tim's Children's Centre that provides free treatments to children and young people with disabilities, health problems and special needs. The team spent time working on social media marketing and promotional ideas to increase visitor numbers.

In addition, the Group makes donations to local community organisations, for example to allow them to continue running specific events that would otherwise be too costly.

We are firm believers in supporting the local economies in which we operate in and therefore always look to employ local people and engage local trades where possible.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

Financial Control

The Group has an established framework of financial controls, the effectiveness of which is reviewed regularly by senior management, the Board and the Audit Committee. Key areas of control are as follows:

- The Board has responsibility for approving all annual budgets, longer-term strategy and plans, dividend policy, financial and funding structure of the Company, and any material investments.
- Key performance metrics are reported to the executive directors daily, including invoicing, sales orders, order book and cash.
- Financial performance on a monthly basis is reported to the Board comparing to forecast, budget and prior year.
- There is a comprehensive forecast process in place providing the Board with an updated view of the likely performance for the financial year on a monthly basis (in the absence of ad hoc material events), including revenue, profit and cash.
- Monthly management meetings are held with each business in the Group, chaired by the Group Chief Executive.
- A robust system of controls exists to cover all types of cost including recruitment, promotions, salary costs and capital expenditure. All payments are approved by senior finance staff.
- A Group-wide process is in place for the approval of all bids and tenders.
- Return on investment and payback are tracked for all prior acquisitions as well as other types of investments. These are reported to the Board on a monthly basis.

Other Controls

The Board continually reviews whether the system of controls and risk management in place is appropriate for the size, complexity and risk profile of the Group. The controls currently in place include:

- Monthly management meetings for each business, chaired by the Group Chief Executive and attended by the Group Finance Director, provide the mechanism for reporting any identified risk and setting required actions to mitigate. Any risks of a material nature are then reported to the Board through the monthly Board meeting.
- A quarterly health & safety review meeting is attended by the Group Finance Director in which each site responsible officer reports on current status against set criteria. A monthly health & safety dashboard is also reported to the Board. These mechanisms facilitate ensuring each site has appropriate roles and processes in place including first aiders, fire wardens, regular fire alarm tests and regular health & safety checks.
- All contracts are approved by the Group Finance Director prior to signing.
- Dedicated resource and appropriate tools are in place that proactively monitor the Group's IT infrastructure to ensure high levels of security are maintained, as well as looking to continuously improve. This is reviewed at regular intervals with the Group Finance Director.

A summary of the Group's principal risks, potential impact and mitigations are included in the Strategic report.

Governance statement

continued

5. Maintain the Board as a well-functioning, balanced team led by the Chair

The Board is broadly balanced with three executive and two non-executive directors. The Board considers that the non-executive directors operate in an independent manner. Consequently, the Board believes it is well functioning with a suitable balance of independence and detailed company knowledge to discharge its duties and responsibilities effectively.

Whilst John Paterson has been a non-executive director since 2004, he remains well positioned to act independently and challenge the executive directors by utilising the knowledge he has gained on both Sanderson and the wider market which is well complemented by his extensive City experience.

Ian Newcombe, Group Chief Executive, is responsible for the day-to-day running of the business allowing Christopher Winn, Chairman, to remain objective in his leadership of the Board.

The Board has established three committees (the Audit Committee, the Remuneration Committee and the Nomination Committee) each consisting of, as a minimum, the two non-executive directors. Each committee has defined terms of reference.

There were 18 Board or Committee meetings held during the year. Directors' attendance at these meetings was as follows:

		Total	Board	Audit Committee	Remuneration Committee	Nominations Committee
Christopher Winn	Chairman	16	11	1	4	0
Ian Newcombe	Chief Executive	12	11	1	0	0
Richard Mogg	Finance Director	14	12	2	0	0
David Gutteridge	Non-executive	18	12	2	4	0
John Paterson	Non-executive	18	12	2	4	0

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

All executive directors are subject to election by shareholders at the first opportunity after their appointment and to re-election every three years thereafter. Non-executive directors are also subject to re-election every three years.

The Board is satisfied that the five directors bring a good balance of skills and experience to bear, with particular bias towards IT & software given the nature of the business.

All directors receive regular updates on Group activity, relevant market information and other relevant information to facilitate them in fully carrying out their roles.

All directors are able to seek independent professional advice if necessary to fulfil their duties and responsibilities at the expense of the Group.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Chairman at least annually will review the individual contributions, commitment and independence (where relevant) of each member of the Board to ensure the team remains as effective and relevant as possible. He will also discuss and agree any specific objectives for the forthcoming period with each Board member, as appropriate.

The collective performance of the Board is ultimately measured against a number of strategic objectives, typically set over a three-year period initially by the executive directors, then subsequently agreed with all Board members following consultation with key shareholders.

8. Promote a corporate culture that is based on ethical values and behaviours

The Group has a number of policies in place covering areas such as anti-bribery, environment and sustainability, data security, whistleblowing and quality. These, together with the culture emphasised through regular staff briefings, provide the platform for senior management to promote a common set of values, behaviours and culture across the Group.

All employees receive an induction pack on commencement of employment which includes a purpose and values statement.

The Board also monitors the Group's position with regards to the gender pay gap.

Senior management are actively encouraged to identify training opportunities across the Group, some of which also assist in promoting appropriate ethical values and behaviours.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

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.

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 Group adheres to the principles of good governance when deciding remuneration strategy and has delegated responsibility for the remuneration policy to the Remuneration Committee. The Remuneration Committee meets at least once a year and its broad responsibility is to ensure that 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. 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
Ian Newcombe	300,000	2010	23.00p	Yes	21.05.2013	21.05.2020
Ian Newcombe	118,750	2011	30.00p	No	29.06.2014	29.06.2021
Ian Newcombe	200,000	2012	45.75p	No	27.11.2015	27.11.2019
Ian Newcombe	200,000	2013	71.00p	No	13.12.2016	13.12.2023
Ian Newcombe	123,000	2017	72.00p	No	17.01.2020	17.01.2024
Ian Newcombe	500,000	2018	25.00p	Yes	01.01.2019	29.03.2028
Ian Newcombe	250,000	2018	25.00p	Yes	01.01.2020	29.03.2028
Ian Newcombe	500,000	2018	25.00p	Yes	01.01.2021	29.03.2028
Richard Mogg	125,000	2018	25.00p	Yes	01.01.2019	29.03.2028
Richard Mogg	125,000	2018	25.00p	Yes	01.01.2020	29.03.2028
Richard Mogg	250,000	2018	25.00p	Yes	01.01.2021	29.03.2028

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.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Alongside the Annual and Interim Reports, the AGM, and various announcements to the market as methods for communicating with shareholders, the executive directors also meet with institutional investors twice a year in the results period and remain available for meetings, as requested, throughout the year.

All relevant Company information is available on the corporate website.

The Board has visibility of all analysis, articles and commentary produced on Sanderson to ensure a wide understanding of investors' views.

Feedback from customers is continually sought through the ongoing account management structure in each business and staff are encouraged to provide feedback at any point to local management but are given specific opportunity to share their views at regular staff briefings held at each site.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2018.

Business review

A comprehensive analysis of the Group's development and performance is contained in the Chairman's statement, Chief Executive's business review 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 28 to the accounts. Details of the key performance indicators used by management are set out in the Strategic report.

Dividend

A final dividend of 1.55 pence per share was paid on 16 March 2018 (2017: 1.40 pence) relating to the financial year ended 30 September 2017. An interim dividend of 1.25 pence per ordinary share was paid on 10 August 2018 (2017: 1.10 pence per share) in respect of the financial year ended 30 September 2018. The directors propose the payment of a final dividend in respect of the year ended 30 September 2018 of 1.75 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting, expected to be held on 22 January 2019 and, if approved, will be paid on 1 March 2019 to shareholders on the register at the close of business on 15 February 2019.

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.

Gender pay equality

Equality legislation has recently come into force in the UK requiring companies with 250 or more employees in a single legal entity to report on their gender pay gap. The gender pay gap is an equality measure that shows the difference in average earnings between women and men; it does not show differences in pay for comparable jobs. Since no single Sanderson legal entity exceeds the threshold, no detailed disclosure has been made. However, the Board is aware that like the majority of UK companies, Sanderson does have a gender pay gap, primarily because there are more women than men in lower paid roles but fewer in higher paid ones. The directors are committed to a culture of equal opportunities regardless of gender and continue to monitor the mix of employees on an ongoing basis.

Post balance sheet event

On 26 October, the High Court ruled that Guaranteed Minimum Pensions (GMPs) must be equalised between men and women and that past underpayments must be corrected. The Group is currently working with the scheme actuary on quantifying the impact on the future liabilities of the Group's defined benefit pension scheme; however, due to the close proximity of the High Court ruling to the date of signing these accounts the Group is not yet in a position to quantify the impact.

Directors and directors' interests

Richard Mogg was appointed as Group Finance Director on 2 October 2017. 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	8,000,000	11,786,924
Ian Newcombe	178,750	112,500
John Paterson*	90,000	90,000
David Gutteridge*	575,000	575,000

* 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 that have been 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 30 September 2018.

	Number of shares	%
Christopher Winn	8,000,000	13.34%
Canaccord Genuity	6,715,514	11.20%
Livingbridge	5,546,904	9.25%
Discover Capital	3,652,173	6.09%
Miton Asset Management	3,142,241	5.24%
Alto Invest	2,667,350	4.45%
Brooks Macdonald Asset Management	2,473,306	4.12%
Unicorn Asset Management	2,407,572	4.01%
David Renshaw	2,068,545	3.45%

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 the 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 IFRSs as adopted by the European Union 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.

On behalf of the Board

Richard Mogg

Director
23 November 2018

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

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Sanderson Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 September 2018 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of changes in equity, the Consolidated and Company cash flow statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

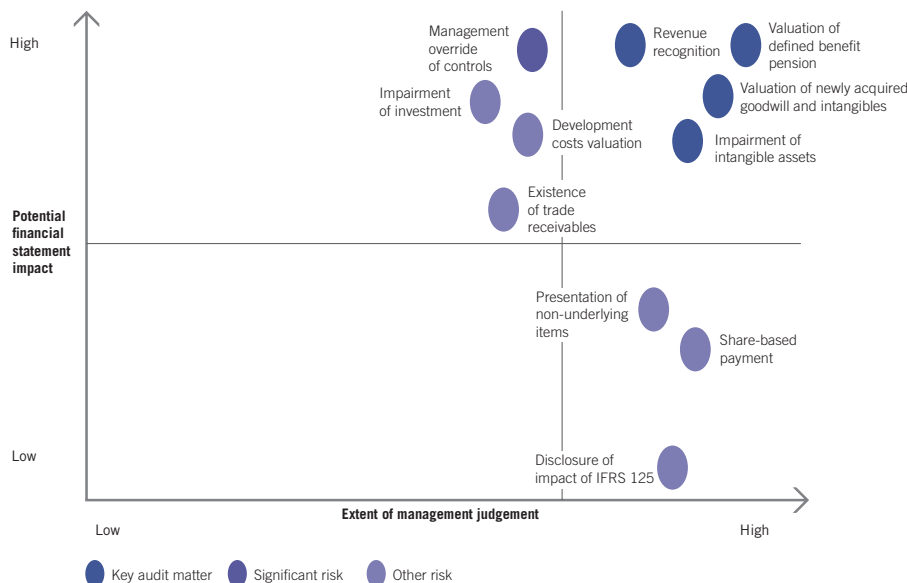


Overview of our audit approach

- Overall materiality: £240,000, which represents approximately 4.75% of the Group's profit before tax excluding net interest on the defined benefit pension scheme deficit, the share-based payment charge, amortisation of acquired intangible assets and one-off non-recurring costs.
- Key audit matters were identified as revenue recognition, valuation of newly acquired goodwill and intangibles, impairment of intangible assets and valuation of the defined benefit pension scheme for the Group.
- We performed full-scope audit procedures on United Kingdom based operations. We performed analytical procedures over Sanderson Australia Pty Limited, Open Business Solutions Logistics Pte Limited and OBSL Pty Limited.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group

How the matter was addressed in the audit – Group

Risk 1 – Revenue recognition

Revenue is recognised to the extent that economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is a key driver of the business and judgement is involved in determining when contractual obligations have been performed 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, judgement is also involved in allocating the consideration received to the components of the arrangements on a relative fair value basis.

Therefore, we identified revenue recognition (focusing on occurrence) as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- documentation of processes and walkthroughs of each significant class of revenue transactions and assessing the design effectiveness of relevant controls;
- testing a sample of non-recurring revenue items, including sale of licences and the implementation of services and hardware by confirming that the sale was made to a bona fide customer and agreeing the occurrence of the sale to proof of service;
- testing a sample of recurring contracted revenue, which comprises the calculation of fair value of support and maintenance contracts, by agreeing revenue to contracted amounts;
- testing the related deferred income for selected recurring contracts, to confirm it is not materially misstated at the balance sheet date; and
- testing a judgemental sample of journal entries impacting revenue and confirming that the revenue recognition policy has been applied correctly.

The Group's accounting policy on revenue recognition is shown in note 3 and related disclosures are included in note 4.

Key observations

Based on our audit work, we did not identify any evidence of material misstatement in the revenue recognised in the year to 30 September 2018.

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

Key Audit Matter – Group

Risk 2 – Valuation of newly acquired goodwill and intangibles

During the year the Group acquired the entire share capital of Anisa Consolidated Holdings Limited (ACH). This acquisition has had a material impact on the financial statements, resulting in the recognition of goodwill and intangible assets on consolidation of ACH into the Group.

The group measures goodwill at the acquisition date as being the fair value of consideration transferred less the net recognised fair value amount of identifiable assets acquired and liabilities assumed. Goodwill of £6.2 million was recognised as a result of the acquisition of ACH.

On initial recognition, the assets and liabilities acquired in a business combination are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies. Determining the fair value of certain assets and liabilities requires judgement to be exercised by the directors, particularly in respect to capturing liabilities not previously recognised in the financial statements of ACH.

Intangible assets acquired in a business combination are deemed to have a cost to the Group equal to their fair value at the acquisition date. Intangible assets of £7.2 million were recognised as a result of the acquisition of ACH. These intangibles were valued, using input from a third party valuation expert, based on discounted cash flow forecasts, which require judgement by the directors around key assumptions such as revenue growth, discount rates, brand royalty rates, customer attrition and long-term growth rates.

Due to the significant financial statement impact of the acquisition, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified the valuation of newly acquired goodwill and intangibles as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating the accounting treatment to be applied to the ACH acquisition and assessing the design effectiveness of relevant controls;
- reperforming management's calculation of the fair value of the consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed;
- using our internal valuation specialist to evaluate and challenge the assumptions used, including discount rates, growth rates and forecast future trading performance applied in the calculation of the fair value of the intangibles recognised;
- testing the completeness and accuracy of the data used in the intangibles valuation by agreeing data to pertinent supporting documentation such as long-term growth forecasts; and
- testing significant fair value adjustments made to the assets and liabilities acquired and challenging management's assumptions in the value in use assigned to certain assets.

The Group's accounting policy on acquisition accounting is shown in note 3 and related disclosures are included in note 18.

Key observations

Based on our audit work, we found that the assumptions and judgements used in management's accounting treatment of the ACH business combination were reasonable. We found no errors in the underlying calculations.

Key Audit Matter – Group**Risk 3 – Impairment of intangible assets**

The process for assessing whether an impairment exists under International Accounting Standard (IAS) 36 Impairment of Assets is complex. Directors' assessment of the value in use of the Group's Cash Generating Units (CGUs) involves judgement about the future performance of the CGU and the discount rates applied to future cash flow forecasts.

Therefore, we identified impairment of intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- walkthroughs of management's process for assessing the impairment of intangible assets and assessing the design effectiveness of relevant controls;
- testing that the methodology applied in the value in use calculation complies with the requirements of IAS 36, Impairment of Assets;
- testing the mathematical accuracy of management's model by performing a recalculation of the figures;
- testing the key underlying assumptions for the financial year 2019 budget (FY19) including enquiring with management on significant variances to financial year 2018 numbers and corroborating responses;
- challenging management on its cash flow forecast and the implied growth rates for FY19 and beyond, considering evidence available to support these assumptions, including a review of the historical accuracy of management's forecasts;
- challenging management on the appropriateness of the CGUs on which management has performed its impairment assessment;
- assessing the discount rates and long-term growth rates used in the forecast including comparison to economic and industry forecasts where appropriate; and
- testing the sensitivity analysis performed by management in respect of the key assumptions such as discount and growth rates to ensure there was sufficient headroom in its calculation.

The Group's accounting policy on intangibles is shown in note 3 and related disclosures are included in note 16.

Key observations

Based on our audit work, we found that the assumptions made and estimates used in management's assessment of intangible asset impairment were balanced. Note 16 also appropriately discloses the assumptions used in arriving at the estimate. We found no errors in the calculations.

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

Key Audit Matter – Group

How the matter was addressed in the audit – Group

Risk 4 – Valuation of defined benefit pension scheme

The Group operates a defined benefit pension scheme that provides benefits to a number of current and former employees. At 30 September 2018 the defined benefit pension scheme net liability was £3.8 million. The gross values of pension scheme assets and liabilities which form the net liability amount to £9.9 million and £13.7 million respectively.

The valuation of the pension liabilities and assets in accordance with IAS 19 Employee benefits involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the Group financial statements.

Therefore, we identified the valuation of the defined benefit pension scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- walkthroughs of management's process for valuing the defined benefit pension scheme and assessing the design effectiveness of relevant controls;
- using our internal actuarial specialists to challenge the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability;
- testing the accuracy of underlying membership data used by the Group's actuaries for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing pertinent data such as date of birth, gender, date of membership to underlying records and testing a sample of net movements in that data since it was last formally prepared on 1 April 2017; and
- directly confirming the existence of pension scheme assets with external asset managers.

The Group's accounting policy on the defined benefit pension scheme is shown in note 3 and related disclosures are included in note 31.

Key observations

Based on our audit work, we found the valuation methodologies including the inherent actuarial assumptions to be balanced and consistent with the expectation of our actuarial specialists. We consider that the Group's disclosures in note 31 appropriately describe the significant degree of inherent precision in the assumptions and estimates and the potential impact on future periods of revisions to these estimates. We found no errors in calculations.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

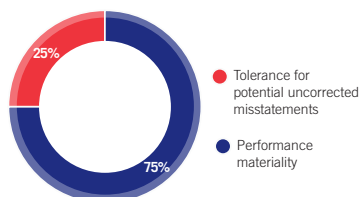
Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	<p>£240,000, which represents approximately 4.75% of Group profit before tax excluding net interest on the defined benefit pension scheme deficit, the share-based payment charge, amortisation of acquired intangible assets and one-off non-recurring costs. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of directors to report to investors on the financial performance of the Group. Adjusted profit before tax is also a consistent basis for determining materiality compared with the previous years.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2017 as a result of the increased adjusted profit before tax in the current year.</p>	<p>£180,000, which is 2.0% of parent company total assets, capped at 75% of Group materiality. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of directors to report to investors on the financial performance of the Company whose principal activity is that of an investment holding company.</p> <p>Materiality for the current year is higher than the level we determined for the year ended 30 September 2017 as a result of the increase to total assets from the acquisition of ACH.</p>
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the Group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality. This is consistent with performance materiality in the previous year.	Based on our risk assessment, including the Company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality. This is consistent with performance materiality in the previous year.
Specific materiality	We determined a lower level of materiality for certain areas such as directors' remuneration.	We determined a lower level of materiality for certain areas such as directors' remuneration.
Communication of misstatements to the Audit Committee	£12,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£9,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

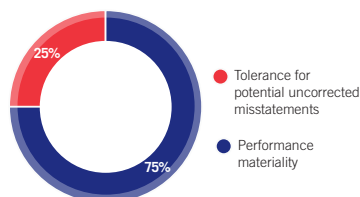
Independent auditor's report to the members of Sanderson Group plc continued

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – parent



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

The components of the Group were evaluated by the audit team based on a measure of materiality considering each as a percentage of total Group assets, liabilities, revenues and profit before taxes, to assess the significance of the component and to determine the planned audit response. For significant components requiring a full scope approach we evaluated the processes and controls over the financial reporting system identified as part of our risk assessment, reviewed the financial statement production process and addressed critical accounting matters such as those related to the key audit matters as identified above. We then undertook substantive testing on significant transactions and material account balances.

In order to address the audit risks described above as identified during our planning procedures, we performed a full-scope audit of the financial statements of the parent company, Sanderson Group plc and of the Group's operations throughout the United Kingdom. The operations that were subject to full-scope audit procedures made up 98.3% of consolidated revenues and 97.6% of underlying profit before taxation.

The remaining operations of the Group were subjected to analytical procedures over the balance sheet and income statements of the related entities with a focus on applicable risks identified above and the significance to the Group's balances.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 2 to 23, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- 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 financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

David Munton BSc (Hons) ACA

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountant
Birmingham
23 November 2018

Consolidated income statement

for the year ended 30 September 2018

	Note	2018 £000	2017 £000
Revenue	4	32,054	21,559
Cost of sales		(6,530)	(3,830)
Gross profit	4	25,524	17,729
Technical and development costs		(11,761)	(8,566)
Administrative and establishment expenses		(7,246)	(3,860)
Sales and marketing costs		(2,923)	(2,423)
Profit from operating activities	4	3,594	2,880
Profit from operating activities before adjustments in respect of the following:	4	5,175	3,896
Amortisation of acquisition-related intangibles	16	(942)	(491)
One-off non-recurring items	9	(385)	(485)
Share-based payment charges	6	(254)	(40)
Profit from operating activities		3,594	2,880
Finance income	10	11	18
Finance expenses	11	(316)	(183)
Acquisition-related finance expense	11	(56)	(2)
Profit before taxation		3,233	2,713
Taxation (charge)/credit	12	(207)	154
Profit for the year		3,026	2,867

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	14	5.2p	5.2p
Diluted earnings per share	14	5.0p	5.2p

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 2018

	Note	2018 £000	2017 £000
Profit for the year		3,026	2,867
Other comprehensive income/(expense)			
<i>Items that will not subsequently be reclassified to profit or loss</i>			
Remeasurement of net defined benefit pension liability	31	1,972	1,802
Deferred taxation effect of defined benefit pension plan items	19	(375)	(413)
		1,597	1,389
<i>Items that may subsequently be reclassified to profit or loss</i>			
Derecognition/change in fair value of available for sale financial asset		(57)	(22)
Foreign exchange translation differences		(10)	3
Total other comprehensive income		1,530	1,370
Total comprehensive income attributable to equity holders of the parent		4,556	4,237

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

Consolidated statement of financial position

at 30 September 2018

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	15	1,078	467
Intangible assets	16	43,265	30,419
Investment	17	225	150
Deferred tax assets	19	1,038	1,244
		45,606	32,280
Current assets			
Inventories		32	35
Trade and other receivables	20	8,985	5,139
Income tax receivable		284	270
Other short-term financial assets	21	–	187
Cash and cash equivalents		6,471	6,176
		15,772	11,807
Current liabilities			
Bank loans and overdrafts	23	(916)	–
Loan notes	23	(1,047)	–
Trade and other payables	24	(6,672)	(3,653)
Hire purchase	25	(132)	–
Deferred consideration	22	(987)	(24)
Deferred income		(8,965)	(5,519)
		(18,719)	(9,196)
Net current (liabilities)/assets		(2,947)	2,611
Total assets less current liabilities		42,659	34,891
Non-current liabilities			
Bank loans and overdrafts	23	(2,522)	–
Hire purchase	25	(224)	–
Pension obligations	31	(3,789)	(6,176)
Deferred tax liabilities	19	(1,749)	(784)
		(8,284)	(6,960)
Net assets		34,375	27,931
Equity attributable to equity holders of the parent company			
Share capital	26	5,997	5,507
Share premium		9,557	9,133
Merger reserve		2,394	–
Available for sale reserve		–	57
Foreign exchange reserve		(63)	(53)
Retained earnings		16,490	13,287
Total equity		34,375	27,931

These financial statements were approved and authorised for issue by the Board of directors on 23 November 2018 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 2018

	Share capital £000	Share premium £000	Merger reserve £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2017	5,507	9,133	–	57	(53)	13,287	27,931
Exercise of share options	91	424	–	–	–	–	515
Shares issued as consideration	399	–	2,394	–	–	–	2,793
Dividend paid	–	–	–	–	–	(1,674)	(1,674)
Share-based payment charge	–	–	–	–	–	254	254
Transactions with owners	490	424	2,394	–	–	(1,420)	1,888
Profit for the year	–	–	–	–	–	3,026	3,026
<i>Other comprehensive income:</i>							
Remeasurement of net defined benefit liability	–	–	–	–	–	1,972	1,972
Deferred tax on above	–	–	–	–	–	(375)	(375)
Foreign exchange translation differences	–	–	–	–	(10)	–	(10)
Derecognition of available for sale financial asset	–	–	–	(57)	–	–	(57)
Total comprehensive income/(expense)	–	–	–	(57)	(10)	4,623	4,556
At 30 September 2018	5,997	9,557	2,394	–	(63)	16,490	34,375

for the year ended 30 September 2017

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2016	5,485	9,056	79	(56)	10,367	24,931
Exercise of share options	22	77	–	–	–	99
Dividend paid	–	–	–	–	(1,376)	(1,376)
Share-based payment charge	–	–	–	–	40	40
Transactions with owners	22	77	–	–	(1,336)	(1,237)
Profit for the year	–	–	–	–	2,867	2,867
<i>Other comprehensive income:</i>						
Remeasurement of net defined benefit liability	–	–	–	–	1,802	1,802
Deferred tax on above	–	–	–	–	(413)	(413)
Foreign exchange translation differences	–	–	–	3	–	3
Change in fair value of available for sale financial asset	–	–	(22)	–	–	(22)
Total comprehensive income/(expense)	–	–	(22)	3	4,256	4,237
At 30 September 2017	5,507	9,133	57	(53)	13,287	27,931

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 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit for the year after taxation	3,026	2,867
<i>Adjustments for:</i>		
Amortisation of intangible assets	1,536	1,048
Depreciation	452	237
Share-based payment charge	254	40
Net finance expense	361	167
Profit on sale of investment	(136)	–
Release of contingent consideration	–	(165)
Income tax charge/(credit)	207	(154)
Operating cash flow before changes in working capital	5,700	4,040
Movement in trade and other receivables	484	1,893
Movement in inventories	3	(15)
Movement in trade and other payables	(466)	(666)
Cash generated from operations	5,721	5,252
Payments to defined benefit pension scheme	(586)	(360)
Income tax received/(paid)	158	(394)
Net cash flow from operating activities	5,293	4,498
Cash flow utilised by investing activities		
Purchase of property, plant and equipment	(216)	(180)
Acquisition of subsidiary undertakings, net of cash acquired	(1,291)	–
Payment of deferred consideration in respect of subsidiary undertakings	(593)	(83)
Dividend received	9	15
Bank interest received	2	3
Investment	(75)	(150)
Development expenditure capitalised	(956)	(994)
Sale of investment	266	–
Net cash flow utilised by investing activities	(2,854)	(1,389)
Cash flow utilised by financing activities		
Issue of shares, net of costs	515	99
Equity dividends paid	(1,674)	(1,376)
Finance lease repayments	(152)	–
Bank loan repayments	(688)	–
Bank loan interest	(87)	–
Hire purchase interest	(7)	–
Loan note interest	(51)	–
Net cash flow utilised by financing activities	(2,144)	(1,277)
Net increase in cash and cash equivalents	295	1,832
Cash and cash equivalents at beginning of year	6,176	4,344
Cash and cash equivalents at the end of the year	6,471	6,176

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 2018 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.

Going Concern

The Group financial statements have been prepared on a going concern basis. The Group's forecasts and projections, taking account of reasonable 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. 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 16: 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 2019 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 16.

Note 18: 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, brands 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 20: 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.

Notes to the consolidated financial statements

continued

2. Basis of preparation continued

Note 31: 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 9: One-off non-recurring items: Management uses judgement in their assessment and classification of certain costs as one-off non-recurring items, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Note 16: 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 19: 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.

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:

- IAS 7 Statement of Cash Flows (amendment)
- IAS 12 Income taxes (amendment)

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 (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

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. The anticipated impact of IFRS 15 is considered further below. IFRS 16 will be applicable to the Group from 1 October 2019 and the Group is in the process of assessing the impact of its adoption. The Group is not yet in a position to state whether the impact of IFRS 16 will be material to the Group's reported results or financial position.

IFRS 15 establishes a comprehensive framework for determining the quantum and the timing of revenue recognition. It replaces existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 is effective for periods beginning on or after 1 January 2018 and will be adopted by the Group for the first time in the year ending 30 September 2019.

The adoption of IFRS 15 will not alter the total contract value or the timing of cash flows, but the timing of recognition of some revenue streams and earnings will be affected. The following areas are those that management anticipates may be most affected or are the most judgemental under the new standard:

Professional services

Under current accounting policies, revenue from implementation services and software development is recognised as the work is completed, based on days worked. This will be substantially the same under IFRS 15.

Licence revenue

Revenue from the sale of licences is currently recognised upon provision of licensed software to the customer. The licensed software requires significant installation and development services in order to operate effectively and under IFRS 15 it does not qualify as distinct from the implementation services. Therefore, licence revenue will now be bundled with associated services and be recognised over the implementation period based upon days worked. Implementation periods vary considerably depending upon the scale of the project but are very rarely greater than one year.

Recurring annual licences

Where customers contract with the Group under a rolling annual agreement fees are typically significantly higher in the first year, with an upfront licence fee payable. In subsequent years only the annual support fee is payable. The customer is required to purchase the annual support in order to maintain an active licence.

Under IFRS 15, these arrangements are treated as containing an Option for a renewal at a discounted price (the price of the annual support). Accordingly, the Group will defer revenue on the initial licence sale and recognise a portion of the upfront licence payment at the time of the subsequent annual renewals. The contract renews annually until either the Group or the customer terminates the contract. In these circumstances the initial fee will be spread over an appropriate period depending upon the product being sold. Management is in the process of finalising appropriate assumptions in this area but anticipates that the deferral period will be in the region of two to five years.

Ongoing support and maintenance

Under IFRS 15 the treatment of ongoing support and maintenance revenues will be unchanged from their treatment under existing accounting standards, with revenue recognised evenly over the life of the contract.

Deferred payment arrangements

In some instances customers will defer payment over an extended period of up to five years. Management is currently assessing whether any of these arrangements contain a significant financing component; however, does not anticipate that this would have a material impact on the Group accounts.

Transition

The Group plans to adopt IFRS 15 using the modified retrospective method and will therefore calculate an opening adjustment to reserves at 1 October 2018. The Group will apply IFRS 15 retrospectively only to contracts that are not completed contracts at 1 October 2018 (IFRS 15 C7) and will use the practical expedient in paragraph C5(c) of the standard, allowing for all contract modifications prior to 1 October 2018 to be considered in aggregate.

Management is currently in the process of quantifying the impact of transition on the accounts but expects the overall impact to be the deferral of licence revenue previously recognised into future periods. The in-year impact will be minimised by the inclusion of an element of revenue previously recognised in earlier periods. Direct labour costs incurred in obtaining and fulfilling customer contracts will continue to be expensed as incurred; therefore, the changes in revenue recognition will have a corresponding effect on profit.

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 – 2-15 years

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.

Notes to the consolidated financial statements

continued

3. Accounting policies continued

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 fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as 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.

Investments

Trade investments are measured at cost less provision for impairment as the directors consider that fair value cannot be reliably measured for the reasons set out in note 17.

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.

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. 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.

Notes to the consolidated financial statements

continued

3. Accounting policies continued

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	3–17 years
Brands	5–8 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 values are measured using the Black-Scholes and Monte Carlo models 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.

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.

One-off non-recurring items

The Group discloses non-recurring items in a separate note (note 9) being those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

4. Segmental reporting

The Group is managed as two separate divisions, providing IT solutions and associated services to the digital retail and enterprise sectors. The information provided to the Chief Operating Decision Maker ('CODM') is analysed between the divisions as follows:

	Digital Retail		Enterprise		Total	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Revenue – external customers	8,822	7,282	23,232	14,277	32,054	21,559
Cost of sales	(2,198)	(1,722)	(4,332)	(2,108)	(6,530)	(3,830)
Gross profit	6,624	5,560	18,900	12,169	25,524	17,729
Depreciation +	(68)	(67)	(384)	(170)	(452)	(237)
Operating profit before adjustments	1,556	1,183	3,619	2,713	5,175	3,896
Amortisation*	(266)	(266)	(676)	(225)	(942)	(491)
One-off non-recurring items	(25)	(198)	(360)	(287)	(385)	(485)
Share-based payment charges	(86)	(26)	(168)	(14)	(254)	(40)
Profit from operating activities	1,179	693	2,415	2,187	3,594	2,880
Net finance expense					(361)	(167)
Taxation					(207)	154
Profit attributable to equity holders					3,026	2,867

+ Depreciation charged to operating profit

* Amortisation of acquisition-related intangibles

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 56% (2017: 46%) of divisional revenue. The largest customer of the Enterprise Division accounted for 11% (2017: nil) of divisional revenue.

Revenue amounting to £1,038,000 (2017: £874,000) was derived from customers domiciled in Eire. Substantially all other revenue is generated within the UK.

Notes to the consolidated financial statements

continued

4. Segmental reporting continued

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 £58,000 (2017: £600,000) and an investment held for resale which was sold in the current year (2017: £187,000). Amounts in respect of shared operations cannot be allocated between operating divisions.

Additions to property, plant and equipment during the year amounted to £479,000 (2017: £180,000). A total of £54,000 (2017: £44,000) were attributable to the Digital Retail Division, with £425,000 (2017: £136,000) acquired by the Enterprise Division.

Analysis of items contained within the statement of financial position

	Digital Retail		Enterprise		Total	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Property, plant and equipment	108	128	970	339	1,078	467
Intangible assets	5,548	5,857	37,717	24,562	43,265	30,419
Investments	225	150	–	–	225	150
Deferred tax	55	60	983	1,184	1,038	1,244
Income tax	(160)	95	444	175	284	270
Inventories	13	13	19	22	32	35
Cash and cash equivalents	1,771	1,968	4,642	3,603	6,413	5,571
Trade and other receivables	1,642	1,381	7,343	3,758	8,985	5,139
Total assets	9,202	9,652	52,118	33,643	61,320	43,295
Bank loans and overdrafts	–	–	(3,438)	–	(3,438)	–
Loan notes	–	–	(1,047)	–	(1,047)	–
Trade and other payables	(1,483)	(1,178)	(5,545)	(2,475)	(7,028)	(3,653)
Deferred income	(929)	(763)	(8,036)	(4,756)	(8,965)	(5,519)
Income tax	–	–	–	–	–	–
Deferred taxation	(260)	(265)	(1,489)	(519)	(1,749)	(784)
Deferred consideration	–	–	(987)	(24)	(987)	(24)
Pension obligations	–	–	(3,789)	(6,176)	(3,789)	(6,176)
Total liabilities	(2,672)	(2,206)	(24,331)	(13,950)	(27,003)	(16,156)
Allocated net assets	6,530	7,446	27,787	19,693	34,317	27,139
Other unallocated assets and liabilities					58	792
Net assets					34,375	27,931

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 31 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 13 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
21/05/2010	Management	300,000	*	23.00	21/05/2013	21/05/2020
29/06/2011	Management	118,750		30.00	29/06/2014	29/06/2021
27/11/2012	Management	200,000		45.75	27/11/2015	27/11/2019
13/12/2013	Management	250,000		71.00	13/12/2016	13/12/2023
05/09/2016	Management	454,000		70.50	05/09/2019	05/09/2026
29/11/2016	Management	300,000		69.70	29/12/2019	29/12/2023
29/11/2016	Management	123,000		72.00	17/01/2020	17/01/2024
01/01/2018	Management	625,000	*	25.00	01/01/2019	29/03/2028
01/01/2018	Management	375,000	*	25.00	01/01/2020	29/03/2028
01/01/2018	Management	750,000	*	25.00	01/01/2021	29/03/2028
19/07/2018	Management	400,000		91.00	19/07/2021	19/07/2028
		3,895,750				

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

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

	2018 Weighted average exercise price	2018 Number of options (number)	2017 Weighted average exercise price	2017 Number of options (number)
Outstanding at start of the year	57.0p	2,662,845	53.4p	2,668,975
Granted during the year	37.8p	2,209,000	70.5p	423,000
Exercised during the year	(56.6)p	(911,163)	(45.2)p	(218,684)
Forfeited during the year	(67.5)p	(64,932)	(60.2)p	(210,446)
Outstanding at end of the year	46.0p	3,895,750	57.0p	2,662,845
Exercisable at end of the year	43.0p	868,750	50.0p	1,753,845

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

	Quantity	Exercise price
EMI	695,334	49.00p – 71.00p
Unapproved	215,829	27.50p – 57.00p

Options outstanding at 30 September 2018 have exercise prices in the range 23.0 pence to 91.0 pence per share. The weighted average contractual life of the options is 8.4 years (2017: 5.1 years).

On 30 September 2018 the closing share price of Sanderson Group plc was 83.0 pence. During the year ending on that date the closing share price varied in the range 63.5 pence to 112.8 pence.

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6. Share-based payments continued

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 and Monte Carlo models. 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.

	2018 £000	2017 £000
Weighted average share price at date of grant (pence)	79.2	72.0
Weighted average exercise price (pence)	37.3	72.0
Weighted average contractual life (years)	10	3
Weighted average expected volatility	29.0%	6.0%
Weighted average expected dividend yield	4.4%	2.6%
Weighted average risk free interest rate	1.4%	2.3%
Weighted average fair value of options granted (pence)	3.1	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:

	2018 £000	2017 £000
Share-based payment charges	254	40

7. Expenses and auditor's remuneration

Included in the income statement are the following items:

	2018 £000	2017 £000
Auditor's remuneration:		
Fees payable to the Group's auditor for the audit of the Group's Annual Accounts	30	14
Amounts received by the auditor and its associates in respect of:		
Audit of financial statements of subsidiaries	91	54
Taxation advice	3	12
Pension scheme advice	5	4
Share scheme advice	–	7
Depreciation and other amounts written off property, plant and equipment:		
Owned, in respect of continuing activities	452	237
Amortisation of acquisition-related intangible assets	942	491
Amortisation of development costs	594	557
Aggregate charge against income in respect of research and development	3,548	2,214
Cost of inventory recognised as an expense	6,530	3,830
Rentals payable under plant and machinery operating leases	16	13
Leasehold property rentals	780	393

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:

	2018 No.	2017 No.
Technical	249	179
Sales and marketing	36	27
Administrative	33	22
	318	228

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

	2018 £000	2017 £000
Wages and salaries	12,991	9,379
Social security costs	1,465	1,080
Contributions to defined contribution pension plans	757	709
Share-based payment charge	254	40
	15,467	11,208

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

	Salary or fees £000	Bonus £000	Payments to defined contribution pension £000	Benefits in kind £000	Value arising on exercise of options £000	Total 2018 £000
For the year ended 30 September 2018						
Executive directors						
Christopher Winn*	207	150	–	12	–	369
Ian Newcombe*	245	150	15	3	36	449
Richard Mogg	153	40	14	2	–	209
Non-executive directors						
John Paterson	34	–	–	–	–	34
David Gutteridge	34	–	–	–	–	34
	673	340	29	17	36	1,095

	Salary or fees £000	Payments to defined contribution pension £000	Benefits in kind £000	Value arising on exercise of options £000	Total 2017 £000
For the year ended 30 September 2017					
Executive directors					
Christopher Winn	112	–	7	–	119
Ian Newcombe	216	14	3	–	233
Adrian Frost**	276	–	3	–	279
Non-executive directors					
John Paterson	34	–	–	–	34
David Gutteridge	34	–	–	–	34
	672	14	13	–	699

* Bonus figures in respect of Christopher Winn and Ian Newcombe include £100,000 for the current year and a £50,000 discretionary bonus.

** Figures in respect of Adrian Frost are stated up to the date of his resignation on 31 August 2017 and include a termination payment of £117,000.

Notes to the consolidated financial statements

continued

8. Personnel expenses continued

Salaries paid to the executive directors include car allowances to compensate for the use of personal vehicles on Company business. Mr Winn's and Mr Newcombe's salaries also include an amount paid in lieu of Company pension contributions.

Executive directors' bonuses are payable when targets, set by the Remuneration Committee, are achieved. Bonuses for the year ending 30 September 2019 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 12 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 13 individuals (2017: 11 individuals).

	2018 £000	2017 £000
Short-term employee benefits	1,796	1,307
Post-employment benefits	97	65
Share-based payments	241	17
	2,134	1,389

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. One-off non-recurring items

	2018 £000	2017 £000
Recognised in arriving at operating profit from continuing operations:		
Acquisition-related costs	303	275
Internal reorganisation	218	430
Profit on sale of investment (note 21)	(136)	–
Group Finance Director departure	–	162
Customer settlement	–	(217)
Release of contingent consideration	–	(165)
	385	485

During the year the Group incurred restructuring costs of £218,000 (2017: £430,000) in relation to an internal reorganisation.

10. Finance income

	2018 £000	2017 £000
Bank interest received	2	3
Dividends received	9	15
	11	18

11. Finance expenses

	2018 £000	2017 £000
Net interest on defined benefit pension scheme deficit	171	183
Interest on bank loan	87	–
Interest on loan notes	51	–
Interest on hire purchase	7	–
	316	183

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 £56,000 (2017: £2,000) has been reported as an acquisition-related finance expense, as disclosed on the face of the consolidated income statement.

12. Taxation

	2018 £000	2017 £000
Current tax expense		
UK corporation tax for the current year	102	104
Relating to prior periods	31	(316)
Total current tax	133	(212)
Deferred tax		
Deferred tax for the current year	67	116
Relating to prior periods	7	(24)
Arising on change in rate of deferred tax	–	(34)
Total deferred tax	74	58
Taxation charged/(credited) to the income statement	207	(154)

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2017: lower) than the average standard rate of corporation tax in the UK during the period of 19.0% (2017: 19.5%). The differences are explained below.

	2018 £000	2017 £000
Profit before taxation	3,233	2,713
Tax using the average UK corporation tax rate of 19% (2017: 19.5%)	614	529
<i>Effects of:</i>		
Expenses not deductible for tax purposes	115	70
Utilisation and recognition of losses	(30)	(95)
Over provision in previous years	(6)	(340)
Change in tax rate	(85)	(34)
Expenses not reported in the income statement	(48)	(50)
R&D tax credit current year	(353)	(234)
Total tax expense/(income) in income statement	207	(154)

Notes to the consolidated financial statements

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13. Dividends

	2018 £000	2017 £000
Interim dividend of 1.25p per share (2017: 1.10p)	750	606
Final dividend relating to previous financial year of 1.55p per share (2017: 1.40p)	924	770
Total dividend for the financial year	1,674	1,376

A final dividend of 1.75 pence per ordinary share in respect of the financial year ended 30 September 2018 will be proposed at the Annual General Meeting of the Company, expected to be held on 22 January 2019. If approved by shareholders, the total final dividend payment will amount to £1,049,518. 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.

14. 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:	2018 £000	2017 £000
Result for the year	3,026	2,867
Amortisation of acquisition-related intangibles	942	491
Share-based payment charges	254	40
One-off non-recurring items	385	485
R&D tax credit relating to prior years	–	(388)
Adjusted profit for the year	4,607	3,495

Number of shares:	2018 No.	2017 No.
In issue at the start of the year	55,070,668	54,851,985
Effect of shares issued in the year	3,480,862	136,646
Weighted average number of shares at year end	58,551,530	54,988,631
Effect of share options	1,863,304	587,918
Weighted average number of shares (diluted)	60,414,834	55,576,549

Earnings per share:	2018 pence	2017 pence
Total attributable to equity holders of the parent undertaking:		
Basic	5.2	5.2
Diluted	5.0	5.2
Earnings per share, adjusted, from continuing operations:		
Basic	7.9	6.4
Diluted	7.6	6.3

15. Property, plant and equipment

	Leasehold improvements £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 October 2016	321	1,045	1,366
Additions	–	180	180
Balance at 30 September 2017	321	1,225	1,546
Additions	2	477	479
Additions from acquisition of subsidiary undertaking	–	584	584
Balance at 30 September 2018	323	2,286	2,609
Depreciation			
Balance at 1 October 2016	162	680	842
Charge for the year	37	200	237
Balance at 30 September 2017	199	880	1,079
Charge for the year	29	423	452
Balance at 30 September 2018	228	1,303	1,531
Net book value			
At 30 September 2017	122	345	467
At 30 September 2018	95	983	1,078

The carrying value of assets held under finance leases included above is £538,000 (2017: £nil) and the depreciation charge in the year is £160,000 (2017: £nil). All of the finance leases have restrictions on title.

16. Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Brands £000	Development costs* £000	Total £000
Cost						
Balance at 1 October 2016	27,403	3,693	1,685	–	3,649	36,430
Internally developed	–	–	–	–	994	994
Balance at 30 September 2017	27,403	3,693	1,685	–	4,643	37,424
Acquired intangibles	6,202	1,403	4,813	1,008	–	13,426
Internally developed	–	–	–	–	956	956
Balance at 30 September 2018	33,605	5,096	6,498	1,008	5,599	51,806
Amortisation and impairment						
Balance at 1 October 2016	1,499	1,746	710	–	2,002	5,957
Amortisation for the year	–	310	181	–	557	1,048
Balance at 30 September 2017	1,499	2,056	891	–	2,559	7,005
Amortisation for the year	–	433	398	111	594	1,536
Balance at 30 September 2018	1,499	2,489	1,289	111	3,153	8,541
Net book value						
Balance at 30 September 2017	25,904	1,637	794	–	2,084	30,419
Balance at 30 September 2018	32,106	2,607	5,209	897	2,446	43,265

* Additions to development costs include £143,000 (2017: £120,000) in respect of products and services supplied by third parties. All other development costs are internally generated.

Notes to the consolidated financial statements

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16. Intangible assets continued

The amortisation charges are recognised within administrative and establishment expenses in the income statement:

	2018 £000	2017 £000
Administrative and establishment expenses	1,536	1,048

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 ('CGU'), is set out below:

	2018 £000	2017 £000
Digital Retail	3,330	3,330
Enterprise	22,574	22,574
Anisa	6,202	–
Goodwill	32,106	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 2019 have been extrapolated for periods of between ten and twelve years (based on the average length of customer relationship) for each CGU and used as the basis of the calculations, consistent with prior years. The budget is based on a known level of recurring activities, a solid order book, and a prudent expectation of new contract wins.

Digital Retail CGU: 3-8% operating profit growth from operating in a market exhibiting growth rates in excess of this figure. Both businesses are experiencing higher growth rates and are expecting to continue to drive a higher level of growth. Independent estimates suggest the retail software economy is likely to grow by more than 10% per annum in the short to medium term.

Enterprise CGU: 2-5% 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 is expected to enable the growth assumptions to be met.

Anisa CGU: 3% operating profit growth driven by the strong new business pipeline and increased marketing activity. There is also an opportunity to expand the managed services offering for the wider Sanderson Group. The Anisa CGU is included within the Enterprise operating segment.

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 pre-tax discount rate of 8% has been applied to the Enterprise Software CGU, whereas a pre-tax discount rate of 10% has been applied to the Digital Retail CGU and Anisa CGU.

The directors have formulated profit and cash flow forecasts for the financial year ending 30 September 2019 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 £13.0 million. The value in use of the goodwill of the Enterprise Software CGU exceeds the carrying value by £5.2 million. The value in use of the Anisa CGU exceeds the carrying value by £5.4 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 the three CGUs. The Digital Retail CGU profit forecast would need to fall by 71% to trigger an impairment charge. In the case of the Enterprise Software CGU, a profit reduction of 16% would be required and for the Anisa CGU, a profit reduction of 28% would trigger an impairment.

17. Investments

	2018 £000	2017 £000
Investment	225	150
	225	150

This investment represents a 2.1% (2017: 2.0%) interest in the ordinary share capital of a start-up business in a similar industry. The investment is stated at cost as the shares do not have a quoted market price on an active market and the directors consider that a fair value cannot be reliably measured.

18. Acquisitions

Current year

On 23 November 2017, the Group acquired control of Anisa Consolidated Holdings Limited by purchasing the entire issued ordinary share capital (and thereby 100% of the voting rights). The purchase consideration for the acquisition comprised an initial £5.20 million, made up of approximately £2.41 million in cash which was financed from existing Sanderson cash resources and by the issue of 3,990,653 new Sanderson 10p ordinary shares valued at 70p, which are subject to a lock-in period of three years. Sanderson has also taken over Anisa's utilised five-year repayable term debt facility (final quarterly repayment being due in 2020) of £4.12 million as well as a current account positive cash balance of just over £1 million. Deferred consideration, totalling £1.63 million is payable in three tranches. The first payment of £563,000 was payable in April 2018 and the second payment for the same amount, payable in October 2018; both tranches are unconditional. A third and final deferred payment of £500,000 is scheduled for April 2019, dependent upon some pre-agreed trading performance criteria.

The business specialises in the delivery of world-class integrated supply chain and enterprise resource planning solutions and has around 250 customers who are provided with 24-hour support on a worldwide basis throughout the year. Anisa employs over 90 staff and operates from office locations in London, Runcorn, Liverpool and Solihull within the UK and from smaller support operations in Singapore and Australia. Anisa complements the Enterprise division of Sanderson and the enlarged business is expected to provide and develop incremental and synergistic market opportunities. The managed services, hosting services and cloud delivery services which have been developed by Anisa represent an exciting and enhanced service delivery option for existing Sanderson customers. In the 45 weeks to 30 September 2018 the subsidiary contributed £9.09 million to consolidated revenue and £0.57 million to consolidated profit before taxation (stated after charging amortisation of acquired intangibles and share-based payment expense). Had Anisa been acquired at the beginning of the reporting period then revenue would have been £10.63 million and profit before taxation would have been £0.74 million.

The acquisition had the following effect on the Group's assets and liabilities at the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustment £000	Recognised value on acquisition £000
Property, plant and equipment	583	–	583
Goodwill	13,712	(13,712)	–
Other intangible assets	–	7,224	7,224
Trade and other receivables	4,795	(461)	4,334
Cash and cash equivalents	1,117	–	1,117
Income tax (payable)/receivable	(80)	380	300
Deferred income	(3,898)	–	(3,898)
Trade and other payables	(1,748)	(1,519)	(3,267)
Bank loans	(4,125)	–	(4,125)
Loan notes	(1,047)	–	(1,047)
Deferred taxation	73	(795)	(722)
Net identifiable assets and liabilities	9,382	(8,883)	499
Goodwill on acquisition			6,202
			6,701
Cash consideration paid at completion			2,408
Issue of 3,990,653 new 10p Sanderson ordinary shares, fully paid on completion			2,793
Deferred cash consideration payable by instalments			1,102
Deferred contingent cash consideration			398
Net consideration payable			6,701

The cash consideration includes £1,270,000 in settlement of loan notes which was a condition of the acquisition. The deferred consideration and contingent consideration shown in the table above have been discounted to present value in accordance with IAS 39 using a discount rate of 4% and 18% respectively based on management's estimate of the internal cost of capital appropriate to the investment and reflects the difference in risk profile attaching to the non-contingent and contingent payments.

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRS 3: Business Combinations, adjustments to trade receivables to provide for amounts written off post completion, the recognition of income tax and deferred tax assets and liabilities and the accrual of costs incurred prior to completion but payable after completion.

Notes to the consolidated financial statements

continued

18. Acquisitions continued

Pre-acquisition carrying amounts were determined based on applicable IFRS, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair value of intangible assets, the Group adopted an income basis with estimated future cash flows discounted at a rate of 17-19% per annum.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the workforce of the acquired business and the expected synergies to be achieved from integrating the company into the Group's existing Enterprise division.

External costs relating to the acquisition of £133,000 (2017: £110,000) have been charged against operating profit and are included in administrative expenses.

The Board remains keen to enhance the strength of the Group by selective complementary acquisitions. Management will continue to adopt a careful and measured approach to acquisitions with the priority being very much focused on continuing to deliver shareholder value. Costs incurred in respect of the due diligence process have been shown in the Consolidated income statement as acquisition-related costs.

Prior year

The Group did not complete any acquisitions during the year ended 30 September 2017.

19. 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	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Property, plant and equipment	90	111	(4)	–	86	111
Intangible assets	–	–	(1,745)	(769)	(1,745)	(769)
Share-based payment expense	116	73	–	–	116	73
Trade and other payables	188	10	–	(15)	188	(5)
Employee benefits	644	1,050	–	–	644	1,050
	1,038	1,244	(1,749)	(784)	(711)	460

Movement in deferred tax for the year ended 30 September 2018

	As at 1 October 2017 £000	Income statement £000	Statement of comprehensive income £000	Recognised on acquisition £000	As at 30 September 2018 £000
Property, plant and equipment	111	(32)	–	7	86
Intangible assets	(769)	93	–	(1,069)	(1,745)
Share-based payment expense	73	43	–	–	116
Trade and other payables	(5)	(147)	–	340	188
Employee benefits	1,050	(31)	(375)	–	644
	460	(74)	(375)	(722)	(711)

Movement in deferred tax for the year ended 30 September 2017

	As at 1 October 2016 £000	Income statement £000	Statement of comprehensive income £000	As at 30 September 2017 £000
Property, plant and equipment	108	3	–	111
Intangible assets	(824)	55	–	(769)
Share-based payment expense	73	–	–	73
Trade and other payables	33	(38)	–	(5)
Employee benefits	1,468	(5)	(413)	1,050
Tax losses	73	(73)	–	–
	931	(58)	(413)	460

A deferred tax asset of £542,000 (2017: £464,000) 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 £3.19 million (2017: £2.73 million).

The rate of UK corporation tax changed during the financial year ending 30 September 2017, resulting in a change to the rate at which deferred tax assets could be utilised. This reduced the charge to the income statement by £66,000 in 2017. There was no such adjustment in the financial year ended 30 September 2018.

20. Trade and other receivables

	2018 £000	2017 £000
Trade receivables	6,548	3,831
Prepayments and accrued income	2,437	1,308
	8,985	5,139

All trade and other receivables are short-term, apart from £478,000 relating to Anisa debtors which is due in excess of one year. 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, £1,426,000 (2017: £459,000) are past due but not impaired. An analysis of these trade receivables is set out below:

	2018 £000	2017 £000
0-30 days overdue	782	223
30-60 days overdue	252	37
60-90 days overdue	230	12
90+ days overdue	162	187
Total	1,426	459
Movement in impairment provisions:		
Balance at the beginning of the year	59	53
Impairment losses recognised	110	6
Amounts written off as uncollectible	(58)	–
Balance at the end of the year	111	59

21. Other short-term financial assets

Available for sale financial assets

The Group sold its investment in the ordinary share capital of an unrelated company whose shares are traded on the London Stock Exchange. The shareholding represented less than 3% of the total issued share capital of the company and was recorded at market value. The sales proceeds amounted to £266,000, resulting in a gain of £136,000 which can be seen in note 9, recorded as a one-off non-recurring item.

Notes to the consolidated financial statements

continued

22. Deferred consideration

	2018 £000	2017 £000
Current liabilities:		
<i>Arising on the acquisition of Anisa Limited</i>		
Unconditional deferred consideration	542	–
Conditional deferred consideration	445	–
<i>Arising on the acquisition of Evogenic Limited</i>		
Unconditional deferred consideration	–	13
Conditional deferred consideration	–	11
	987	24

23. Bank loans and overdrafts

	2018 £000	2017 £000
Bank loan (due in less than one year)	916	–
Bank loan (due in greater than one year)	2,522	–
Loan notes	1,047	–
	4,485	–

The term loan of £4,125,000, which was acquired as part of Anisa Consolidated Holdings, is repayable in quarterly instalments. Interest is charged at 2.15% over the LIBOR rate.

The loan is secured on the assets of Anisa Supply Chain Solutions Limited and its subsidiaries.

Interest is charged at a rate of 5% on the loan notes. Post year end the loan notes were moved onto revised terms. The revised terms are for three years, whereby the holder has two opportunities to redeem with a minimum notice of two months provided to the Company. £789,000 was paid on 31 October 2018 and so the remaining balance is £258,000.

The table below reconciles the net debt position within the Group:

	As at 1 October 2017 £000	On acquisition £000	Inception of hire purchase £000	Cash flows £000	As at 30 September 2018 £000
Hire purchase	–	245	263	(152)	356
Loan notes	–	1,047	–	–	1,047
Bank loans	–	4,125	–	(687)	3,438
	–	5,417	263	(839)	4,841

24. Trade and other payables

	2018 £000	2017 £000
Trade payables	1,464	1,061
Other taxation and social security	1,854	1,434
Accruals	2,910	748
Customer deposits	444	410
	6,672	3,653

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.

25. Hire purchase

	2018 £000	2017 £000
Hire purchase creditor (due in less than one year)	132	–
Hire purchase creditor (due in greater than one year)	224	–
	356	–

The hire purchase creditor is secured against the equipment.

26. Share capital

	2018 £000	2017 £000
Authorised		
Equity: 535,000,000 Ordinary shares of 10 pence each	53,500	53,500
	2018 £000	2017 £000
Allotted, called up and fully paid		
At 1 October 2017: Equity – 55,070,668 Ordinary shares of 10 pence each	5,507	5,485
Issued during the year	490	22
At 30 September 2018: Equity – 59,972,484 Ordinary shares of 10 pence each	5,997	5,507

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
06/02/18	165,000	57.50p	28/01/17	29,016	10.00p
08/02/18	100,000	57.50p	26/01/17	50,000	27.50p
19/02/18	135,000	57.50p	26/01/17	40,000	30.00p
19/02/18	125,000	56.00p	17/12/17	53,000	71.00p
19/02/18	50,000	71.00p	31/03/17	46,667	71.00p
19/02/18	3,990,653	70.00p			
11/05/18	90,579	56.00p			
11/05/18	59,000	57.00p			
02/06/18	35,000	27.50p			
02/06/18	31,250	30.00p			
05/06/18	75,000	71.00p			
05/06/18	40,000	49.00p			
05/06/18	5,334	70.50p			

27. 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.

The accumulated amount of current and deferred tax relating to items that are charged or credited directly to equity is a credit of £489,000 (2017: a credit of £864,000).

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.

Merger reserve: The merger reserve was created on the acquisition of Anisa Consolidated Holdings and represents the premium attached to the issue of the shares which formed part of the consideration.

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

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

Retained earnings: Includes all current and prior period retained profits and losses.

Notes to the consolidated financial statements

continued

28. 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:

	2018 £000	2017 £000
Financial assets		
Cash and cash equivalents	6,471	6,176
Loans and receivables (including trade and other receivables) at amortised cost	6,548	3,831
Available for sale assets	225	337
	13,244	10,344
Financial liabilities at amortised cost		
Trade payables, accruals and customer deposits	4,818	2,219
Bank loans	3,438	–
Loan notes	1,047	–
Hire purchase creditor	356	–
Unconditional deferred consideration	542	13
	10,201	2,232
Financial liabilities at fair value through profit and loss		
Conditional deferred consideration	445	11

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

Market risk management

The Group sold its investment in the listed equity securities of an unrelated company in the year and so the previously associated market risk no longer exists.

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	
	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
2018				
Trade payables, accruals and customer deposits	4,818	–	–	–
Bank loans	458	458	916	1,606
Loan notes	1,047	–	–	–
Hire purchase creditor	66	66	132	92
Deferred consideration	542	445	–	–
	6,931	969	1,048	1,698

	Current		Non-current	
	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
2017				
Trade payables and accruals	2,219	–	–	–
Deferred consideration	24	–	–	–
	2,243	–	–	–

Interest rate sensitivity analysis

At the year-end date there was no material exposure to movements in interest rates.

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 are available for sale financial assets which are in Level 1 and valued as set out in note 21.

The financial liability measured at fair value in the statement of financial position at 30 September 2018 is contingent consideration which is in Level 3 in the fair value hierarchy. The fair value of contingent consideration relates to the acquisitions and is estimated using a present value technique. Fair value is estimated by discounting the estimated future cash flows at 18%. The cash flows of consideration payable before discounting are £0.5 million and reflect management's estimates of consideration that will become payable in the future. Should any of the acquired businesses not achieve their 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:

	2018 £000	2017 £000
Balance at 1 October 2017	(11)	(257)
Remeasurement of business performance	–	165
Payments made during the year	11	83
Discount unwound and recognised as acquisition-related finance expense	55	(2)
Acquired through business combination	(500)	–
	(445)	(11)

Foreign currency risk management

The Group has minimal exposure to currency risk. At 30 September 2018, cash balances were £6.47 million, of which approximately £875,000 was held in euros, £270,000 in USD, £176,000 in Singapore dollars and £91,000 in ZAR.

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.

Notes to the consolidated financial statements

continued

29. 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 2018, the Group held net cash balances of £6.47 million.

30. Commitments

Capital commitments, approved by the Board and existing at 30 September 2018, amounted to £nil (2017: £nil).

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

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Payable:				
Within one year	742	16	356	13
In the second to fifth years inclusive	1,623	38	772	34
Over five years	2,966	–	2,572	–
	5,331	54	3,700	47

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

31. Pension schemes

The Group operates a defined contribution pension scheme. The pension cost charge for the year relating to this scheme was £757,000 (2017: £709,000).

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 2017, showed the scheme to have a deficit of £5.11 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 2017 actuarial valuation have therefore been projected forward to 30 September 2018. 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.

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

	2018 £000	2017 £000
Inflation – RPI	3.3%	3.3%
Inflation – CPI	2.3%	2.5%
Pension revaluation in deferment	3.1%	3.3%
Pension escalation in payment*	0.0–5.0%	0.0–5.0%
Discount rate	3.0%	2.9%

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

Mortality tables S2PMA and S2PFA have been used in arriving at the 2018 valuation. The valuation applies the CMI 2017 projection model with a long-term improvement of at least 1% for both males and females. The 2017 valuation used the same mortality tables and applied the CMI 2016 projection model with long cohort improvements of at least 1% for both males and females. A male member retiring at age 65 on 30 September 2018 is assumed to have a life expectancy of 22.8 years (2017: 22.6 years), a female member 23.7 years (2017: 24.7 years). A male member retiring in 20 years is assumed to have a life expectancy from their retirement date of 21.8 years (2017: 23.7 years) and a female member 24.9 years (2017: 25.9 years).

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

	2018 £000	2017 £000
Included within finance expense:		
Net interest cost on scheme deficit	(171)	(183)

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

	2018 £000	2017 £000
Actual return on scheme assets	139	707
Expected return on scheme assets	(279)	(205)
Financial actuarial (loss)/gain	(140)	502
Experience gains or losses arising on the scheme liabilities	776	–
Effect of changes in actuarial assumptions	1,336	1,300
Remeasurement recognised in the statement of comprehensive income	1,972	1,802

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

	2018 £000	2017 £000
Cumulative actuarial loss at 1 October	(8,532)	(10,334)
Recognised during the year	1,972	1,802
Cumulative actuarial losses at 30 September	(6,560)	(8,532)

Notes to the consolidated financial statements

continued

31. Pension schemes continued

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

	2018 £000	2017 £000
Fair value of defined benefit obligation	(13,709)	(15,649)
Fair value of scheme assets	9,920	9,473
Deficit in the scheme	(3,789)	(6,176)
Deferred taxation on above	644	1,050
Net pension liability	(3,145)	(5,126)

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

	2018 £000	2017 £000
Equities	4,675	4,213
Bonds	4,467	4,268
Unitised with-profits fund	267	315
Property	84	677
Cash and cash equivalents	90	–
Others	337	–
Closing fair value of scheme assets	9,920	9,473

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:

	2018 %	2017 %
Equities	47	44
Bonds and gilts	45	45
Cash and cash equivalents	1	–
Other (including unitised with profits)	7	11
	100	100

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

	2018 £000	2017 £000
Opening fair value of scheme assets at 1 October	9,473	9,017
Return on plan assets	279	205
Financial actuarial (loss)/gain	(140)	502
Benefit payments made including transfers out	(278)	(611)
Contributions paid	586	360
Closing fair value of scheme assets at 30 September	9,920	9,473

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

	2018 £000	2017 £000
Opening defined benefit obligation at 1 October	(15,649)	(17,172)
Interest cost	(450)	(388)
Benefit payments made including transfers out	278	611
Actuarial gains: financial	896	1,334
Actuarial gains/(losses): demographic	440	(34)
Actuarial experience gain	776	–
Closing defined benefit obligation at 30 September	(13,709)	(15,649)

The weighted average duration of the defined benefit obligation at 30 September 2018 was 20 years.

Total committed contributions to the defined benefit scheme for the financial year ending 30 September 2019 amount to £540,000 in respect of agreed monthly contributions.

The results of the IAS 19 valuation at 30 September 2018 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 8.7%
Rate of inflation	Increase by 0.5%	Increase by 8.4%
Life expectancy	Increase by 1.0%	Increase by 2.3%

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.

32. Post balance sheet event

On 26 October, the High Court ruled that Guaranteed Minimum Pensions ('GMPs') must be equalised between men and women and that past underpayments must be corrected. The Group are currently working with the scheme actuary on quantifying the impact on the future liabilities of the Group's defined benefit pension scheme, however, due to the close proximity of the High Court ruling to the date of signing these accounts, the Group are not yet in a position to quantify the impact.

Company statement of financial position

at 30 September 2018

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	37	76	96
Investments	38	25,034	18,318
Deferred tax asset	39	29	27
		25,139	18,441
Current assets			
Trade and other receivables	40	5,086	5,031
Income tax		242	195
Other short-term financial assets		–	187
Cash and cash equivalents		58	602
		5,386	6,015
Current liabilities			
Trade and other payables	41	(10,042)	(5,787)
		(10,042)	(5,787)
Net current (liabilities)/assets		(4,656)	228
Net assets		20,483	18,669
Equity attributable to the equity holders of the Company			
Called up share capital	42	5,997	5,507
Share premium account		9,557	9,133
Merger reserve		2,394	–
Available for sale reserve		–	57
Retained earnings		2,535	3,972
Total equity		20,483	18,669

The loss for the financial period dealt with in the profit and loss of the Company was £17,000 (2017: loss of £910,000).

The Company statement of financial position was approved and authorised for issue by the Board of directors on 23 November 2018 and signed on its behalf by:

Christopher Winn

Director

Company Registration Number

4968444

Company statement of cash flows

for the year ended 30 September 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Loss for the year after taxation	(17)	(910)
<i>Adjustments for:</i>		
Net finance expense/(income)	47	(18)
Depreciation	41	29
Share-based payment charge	239	–
Profit on sale of investment	(136)	–
Income tax	(236)	(149)
Operating cash flow before changes in working capital	(62)	(1,048)
Movement in trade and other receivables	296	(42)
Movement in amounts due to/from subsidiary undertakings	2,684	2,239
Movement in trade and other payables	414	41
Cash generated from continuing operations	3,332	1,190
Net cash flow from operating activities	3,332	1,190
Cash flow utilised by investing activities		
Payment of deferred consideration relating to subsidiaries	(563)	–
Purchase of property, plant and equipment	(21)	(49)
Acquisition of subsidiary undertakings	(2,408)	–
Sales of investment	266	–
Bank interest received	–	3
Dividend received	9	15
Net cash flow utilised by investing activities	(2,717)	(31)
Cash flow utilised by financing activities		
Issue of shares, net of costs	515	99
Equity dividends paid	(1,674)	(1,376)
Net cash flow utilised by financing activities	(1,159)	(1,277)
Net decrease in cash and cash equivalents	(544)	(118)
Cash and cash equivalents at the beginning of the year	602	720
Cash and cash equivalents at the end of the year	58	602

Company statement of changes in equity

for the year ended 30 September 2018

	Share capital £000	Share premium £000	Merger reserve £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
At 1 October 2017	5,507	9,133	–	57	3,972	18,669
Dividend paid	–	–	–	–	(1,674)	(1,674)
Shares issued as consideration	399	–	2,394	–	–	2,793
Exercise of share options	91	424	–	–	–	515
Share-based payment charge	–	–	–	–	254	254
Transactions with owners	490	424	2,394	–	(1,420)	1,888
Loss for the year	–	–	–	–	(17)	(17)
<i>Other comprehensive income:</i>						
Change in fair value of available for sale asset	–	–	–	(57)	–	(57)
At 30 September 2018	5,997	9,557	2,394	–	2,535	20,483

	Share capital £000	Share premium £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
At 1 October 2016	5,485	9,056	79	6,218	20,838
Dividend paid	–	–	–	(1,376)	(1,376)
Exercise of share options	22	77	–	–	99
Share-based payment charge	–	–	–	40	40
Transactions with owners	22	77	–	(1,336)	(1,237)
Loss for the year	–	–	–	(910)	(910)
<i>Other comprehensive income:</i>					
Change in fair value of available for sale asset	–	–	(22)	–	(22)
At 30 September 2017	5,507	9,133	57	3,972	18,669

Notes to the Company financial statements

33. 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 40: Measurement of intercompany receivables: Management assesses the likely recoverability of intercompany receivables based on the performance of the Group companies that the balance is held with.

Judgements

Note 39: 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 a recoverable amount. Investment income is recognised on a receivable basis.

Share-based payments

The equity-settled share option programme allows Group employees to acquire shares of the Company. Where the related services are carried out by employees of the Company, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair values are measured using the Black-Scholes and Monte Carlo models 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. 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.

Notes to the Company financial statements

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33. Accounting policies continued

Personnel expenses

The Company employed two non-executive directors during the course of the year (2017: two non-executives). John Paterson and David Gutteridge served throughout 2018. Fees paid in respect of these appointments amounted to £68,000 (2017: £68,000). 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 and Ian Newcombe throughout the year and Richard Mogg from 2 October 2017. Adrian Frost resigned as Group Finance Director on 31 August 2017. 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.

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.

34. Personnel expenses

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

	2018 No.	2017 No.
Sales and marketing	1	2
Administrative	20	20
	21	22

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

	2018 £000	2017 £000
Wages and salaries	1,372	1,134
Social security costs	130	127
Contributions to defined contribution pension plans	69	91
Share-based payment charge	239	–
	1,810	1,352

35. 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 1,750,000 were in respect of employees of the Company. The share-based payment charge in respect of these awards amounted to £239,000 (2017: nil). The Company has adopted IFRS 2 in accounting for options issued to employees of subsidiary companies.

36. Dividends

	2018 £000	2017 £000
Interim dividend of 1.25p per share (2017: 1.10p)	750	606
Final dividend relating to previous financial year of 1.55p per share (2017: 1.40p)	924	770
Total dividend for the financial year	1,674	1,376

A final dividend of 1.75 pence per ordinary share in respect of the financial year ended 30 September 2018 will be proposed at the Annual General Meeting of the Company, expected to be held on 22 January 2019. If approved by shareholders, the total final dividend payment will amount to £1,049,518. 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.

37. Property, plant and equipment

	Plant and equipment £000
Cost	
Balance at 1 October 2016	355
Additions	49
Balance at 30 September 2017	404
Additions	21
Balance at 30 September 2018	425
Depreciation	
Balance at 1 October 2016	279
Charge for the year	29
Balance at 30 September 2017	308
Charge for the year	41
Balance at 30 September 2018	349
Net book value	
At 30 September 2017	96
At 30 September 2018	76

Notes to the Company financial statements

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38. Non-current asset investments

	Shares in Group undertakings £000
Cost	
At 1 October 2016	23,032
Fair value of share options granted to employees of subsidiaries	40
At 30 September 2017	23,072
Fair value of share options granted to employees of subsidiaries	15
Acquisition of Anisa Consolidated Holdings Limited	6,701
At 30 September 2018	29,788
Impairments	
At 1 October 2016, 30 September 2017 and 30 September 2018	(4,754)
Net book value	
At 30 September 2017	18,318
At 30 September 2018	25,034

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	Priam Retail Solutions Limited
*Sanderson Limited	Sanderson Logistics Limited
*One iota Limited	Sanderson Support Limited
*Proteus Software Limited	Sanderson Commercial Services Limited
Sonarsend Limited	Sanderson Ireland Limited
*Sanderson Australia Pty Limited	Sanderson Retail Systems Limited
*Sanderson Multi-Channel Retail Solutions Limited	Deals Joy Limited
*Anisa Consolidated Holdings Limited	Evogenic Limited
*Anisa Group Holdings Limited	Sanderson Technologies Limited
*Anisa Supply Chain Solutions Limited	Anisanet Limited
*OBSL Pty Limited	Pivotpoint Europe Limited
*OBS Logistics Limited	Sia Anisa Limited
*Open Business Solutions Logistics Pte Limited	
*In2grate Business Solutions Limited	

Sanderson Australia Pty Limited and OBSL Pty Limited are incorporated in Australia. Sanderson Ireland Limited is incorporated in the Republic of Ireland. Open Business Solutions Logistics Pte Limited is incorporated in Singapore. All other companies are incorporated in England.

39. 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:

	2018 £000	2017 £000
Temporary differences re capital allowances	(4)	(7)
Share-based payment expense	31	32
Trade and other payables	2	2
	29	27

Movement in deferred tax

	As at 1 October 2016 £000	Income statement £000	As at 30 September 2017 £000	Income statement £000	As at 30 September 2018 £000
Property, plant and equipment	–	(7)	(7)	3	(4)
Trade and other payables	1	1	2	29	31
Share-based payment expense	33	(1)	32	(30)	2
	34	(7)	27	2	29

A deferred tax asset of £133,000 (2017: £135,000) 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 £784,000 (2017: £792,000).

40. Trade and other receivables

	2018 £000	2017 £000
Current assets		
Prepayments	74	183
Amounts due from subsidiary undertakings	5,012	4,848
	5,086	5,031

Amounts due from subsidiary companies are repayable on demand.

41. Trade and other payables

	2018 £000	2017 £000
Current liabilities		
Trade and other payables	132	81
Accruals	664	301
Deferred consideration	993	–
Amounts due to subsidiary companies	8,253	5,405
	10,042	5,787

Amounts due to subsidiary companies are repayable on demand.

42. Called up share capital

	2018 £000	2017 £000
Authorised		
Equity: 535,000,000 Ordinary shares of 10 pence each	53,500	53,500
Allotted, called up and fully paid		
At 1 October 2017: Equity – 55,070,668 Ordinary shares of 10 pence each	5,507	5,485
Issued during the year	490	22
At 30 September 2018: Equity – 59,972,484 Ordinary shares of 10 pence each	5,997	5,507

Notes to the Company financial statements

continued

42. Called up share capital continued

The following share issues occurred during the year:

Current year date	Quantity	Price	Prior year date	Quantity	Price
06/02/18	165,000	57.50p	28/01/17	29,016	10.00p
08/02/18	100,000	57.50p	26/01/17	50,000	27.50p
19/02/18	135,000	57.50p	26/01/17	40,000	30.00p
19/02/18	125,000	56.00p	17/12/17	53,000	71.00p
19/02/18	50,000	71.00p	31/03/17	46,667	71.00p
19/02/18	3,990,653	70.00p			
11/05/18	90,579	56.00p			
11/05/18	59,000	57.00p			
02/06/18	35,000	27.50p			
02/06/18	31,250	30.00p			
05/06/18	75,000	71.00p			
05/06/18	40,000	49.00p			
05/06/18	5,334	70.50p			

43. 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:

	2018 £000	2017 £000
Financial assets		
Cash and cash equivalents	58	602
Loans and receivables (including trade and other receivables) at amortised cost	5,012	4,848
Available for sale assets	–	187
Financial liabilities at amortised cost		
Trade payables, accruals, amounts due to subsidiary companies and deferred consideration	9,597	5,787
Financial liabilities at fair value through profit and loss		
Conditional deferred consideration	445	–

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

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

	2018 £000	2017 £000
Balance at 1 October 2017	–	–
Discount unwound and recognised as acquisition-related finance expense	55	–
Acquired through business combination	(500)	–
	(445)	–

Market risk management

The Group sold its investment in the listed equity securities of an unrelated company in the year and so the previously associated market risk no longer exists.

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	
	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
2018				
Trade payables and accruals	1,789	–	–	–
Amounts due to subsidiary companies	8,253	–	–	–
	10,042	–	–	–
	Current		Non-current	
	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
2017				
Trade payables and accruals	382	–	–	–
Amounts due to subsidiary companies	5,405	–	–	–
	5,787	–	–	–

Interest rate sensitivity analysis

At the year-end date there was no material exposure to movements in interest rates.

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 2018 are available for sale financial assets which are in Level 1 and valued as set out in note 21.

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.

Notes to the Company financial statements

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44. 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 2018, the Group held net cash balances of £6.47 million.

45. Related party transactions

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

	2018 £000	2017 £000
Sanderson Multi-Channel Retail Solutions Limited	750	–
Sanderson Multi-Channel Solutions Limited	250	–
Sanderson Limited	500	–

Amounts due from/(to) subsidiary companies at 30 September 2018 are set out below:

	2018 £000	2017 £000
Sanderson Limited	653	937
Sanderson Multi-Channel Solutions Limited	(3,497)	(2,526)
Sanderson Multi-Channel Retail Solutions Limited	3,671	3,484
One iota Limited	(2,559)	(682)
Proteus Software Limited	414	252
Sanderson Australia Pty Limited	–	–
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)
Sanderson Technologies Limited	225	150
Anisa Consolidated Holdings Limited	24	–

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.

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Richard Mogg

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To go directly to our website,
scan the QR code opposite

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