

Redcentric plc

Annual Report and Financial Statements

Year ended 31 March 2018

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Strategic report | Chairman's statement

I am pleased to present Redcentric plc's results for the year ended 31 March 2018.

My report last year was dominated by the accounting misstatements that were discovered in November 2016, and at the time I had every confidence that the Group would put this difficult period behind it.

In this year's statement, I am pleased to say that this confidence was not misplaced, and I am happy to present a more positive report along with details of the considerable progress that has been made during the financial year. The business is now in a much stronger position and importantly we have maintained our principal customer base.

Post the accounting misstatements the Board set the Executives four main challenges:

- To rebuild the finance function and transform the financial control environment;
- To address the historical billing and collection issues;
- To reduce the cost base of the Group
- To look after our customers and staff; and
- To grow both revenues and profitability.

The finance function has been restructured and rebuilt over the last year embedding a tightly controlled financial environment. This has had a significant positive impact on the business.

In response to historical issues, work has been undertaken to improve the billing and cash collection process resulting in an improvement in working capital. The effect of this, along with a solid business performance, is that adjusted net debt has been reduced by £11.8m. Detailed work has gone into rightsizing the Group's cost base and this is reflected by a reduction in adjusted operating costs. Direct costs have also been tightly controlled and the resulting improved gross margin has helped mitigate the effect of a reduced revenue line.

Whilst profitability has improved, revenue has declined a little, and this remains the biggest challenge for the Group. The Management team is focused on growing the business and new appointments at the Operating Board level have been made to strengthen the sales function and drive future growth initiatives.

Post the year end the Group was awarded the Yorkshire and Humber Public Services Network framework contract. This represents the biggest revenue opportunity in the history of Redcentric with revenues reaching a potential £20m per annum once the contract is fully rolled out albeit there are initially mobilisation costs to absorb.

Financial results

Revenue declined by 4.4% to £100.0m and adjusted EBITDA increased from £17.3m to £18.1m. The increase in profitability reflects reduced adjusted operating costs.

Cash flows were very strong, with £22.6m adjusted cash generated by operations, representing a 125.2% adjusted cash conversion. Adjusted net debt fell from £39.5m to £27.7m, a decrease of £11.8m in the year. The ageing of overdue trade debtors improved materially, with debt greater than three months overdue falling from £7.9m as at 31 March 2017 to £1.5m as at 31 March 2018.

Dividend

No dividend was paid during the year and the Board has decided not to declare a final dividend in respect of this financial year. The Board will continue to keep its dividend policy under review and will advise further at our interim results.

Board changes

In June 2017, the Group appointed Stephen Vaughan to the Board as Non-Executive Director. Stephen brings a wealth of industry experience to the Board.

In August 2017, Fraser Fisher resigned as Chief Executive Officer and from the Board and was replaced by Chris Jagusz. Chris has over twenty-five years of experience in the telecommunications and managed services industry.

On 31 March 2018, David Payne resigned from the Board. Post David's resignation, Stephen Vaughan has taken over David's positions of Senior Non-Executive and Chair of the Remuneration committee.

Outlook

There are a number of structural changes taking place in the industry. As a dynamic organisation Redcentric is adapting to these changes and is positioning itself within the areas of the market that are growing. The actions and investments we have made during the period will support this as can be evidenced by the recently awarded YHPSN contract, which represents a significant milestone for Redcentric and is expected to deliver attractive returns over the medium term. We continue to be alert to appointments that may arise from the changing landscape of the Industry. Accordingly, the Board is confident of the Group's performance aligning to the recent trading update.

Chris Cole
Non-Executive Chairman
27 June 2018

Strategic report | Business model

Redcentric's customers are typically organisations with hundreds to thousands of connected users who need instant access to business critical information in order to do their jobs. Our services are well suited to organisations which are multi-sited, are information-intensive or require flexibility in the manner and form in which information is generated and consumed. Sectors in which the company is particularly well-represented include retail, health and social care, charities, professional services, legal, and central government departments.

Redcentric's aim is to transform, operate and evolve its customers' information technology infrastructure – their processing, storage, network and applications to align with their business strategies. We do this using a consultative sales approach to understand our customers' challenges and opportunities to create a roadmap for their IT infrastructure. This roadmap is then brought to life through our four propositions:

- Cloud – computer processing and storage capacity rented to customers and managed on Redcentric or others' facilities.
- Connectivity – networks to link customers' sites to Redcentric and others' datacentres, hyper cloud providers and the Internet.
- Collaboration – person-to-person communication, by voice, video and email.
- Information & Communications Technology – provision, installation and support of hardware on customers' premises to enable cloud delivery.

Our services are delivered from our own sizeable data centres in Harrogate and Reading over a network managed by Redcentric and monitored by teams working around the clock in Hyderabad and Harrogate. Extensive commercial and public sector accreditations demonstrate that we operate to the highest of externally verified standards.

Strategic report | Chief Executive's review

Overview

Managing our customers' IT infrastructure puts Redcentric at the heart of a dynamic industry full of opportunities, balanced by the challenges that these industry changes create. For the year ended March 2018, these changes were set against a difficult backdrop for the business as a result of the accounting misstatements discovered in November 2016. However, the issues uncovered have all been addressed and the group is now on a much stronger footing.

Several major customers renewed and extended the scope of their contracts, demonstrating confidence in Redcentric's ability and service levels. However, new customer acquisitions and add-on sales to existing customers were below the level required to create top-line growth.

Redcentric's many strengths – flexibility, completeness of proposition and, customer relationships based on trust – are a sound basis on which the business can capitalise on the positive trends in the industry. We will need to develop our business to address declining demand in some markets, and capitalise on the opportunities in others whilst becoming more efficient. We believe we have the platform to achieve this.

Performance

There is much to be proud of in Redcentric's operational performance over the past year. Service levels remained high allowing a high customer retention rate and we continued to attract new customers. All this was achieved during a period of leadership changes in the business and the resolution of historical issues.

We have continued to invest to maintain our leading service offerings and important accreditations. We became the first fully certified provider of Health & Social Care Network (HSCN) delivery for the UK Government with two significant security accreditations. We also upgraded our security standard to Cyber Essentials Plus and gained ISO14001 accreditation for environmental management. All these achievements are a reflection of a dedicated and committed workforce which took on a challenge to deliver outstanding service whilst managing significant change during a period of evolution and strengthening of the company.

Nevertheless, the fact remains that the business did not sell enough in the latter half of the year ended March 2017 and throughout this year to generate net revenue growth. There are other sector-wide headwinds which are beginning to act against some of our service offerings as currently configured. It is a tribute to the resilience of the business that much of the resultant revenue decline was mitigated through a combination of careful management of cost of sales and a drive on efficiency. The net result of all this was revenue of £100.0m (2017: £104.6m) and adjusted EBITDA of £18.1m (2017: £17.3m).

Cost control was a key factor in our financial performance. Targeted recruitment and a limited scale redundancy programme reduced the number of UK employees from 387 in April 2017 to 347 by March 2018. We consolidated two London offices into one and reduced the use of third party data centres in favour of using our own facilities. Cost of sales was managed more effectively with a focus on reducing excess inventory in the network. Our Hyderabad office is a key differentiator for Redcentric, giving us access to a large pool of highly skilled professionals in a low-cost jurisdiction with exceptional infrastructure.

In addition, the Redcentric management team has been considerably strengthened with a number of appointments in the finance function, and a new Chief Information Officer appointed to drive business automation.

Challenges in the future

There are significant changes taking place in the way customers buy the types of service which Redcentric provides. For the company to grow, we must respond to these market changes, evolve our infrastructure and develop new ways to make profits from our customer relationships. This will require change in many areas of the company. We are fortunate that we have the opportunity to make these changes in the context of our successes in retaining and growing major customer relationships, and our recent wins in a major procurement programme in one of our core markets – health and social care.

Our strategy for change starts from areas of the business's strength, where Redcentric has much to build upon. Most important is our reputation for excellent service and the customer trust and loyalty that stems from it. Consequently, we

have a strong customer base, with a high degree of repeat business, good product penetration and sector expertise. We have excellent infrastructure for connecting customers, enabling them to collaborate and manage their data processing and storage.

Most prominent of the sector-wide changes is the emergence of hyper cloud providers in our cloud market. Amazon Web Services (AWS) and Microsoft (Azure) offer processing and storage services in a flexible manner with low initial cost of purchase. Separately, much of the public sector is mandated to adopt the Government-sponsored Crown Hosting in preference to commercial data centres like our own. We anticipate that many public-sector entities will transfer some of their requirements to Crown Hosting or hyper cloud providers over time.

Our own data centres will increasingly host the customer-specific elements of customers' hybrid clouds - combining the hyper cloud for less sensitive work with the specialised hosting environments we manage. This trend also places a premium on the breadth and quality of our network.

The increasing complexity of customer infrastructure is another driver of change for our business. Software-as-a-service is becoming more popular among our customers, though many of them expect to retain some of their own proprietary applications for the foreseeable future. These hybrid software-as-a-service / proprietary software and dedicated / hyper cloud environments are significantly more complex to design, operate, keep secure and enhance.

The emergence of software defined networking technology offers customers more flexibility whilst increasing technical complexity. Redcentric must ensure that it is well-equipped to help its customers in this demanding environment, throughout the whole cycle from the design and sales process, to the building of the infrastructure and its subsequent operation.

Finally, customers are expecting higher levels of service including faster response times for implementation and the ability to conduct business online (sometimes in a wholly automated manner) all at increasingly competitive prices which is presenting a challenge for the industry as a whole.

The way forward

We are responding to the opportunities and challenges outlined above with an increased pace of change in the shape of our infrastructure, the mix of our service offerings and the cost efficiency of our operations. Shifts in our physical infrastructure are inevitable given the rise of hyper cloud providers reducing long-term demand for data centres whilst increasing customers' reliance on our networks and ability to manage complex services.

Among our prime near-term opportunities is the Health and Social Care Network (HSCN), of which Redcentric is an accredited provider. HSCN is replacing the aged N3 (the NHS National Network) in a national programme which opens markets previously unavailable to Redcentric and other service providers. As part of this programme, post year-end Redcentric won its largest ever framework agreement, the Yorkshire and Humber Public Services Network, which has the potential to add up to £20m of annual revenue. This is one of many procurements in 2018 in which Redcentric is active and seeing success.

We will use the considerable revenue streams from YHPSN and other similar contracts to invest in network and service operations for a hybrid cloud world.

We are also creating fresh propositions with Redcentric's new Cloud Transformation Practice which designs the complex hybrid environments when customers use a mix of private and clouds alongside traditional computing. This is especially relevant to existing customers because of our insight into their current infrastructure. We already manage cloud production environments which can scale rapidly in response to changing demand and we are working with lead customers on hyper cloud proofs of concept. Our very strong relationship with Microsoft as a leading Azure partner gives us access to market and product insight which we can bring to our customers. Meanwhile, customer interest in software-defined networking will be tested this year with market trials, and we are experiencing customers' increased usage and expectation of our network when they move to the hyper cloud, another source of future growth.

The movement of some public-sector customers into Crown Hosting creates project and service opportunities for Redcentric. Customers need help managing these complex and risky transitions, and Redcentric is already developing its track record in this field. In parallel, a focus on selling data centre space to commercial users will help offset some of the customer losses from moves to Crown Hosting.

Our sales function is being realigned with Redcentric's business priorities. This includes new incentives to balance retention and growth of existing clients with the acquisition of new ones. Whilst it will take some months for the benefits to materialise, we are making these changes now to secure our future success. Post period-end a new sales leader was appointed to implement this strategy.

In parallel with the development of our services, we are making our operations more efficient as a response to pricing pressure. Redcentric has already implemented the first phase of Microsoft Dynamics as an ERP system which will enable us to automate delivery of many back-office services. Further investment will be required to automate customer interactions, improve speed of response and reduce costs. We have the benefit of a well-established low-cost centre in Hyderabad and are moving work there where possible and appropriate. We can do this whilst maintaining direct UK customer contact.

Outlook

The IT Infrastructure market is undergoing structural changes. The adoption of the hyper cloud, software-defined networking, the public sector shift to Crown Hosting, pricing pressure, digital customer experience, along with the Health and Social Care Network framework all create opportunities and challenges in varying degrees.

Redcentric's focus is to build on our strengths of customer relationships and service platforms to shift the business to high growth markets, turn the challenge of the hyper cloud into opportunity, and mitigate the impact of some public sector customers moving to Crown Hosting.

We will continue to invest in automation to bring down costs and accelerate the pace of business, whilst expanding our resource in established low cost locations where feasible, and maintaining a UK-based direct customer experience.

We have the benefit of the assets, capabilities and customer insight needed to succeed in a rapidly changing industry – our plan is to make the most of the opportunities this presents us.



Chris Jagusz
Chief Executive Officer
27 June 2018

Strategic report | Chief Financial Officer's review

Financial highlights and overview

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
Statutory financial reporting measures				
Revenue	£100.0m	£104.6m	£(4.6)m	(4.4)%
Operating profit / (loss)	£0.9m	£(3.0)m	£3.9m	-
Basic earnings per share	0.34p	(1.60)p	1.94p	-
Adjusted performance measures (APMs)				
Adjusted net debt	£27.7m	£39.5m	£(11.8)m	(29.9)%
Adjusted EBITDA	£18.1m	£17.3m	£0.8m	4.6%
Adjusted EBITDA margin	18.1%	16.5%		1.6%
Adjusted cash generated from operations	£22.6m	£9.4m	£13.2m	140.4%
Adjusted cash conversion	125.2%	54.7%		(70.5)%
Adjusted operating profit	£9.8m	£9.0m	0.8m	8.9%
Adjusted basic earnings per share	4.35p	4.45p	(0.1)p	(2.2)%

The Directors use the APMs listed above as they are critical to understanding the financial performance of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

APM	Definition	Reconciliation to equivalent IFRS measure of performance
Adjusted net debt	Total bank borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents	Borrowings as outlined in note 16
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments	A reconciliation of this measure is provided in the consolidated income statement
Adjusted EBITDA margin	Adjusted EBITDA to revenue	Adjusted EBITDA add exceptional costs and share-based payments
Adjusted cash generated from operations	Cash generated from operations add exceptional costs	Adjusted cash generated from operations less exceptional costs
Adjusted cash conversion	Adjusted cash generated from operations to adjusted EBITDA	Cash generated from operations to EBITDA
Adjusted operating profit	Operating profit add amortisation on acquired intangibles, exceptional costs and share based payments	Operating profit as disclosed on the consolidated income statement
Adjusted basic earnings per share	Adjusted earnings – profit/loss add amortisation (acquired intangibles), share based payments, exceptional costs, tax charge/credit	A reconciliation of this measure is provided in Note 9
Adjusted operating costs	Operating costs less depreciation, amortisation and share based payments	Operating expenditure as outlined in the consolidated income statement

The results for the year reflect three key themes:

- a decline in revenue;
- a significant reduction in both direct and operating costs; and
- a material reduction in adjusted net debt.

Revenue

Revenue for the year ended 31 March 2018 was £100.0m, a decrease of £4.6m on the previous financial year.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Variance	
			£'000	%
Recurring revenue	87,065	90,219	(3,154)	(3.5)%
Product sales	7,180	6,278	902	14.4%
Services revenue	5,745	8,126	(2,381)	(29.3)%
One-off revenue	12,925	14,404	(1,479)	(10.3)%
Total revenue	99,990	104,623	(4,633)	(4.4)%

The key revenue metric of RMR (recurring monthly revenue) was down 3.5% compared to last year and accounted for 86% of total revenue in-line with 2017 at 86%.

Gross profit

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Variance	
			£'000	%
Gross profit	59,994	60,464	(470)	(0.8)%
Gross margin	60.0%	57.8%		

The lower gross profit of £0.5m reflects the decrease in revenue offset by significant direct cost savings as a result of the improved management of third party costs. This led to an improvement in gross margin to 60.0% (2017: 57.8%).

Adjusted operating costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Variance	
			£'000	%
Staff costs (excluding share based compensation)	23,292	24,655	(1,363)	(5.5)%
Office and data centre costs	6,942	7,512	(570)	(7.6)%
Network and equipment costs	6,805	5,804	1,001	17.2%
Other sales, general and administration costs	3,010	3,576	(566)	(15.8)%
Offshore costs	1,860	1,644	216	13.1%
	41,909	43,191	(1,282)	(3.0)%

Adjusted operating costs excludes depreciation, amortisation and share based payments.

Employees

Year-end headcount	31 March 2018	31 March 2017	Variance
UK	347	387	(40)
India	141	139	2
Total	488	526	(38)

Average headcount	31 March 2018	31 March 2017	Variance
UK	362	386	(24)
India	139	155	(16)
Total	501	541	(40)

Overall, adjusted operating costs for FY18 were £1.3m (3.0%) lower than FY17. The principle variances were as follows:

- Staff costs have reduced as a result of a restructuring exercise undertaken during the year. The restructuring resulted in one-off exceptional costs of £868k.
- Office and data centre costs were down by approximately 8% on last year reflecting the closure of the London office and a third-party data centre.
- On 30 September 2016, the Company disposed of its fibre network to City Fibre and since then has paid a monthly rental fee for use of certain parts of the network. This accounts for the increase in network and equipment costs in FY18.
- Savings have also been made in other sales, general and administration costs, achieved by reducing the number of third party consultants in the business and a tighter control of marketing and corporate costs.

Adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Variance £'000	%
Adjusted EBITDA	18,085	17,273	812	4.7%
Adjusted EBITDA margin	18.1%	16.5%		

Adjusted EBITDA is the key measure that the Company uses to assess the underlying profitability of the business. Adjusted EBITDA excludes exceptional costs and share based payments.

Adjusted EBITDA increased by £0.8m or 4.7% to £18.1m reflecting the decrease in gross profit of £0.5m offset by the decrease in operating costs of £1.3m. As a result, Adjusted EBITDA margin improved from 16.5% to 18.1%.

Exceptional costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Variance £'000	%
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	672	1,291	(619)	47.9%
Staff restructuring	868	187	681	364.2%
Integration costs	132	471	(339)	-
Non-recurring impairment of trade debtor balances	-	2,933	(2,933)	(100.0)%
Sale of metro ring to City Fibre	-	207	(207)	(100.0)%
Vacant property provisions	-	385	(385)	(100.0)%
	1,672	5,474	(3,802)	(69.5%)

Overall, the level of non-recurring items has decreased from £5.5m to £1.7m. The key movements are as follows:

- Exceptional impairment of trade debtor balances;
 - Following the audit of the 31 March 2017 annual results, a debtor impairment charge was taken in FY17.
- Professional fees associated with the forensic review and FCA investigation;
 - These costs relate to legal and forensic advice received in respect of the ongoing FCA investigation.
- Staff restructuring costs
 - During the year a restructuring exercise was undertaken which resulted in 18 redundancies
- Integration costs
 - The integration costs relate to the integration of the City Lifeline acquisition which was undertaken in January 2016. The integration process is complete, and no further costs will be incurred in this regard.
- Disposal of City Fibre network;
 - On 30 September 2016, the Company disposed of its fibre network to City Fibre Limited. This led to an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.
- Vacant property provision;
 - In FY17, the Birmingham and Hoddesdon offices were vacated, leading to a vacant property charge of £0.4m in the year.

Net financing costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interest receivable		
Other interest receivable	(19)	(1)
Interest payable		
Interest payable on bank loans and overdrafts	1,241	869
Interest payable on finance leases	143	317
Amortisation of loan arrangement fees	68	68
	1,452	1,254
Net financing costs	1,433	1,253

The higher interest payable costs in FY18 reflect the higher margin on the RCF following the restructuring of the Groups senior debt facilities in April 2017.

Share-based payments

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Variance £'000	%
SAYE schemes	224	188	36	19.1%
Director and senior manager schemes	162	156	6	3.8%
MXC options	148	631	(483)	(76.5)%
Employers NI	34	105	(71)	(67.6)%
	568	1,080	(512)	47.4%

The MXC shared based expense is in respect of legacy options which by the end of FY18 had been fully expensed.

NI is being accrued, where applicable, at a rate of 13.8% on the potential employee gain on share-based incentives granted.

During both FY17 and FY18 there was a high turnover of directors and senior managers and this has reduced the share based charge in both years.

Taxation

The tax credit for the year was £1.0m (FY17: credit of £1.9m) which was made up of a corporation tax charge of £1.1 (FY17: charge of £0.1m) and a deferred tax credit of £2.1m (FY17: credit of £2.0m).

The corporation tax charge comprises a current year corporation tax charge of £0.3m, a prior year corporation tax charge of £0.7m and an overseas tax charge of £0.1m.

The prior year corporation tax charge relates to the resubmission of the FY15 and FY16 tax computations. The group is made up several historical acquisitions some of which have tax losses brought forward. The streaming of these tax losses had been incorrectly applied in the FY15 and FY16 tax computations and hence the reason for the prior year corporation tax adjustment.

As at 31 March 2018, the Group had £18.9m of tax losses carried forward comprising:

	% of profits	Losses available
No tax losses carried forward	27.01%	-
Losses carried forward:		
- Stream 1	43.65%	954,091
- Stream 2	19.64%	9,556,568
- Stream 3	9.70%	8,349,967
	100.00%	18,860,626

Earnings per share and Dividends

Basic adjusted earnings per share for FY18 was 4.3p, compared to 4.5p in FY17. Diluted adjusted earnings per share for FY18 was 4.3p compared to 4.3p in FY17.

Dividends

No dividends were paid during FY18. In September 2016 a final dividend of £4.4m in respect of the year ended 31 March 2017 was distributed to shareholders.

Financial position

The summary financial position of the Group is set out below:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Non-current assets	102,724	110,723
Net current assets (excl. adjusted net debt)	3,326	8,856
Non-current liabilities (excl. adjusted net debt)	(421)	(3,319)
Adjusted net debt	(27,707)	(39,531)
Net assets	77,922	76,729

Net current assets have declined by £5.5m as a result of better working capital management and better conversion of debtors in to cash. This, along with normalised funds generated from operations, accounts for the material decrease in net debt.

Adjusted net debt and cash flows

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Revolving credit facility	28,000	38,000
Term loans	-	323
Cash	(6,089)	(4,340)
Finance leases	5,932	5,752
Unamortised loan arrangement fees	(136)	(204)
Adjusted net Debt	27,707	39,531

During FY18, adjusted net debt fell from £39.5m at 31 March 2017 to £27.7m as at 31 March 2018. The movements in adjusted net debt are analysed below.

	Year ended 31 March 2018
	£'000
Adjusted EBITDA	18,085
Working capital movements	4,559
Adjusted cash generated from operations	22,644
<i>Cash conversion</i>	125.2%
Capital expenditure	
- Cash purchases	(3,982)
- Finance lease purchases	(2,976)
	(6,958)
Corporation tax	217
Interest paid	(1,246)
<i>Non-cash movements in adjusted net debt</i>	
Amortisation of loan arrangement fees	(68)
Effect of exchange rates	44
	(24)
Decrease in adjusted net debt pre-exceptional costs	14,633
<i>Exceptional costs</i>	
- Exceptional costs and NI on share based payments	(3,002)
- New share issues	193
	(2,809)
Net (decrease) / increase in adjusted net debt	11,824
Adjusted net debt at the beginning of the period	(39,531)
Net debt at the end of the period	(27,707)

Working capital movements

Improved control of billing and collections has resulted in the positive working capital movement in FY18. In FY17 the negative working capital movements were largely due to a £10m catch up in payments to trade creditors (in FY16 trade creditors had been significantly stretched and this practice no longer takes place).

The resolution of legacy debt issues has also led to a significant improvement in the ageing of trade debtors with a significant reduction in debtors aged > 90 days. As at 31 March 2018, there was £1.5m of debt more than 3 months overdue, a £6.3m improvement on the previous year.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Current	11,323	9,095
1 to 30 days overdue	1,951	2,950
31 to 60 days overdue	1,417	2,220
61 to 90 days overdue	550	704
91 to 180 days overdue	945	3,277
> 180 days overdue	593	4,580
Gross trade debtors	16,779	22,826
Trade debtor impairment provision	(981)	(5,576)
Net trade debtors	15,798	17,250

Trade creditor days were 28 at 31 March 2018 compared to 33 as at 31 March 2017.

Financing and covenants

	31 March 2018			31 March 2017		
	Available £'000	Drawn £'000	Undrawn £'000	Available £'000	Drawn £'000	Undrawn £'000
Committed						
- Revolving credit facility	40,000	28,000	12,000	40,000	38,000	2,000
- Term loans	-	-	-	323	323	-
- Finance leases	5,932	5,932	-	5,752	5,752	-
	45,932	33,932	12,000	46,075	44,075	2,000
Uncommitted						
- Bank overdraft	2,000	-	2,000	5,000	-	5,000
- Finance leases	4,603	-	4,603	3,098	-	3,098
	6,603	-	6,603	8,098	-	8,098
Total borrowing facilities	52,535	33,932	18,603	54,173	44,075	10,098

In addition to the above facilities, the Company has access to a non-committed £20m accordion facility.

The Group's banking facilities were refinanced in April 2017. Whilst the covenant tests remained the same, the margin increased as a result.



Peter Brotherton
Chief Financial Officer
27 June 2018

Strategic report | Risk management

Identifying, evaluating and managing the principal risks and uncertainties facing the Group is an integral part of the way Redcentric does business. There are policies and procedures in place throughout the operations, embedded within our management structure and as part of our normal operating processes.

Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the monitoring of trading conditions and the constant search for ways to achieve new efficiencies in the business without impacting levels of service.

Reliance on key personnel and management

The success of Redcentric is dependent on the services of key management and operating personnel. The Directors believe that the Group's future success will depend largely on its ability to retain and attract highly skilled and qualified personnel, and to expand, train and manage its employee base. There can be no guarantee that suitably skilled and qualified individuals will be retained or identified and employed. If the Group fails to retain or recruit the necessary personnel, or if the Group loses the services of any of its key executives, its business could be materially and adversely affected.

Competition

Redcentric operates in a highly competitive marketplace and while the Directors believe the Group enjoys significant strengths and advantages in competing for business, some of the competitors are much larger with considerable scale that could allow them to offer similar services for lower prices than the Group would be prepared to match, therefore competitors could materially adversely impact the scale of the Group's revenues and its profitability. The Group monitors competitor's activity and constantly reviews its own services and prices to ensure a competitive position in the market is maintained.

Technology

The market for Redcentric's services is in a state of constant innovation and change. The Group actively participates in a number of industry-wide forums, and devotes significant resource to the development of new services, ensuring new technologies can be incorporated and integrated with the Group's core services. The nature of the Group's services means that they are exposed to a range of technological risk, such as viruses, hacking, and an ever-changing spectrum of security risk. The Group maintains constant pro-active vigilance against such risks and maintains membership of some of the highest levels of security accreditation as part of the service it offers its customers.

Infrastructure failure

The Directors believe that one of the key differentiators that Redcentric offers is that its services are provided over its own controlled and managed infrastructure, such as its own networks and data centres. Whilst this provides customers with comfort over resilience and reliability, the Group is also exposed to risks of infrastructure failure. A critical element of Redcentric's operating methodologies and procedures is to mitigate such risks through the careful construction, maintenance and management of its own infrastructure. All networks and data centres have fully resilient fail-over procedures with regular testing of back-up and recovery plans.

Strategy

The market for IT managed services in the UK is highly fragmented, and is served by a broad spectrum of businesses from global telecommunication companies through hardware and software providers, system integrators and a range of independent managed service providers of varying sizes through to companies providing individual elements of the IT managed services spectrum. The market is growing, driven by the continued move towards off-premise solutions and mobile access to secure services.

Redcentric positions itself in the market as being able to combine the benefits of proprietary network and data centres with a flexible and technically skilled workforce able to deliver and support critical services and solutions in a highly secure environment.

Redcentric seeks to differentiate itself in three distinct ways:

- Innovation – innovation in the design and delivery of services;
- Reliability – the right technical skills, organised in the right way, to give predictable high-quality results; and
- Value – service offerings that are designed to offer value for money to mid-market customers.

Through these differentiators, Redcentric aims to attract new customers and to deepen and broaden the relationship with existing customers. The Board's strategy for growth comprises;

- ongoing investment in expanding and enhancing our own infrastructure so that we can provide our customers with the very highest levels of security and service; and
- effective use of our scale and resources to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry

The Board believes that Redcentric's position between the very large system integrators and network operators, and the smaller competitors that may lack delivery structure, reputation, reliability and financial strength is a very compelling one. Redcentric has a strong and reliable set of core infrastructure, and has developed a delivery model that provides assurance and certainty for customers.

Strategic report | Corporate responsibility

Employees

Our colleagues have given much to the company over the year. We are now a more efficient organisation, and this improvement has not been gained at the cost of effectiveness. On the contrary, our customers have told us that they are more satisfied with us on every parameter we survey. I would like to offer my sincere personal thanks to each one of our employees in the UK and India who have contributed to this achievement.

Through Redcentric's apprenticeship programme, we have given four young people the opportunity to develop their careers with us and gain qualifications in networks, data storage, computing and electrotechnical systems.

Gender pay report

Our first gender pay report showed that the overall difference between men and women's earnings at Redcentric was 23% (mean) or 19% (median), based on hourly rates of pay at the snapshot date of 5th April 2017. Like most organisations in our industry, the primary reason for our gender pay gap is an imbalance of male and female colleagues at different levels across the organisation. We have fewer female colleagues in more senior positions, which attract higher salaries. We are confident that as we make progress towards achieving greater gender balance across all roles within Redcentric, particularly within our technical, sales management and senior management roles, our gender pay gap will reduce.

Equality and diversity

Creating a diverse, inclusive and great place for our colleagues to work is top of Redcentric's people agenda.

Redcentric actively supports the principle of equal opportunities in employment and is committed to ensuring that individuals are treated fairly, with respect and are valued. Redcentric opposes all forms of unlawful or unfair discrimination on the grounds of colour, race, religion or belief, nationality, ethnic or national origin, sex, gender reassignment, sexual orientation, marital or civil partner status, age or disability (the "Protected Characteristics").

It is important to Redcentric that no one receives less favourable treatment or be disadvantaged on any of the above grounds. Every possible step will be taken to ensure that individuals are treated equally and fairly and that decisions on recruitment and selection and opportunities for training and promotion are based solely on objective and job-related criteria.

Charitable activity

At Redcentric we actively encourage all employees to raise funds for their chosen charities. All employees are contractually entitled to receive one day of paid leave per year to volunteer or support a charitable organisation.

We have a Charity Committee that meets every quarter to discuss suggestions for charitable activity and we work with several charities on a regular basis, including Sue Ryder, Macmillan and Sports Relief. Through a combination of funds raised by employees for their own chosen charities or charitable donations from Redcentric, we contributed over £10,000 to various charities in 2017.

By order of the Board



Peter Brotherton
Company Secretary
27 June 2018

Governance | Directors' profiles

Non-Executive Directors

Chris Cole

Independent Non-Executive Chairman

Chris Cole was appointed as a Non-Executive Director and Chairman of Redcentric with effect from 1 September 2014. Chris has a strong track record and experience with quoted companies, having successfully led WSP Group plc as CEO and subsequently Non-Executive Chairman and Ashtead Group plc as Non-Executive Chairman. Chris, as a Chartered Engineer, founded and led the development of WSP both organically and acquisitively into a global consultancy with 10,000 people operating in 40 countries. Following WSP's merger with Genivar, Inc. in August 2012, Chris is the Non-Executive Chairman of the new engaged company, WSP Global Inc. listed on the Toronto Stock Exchange.

Chris is Chairman of the Nomination Committee.

In addition to the above Chris is the Non-Executive Chairman of Applus Services SA and Tracsis plc.

David Payne (resigned 31st March 2018)

Independent Non-Executive Director

David Payne was appointed as a Non-Executive Director of Redcentric on 19 February 2013. David has a varied background of management and entrepreneurship in the IT, leisure, and property industries. For 20 years after leaving university he worked for Juliana's, a leisure company that floated on the main market of the London Stock Exchange in 1983. David was subsequently recruited by a venture capital fund to become chairman of Virtuality Limited, a company at the forefront of developing virtual reality. He oversaw the successful flotation of this company on the main market of the London Stock Exchange in 1994 and then left to devote more time to the development of a quoted property company. David is also Chairman of Castleton Technology plc.

During the year, David served as Chairman of the Remuneration and Nomination Committees and as a member of the Audit Committee to 31 March 2018, and was the Senior Independent Non-Executive Director to 24 July 2017.

David retired from the Board of Directors effective 31 March 2018.

Stephen Puckett

Independent Non-Executive Director

Stephen Puckett was appointed as a Non-Executive Director on 17 November 2014. Stephen has a wealth of senior boardroom experience in a number of listed companies, and was Group Finance Director at Michael Page International plc from 2001 to 2012. Stephen is also Non-Executive Chairman of Hydrogen Group plc and a Non-Executive Director of ITE Group plc. Stephen is Chairman of the Audit Committee and is a member of the Remuneration and Nominations Committees.

Jon Kempster

Independent Non-Executive Director

Jon Kempster was appointed as a Non-Executive Director on 10 January 2017. Jon is the Chief Financial Officer and member of the Board at Sports Direct. Prior to this role, Jon was the Chief Financial Officer at Utilitywise, an AIM listed energy consultancy, and is currently a Non-Executive Director of JVM Group, a private company selling construction equipment in Russia. Jon has also held Chief Financial Officer positions at Wincanton plc, the logistics and distribution Group, from 2010 to 2012 and from 2006 to 2010 Jon was Chief Financial Officer of Delta plc.

Jon is an ACA qualified chartered accountant and a member of the Audit, Remuneration and Nominations Committees.

Stephen Vaughan

Independent Non-Executive Director

Stephen Vaughan was appointed as a Non-Executive Director on from 13 June 2017. Through his career, Stephen has held a number of executive and non-executive roles focused on the technology sector. Stephen is also currently the Chairman of Progressive Equity Research, the paid-for equity research house.

Until 2015, Stephen was Chief Executive of Phoenix IT plc, the main-market listed IT Infrastructure Services business, and since then has been Non-Executive director of Mobica, a software development company, and Chairman of NetNames, the internet services and online brand management company. He has previously been Chief Executive at Communis plc and Synstar plc.

Stephen is Chairman of the Remuneration Committee, a member of the Audit and Nomination Committees and is the Senior Independent Non-Executive Director as of 24 July 2017.

Executive Directors**Chris Jagusz**

Chief Executive Officer

Chris Jagusz was appointed Chief Executive Officer on 20 October 2017. Chris has over twenty-five years of experience in the telecoms and managed services industry, during which time he has built a track record of delivering growth and business transformation.

Chris has enjoyed a mix of both executive and consultancy roles through his career. From September 2014 to August 2016, Chris was Chief Executive of Azzurri Communications. During this period, he led the transformation of the business, refocusing on growth markets and driving margin and efficiency improvements prior to its sale.

Prior to this role, from July 2012 to September 2014, Chris was Managing Director of SSE Telecoms. During this period, he drove the investment in advanced networks and products which served as the foundation for its growth in commercial markets. Other executive roles in the telecoms and managed services industry include Managing Director at Daisy Group plc (February 2010 - August 2011) and a number of senior management roles at BT (1988 to 2006).

Peter Brotherton

Chief Financial Officer

Peter Brotherton was appointed as Chief Financial Officer on 28 November 2016. Peter is a senior and experienced Chief Financial Officer with over 25 years' experience across a number of senior finance roles. Peter's two previous roles were as Chief Financial Officer of Gametech and Chief Financial Officer at PKR Group.

Prior to those two roles, from 2011 to 2014, Peter was Chief Financial Officer and then Chief Executive of Meucci Solutions NV. Meucci Solutions was an international telecommunications and managed services business. During his time at Meucci Solutions, the business saw strong sales and EBITDA growth whilst also extensively reviewing its central financial control function.

Peter also had senior finance roles at Varla (UK) Limited, Cell Structures Group plc and spent five years at Kingston Communications plc, becoming Director of Finance. Peter trained at KPMG.

Governance | Corporate governance report

As an AIM listed company Redcentric plc is not required to comply with the principles and provisions of the UK Corporate Governance Code published by the Financial Reporting Council in September 2014, however the Board of Redcentric plc is committed to the principles of good corporate governance and follows, so far as is practicable and appropriate in view of the Group's size, stage of development and the nature of the Company the provisions of the UK Corporate Governance Code and complies with the provisions of the QCA Guidelines.

The Board of Directors

At the financial year end the Board comprised the Non-Executive Chairman, Chris Cole; the Chief Executive, Chris Jagusz; the Chief Financial Officer, Peter Brotherton; and Non-Executive Directors Jon Kempster, Stephen Vaughan, Stephen Puckett and David Payne (resigned 31 March 2018).

The business and management of the Company and its subsidiaries are the collective responsibility of the Board. At each meeting, the Board considers and reviews the trading performance of the business. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results, and a review of the overall system of internal control and risk management.

There are three standing Board Committees: Audit, Nomination and Remuneration. Each of these Committees acts within defined terms of reference. Additional information is set out later in this report and also in the Directors' Remuneration Report in respect of the Remuneration Committee.

Authority for the execution of the approved policies, business plan and daily running of the business is delegated to the executive Directors.

Stephen Vaughan is the Senior Independent Non-Executive Director and served from 24 July 2017 in this position (formerly David Payne).

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Board has a procedure whereby any Director may seek, through the Company Secretary, independent professional advice, at the Company's expense, in furtherance of his duties.

Formal agendas and reports are provided to the Board on a timely basis in advance of Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

The Company's Articles of Association require that a minimum of one third of the Directors must seek re-appointment at the next Annual General Meeting. Given the exceptional year it is the Board's intention that all Directors will stand for election.

Nominations Committee

The Nominations Committee consists of Chris Cole (Chairman), David Payne (to 31 March 2018), Stephen Puckett, Jon Kempster and Stephen Vaughan.

For nominations, the Committee meets as and when necessary to consider the appointment of new executive and Non-Executive Directors.

A process is in place for the appointment of new Directors involving, if felt appropriate, the use of external consultants followed by meetings with both the Committee and subsequently with the Board as a whole. This ensures that the selection process is both formal and objective. The Committee has formal terms of reference (available on request from the Company Secretary) and meets at least once a year to review succession planning at both Board and senior management level across the Group.

Remuneration Committee

The Remuneration Committee consists of Stephen Vaughan (Chairman), David Payne (31 March 2018), Stephen Puckett and Jon Kempster.

Details of the Committee and its policies are set out in the Directors' Remuneration Report on page 27. The Committee has formal terms of reference (available on request from the Company Secretary).

Audit Committee

The Audit Committee consists of Stephen Puckett (Chairman), David Payne (to 31 March 2018), Jon Kempster and Stephen Vaughan.

The Committee has formal terms of reference (available on request from the Company Secretary). These include the recommendation of, appointment, re-appointment and removal of the external auditors, the review of the scope and results of the external annual audit by the auditors, their cost effectiveness, independence and objectivity. The Committee also reviews the nature and extent of any non-audit services provided by the external auditors. In addition, the Committee reviews the effectiveness of internal controls, considers the need for an internal audit function and considers any major accounting issues and reports on such matters to the Board. The Committee reviews the integrity of the financial statements and formal announcements. A whistle-blowing arrangement exists whereby matters can be confidentially reported to the Committee. The executive Directors are not members of the Committee but attend the meetings by invitation, as necessary, to facilitate its business.

The Chief Financial Officer monitors the level and nature of non-audit services and specific assignments are flagged for approval by the Audit Committee as appropriate. The Audit Committee reviews non-audit fees and considers implications for the objectivity and independence of the relationship with the external auditors.

The Board is satisfied that the Chairman of the Audit Committee has recent and relevant financial experience necessary to meet the requirements of the Corporate Governance Code.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the executive Directors and senior management. The internal control system is designed to manage risk rather than eliminate it and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. In accordance with the guidance set out in the Turnbull Guidance on Internal Control, the Group has an on-going process for identifying, evaluating and managing the significant risks faced by it.

The Group is committed to maintaining high standards of business conduct and operates under an established internal control framework covering financial, operational and compliance controls. This is achieved through an organisational structure that has clear reporting lines and delegated authorities. The management and monitoring of risk and performance occurs at multiple levels throughout the Group. In addition, the Group maintains written processes to control expenditure, authorisation limits, purchase ordering, sales order intake, project management, inventories and assets.

The Board receives monthly financial information which includes key performance and risk indicators and the Chief Executive Officer and the Chief Financial Officer report on significant changes in the business and the external marketplace to the extent they represent significant risk. There is an established budgetary system with an annual budget approved by the Board. The Board reviews the results against budget, forecasts and prior year actual figures together with other business measures on a monthly basis.

The principal treasury related risks are documented and approved by the Board. Details of any derivatives and financial instruments are set out in notes 18 and 19 to the financial statements.

Relations with shareholders and investors

Copies of the Annual Report and Financial Statements are issued to all shareholders who have requested them, and copies are available on the Group's website www.redcentricplc.com. The Half Year Report is also available on the Group's website. The Group makes full use of its website to provide information to shareholders and other interested parties. The Company Secretary also deals with a number of written or e-mailed enquiries throughout the year.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both prior to and after the meeting for further discussion with shareholders.

During the year, the Chief Executive Officer and the Chief Financial Officer met with institutional investors after the announcement of the preliminary and interim results. Additional meetings were arranged during the year by the Group's brokers Numis Securities Limited and finnCap Limited. Feedback arising from these meetings was communicated to the Board and the Company Secretary also reports to the Board if there is feedback from other shareholders.

Stephen Vaughan, as Senior Independent Non-Executive Director, is available to shareholders if they wish to raise any matters that contact through the normal channels of Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer or Company Secretary has failed to resolve or for which such contact is inappropriate.

Substantial shareholders

As at 31 March 2018 and 25 May 2018 (being the latest practicable date before the publication of the report) the Company had been notified of the following significant interests in its Ordinary, voting share capital:

	31 March 2018 Number	31 March 2018 %	25 May 2018 Number	25 May 2018 %
Coltrane Asset Management LP	29,172,303	19.56	28,672,303	19.23
ND Capital Investments Limited	20,113,885	13.49	20,113,885	13.49
Kestrel Partners LLP	19,658,511	13.18	19,788,958	13.27
Mr Richard Griffiths	15,848,285	10.63	16,435,919	11.02
Slater Investments	8,625,877	5.78	8,625,877	5.78
Schroder Investment Management	7,455,274	5.00	7,455,274	5.00
Eugenia II Investment Holdings	5,540,495	3.72	5,540,495	3.72

Governance | Directors' report

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2018.

Principal activity

The principal activity of the Group during the year was the supply of IT managed services. The Company is a holding company.

The Strategic report on pages 1-17 contains a review of the business, future developments and the principal risks and uncertainties.

Directors

The following were Directors of Redcentric plc during the year and at the date of approval of these financial statements:

Peter Brotherton
Chris Jagusz (appointed 20 October 2017)
Fraser Fisher (resigned 20 October 2017)
Chris Cole
Stephen Puckett
David Payne (resigned 31 March 2018)
Jon Kempster
Stephen Vaughan

As at 31 March 2018 the Directors beneficial interests and those of their families in the ordinary share capital of the Company were as follows:

	31 March 2018	31 March 2017
	Number of shares	Number of shares
Peter Brotherton	20,000	-
Chris Jagusz	7,953	-
Chris Cole	20,000	-
Stephen Vaughan	20,000	-
David Payne	100,626	100,626

Relevant Directors will retire in accordance with the terms of the articles of the Company and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

Details of the Directors' contracts, remuneration and share options granted are set out in the Directors' Remuneration Report on page 27.

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained Directors' and Officers' liability insurance throughout the financial year in respect of itself and its Directors.

Staff policy

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices where the Group operates. The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining its relationship with its staff.

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employees

The average number of employees employed during the year was as follows:

	Male	Female	Total
Directors	6	0	6
Senior managers	4	2	6
Other employees	389	100	489
Total average headcount	399	102	501

Share scheme

The Group believes that having an effective employee share ownership programme helps to align employees' interests with shareholders, and provides an effective tool in attracting, retaining and motivating staff. In November 2014 the Group launched the HMRC approved Redcentric plc Save-As-You-Earn Option Plan 2014. Under the Plan, employees contribute a monthly amount which is saved over three years to buy shares in the Company at a pre-determined price.

Since inception, there have been three awards of options under the plan.

- On 17 December 2014, the Company granted options over a total of 1,134,886 ordinary shares of 0.1p each to 180 employees. The options are available for exercise from 31 March 2018, with an exercise price of 107p, which is a 20% discount to the average closing price on the three days ending 21 November 2014, the last trading date before the launch of the Plan on 24 November 2014.
- On 14 December 2015, the Company granted options over a total of 163,905 ordinary shares to 62 employees. These options are available for exercise from 31 March 2019, with an exercise price of 154p, which is a 20% discount to the average closing price on the three days ending 20 November 2015, the last trading date before the launch of the Plan on 23 November 2015.
- On 30 August 2017, the Company granted options over a total of 1,223,390 ordinary shares to 91 employees. These options are available for exercise from 30 August 2020, with an exercise price of 63p, which is a 20% discount to the average closing price on the three days ending 4 August 2017, the last trading date before the launch of the Plan.

As at 31 March 2018, the following options had been granted under the plan:

Grant date	Exercise price (p)	Options granted	Options exercised	Options cancelled	Options remaining
17 December 2014	107p	985,824	-	691,155	294,669
14 December 2015	154p	163,905	-	130,720	33,185
30 August 2017	63p	1,194,819	-	55,712	1,139,107
Total		2,344,548	-	877,587	1,466,961

Annual General Meeting

The Annual General Meeting will be held at 10am at CM5 Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF on 3 September 2018.

Dividend

While the Group remains cash generative, the Board has decided that it is not appropriate to pay a dividend in respect of the year ended 31 March 2018. The Board will review this situation on an ongoing basis.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are described in note 18 to the financial statements.

Disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 18. Having made enquiries of fellow Directors, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information

Subsequent events

There have been no significant events between the balance sheet date and the date of approval of these accounts.

Future developments

Future developments and current trading and prospects are set out in the Chairman's Statement, Chief Executive's review and Chief Financial Officer's review.

By order of the Board



Peter Brotherton
Company Secretary
27 June 2018

Governance | Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

By order of the Board



Peter Brotherton
Company Secretary
27 June 2018

Governance | Directors' remuneration report (unaudited unless stated otherwise)

Annual statement by the Chairman of the Remuneration Committee

The Remuneration Committee comprises David Payne (Chairman to 31 March 2018), Stephen Vaughan (Chairman from 1 April 2018), Stephen Puckett and Jon Kempster. The Committee makes recommendations to the Board, within agreed terms of reference, on the remuneration and other benefits, including bonuses and share options, of the executive Directors. In considering the remuneration for the year, the Committee consulted with the executive Directors about its proposals. The Board sets the fees payable to the Non-Executive Directors.

Remuneration policy

The Group is committed to maximising shareholder value over time. Each year, the Remuneration Committee reviews the incentive and reward packages for the executive Directors to ensure that they are aligned with the Company's objectives and are appropriate to attract, retain and motivate management behaviour in support of the creation of shareholder value.

Terms of reference

The Committee makes recommendations to the Board, within agreed terms of reference, on the remuneration and other benefits, including bonuses and share options, of the executive Directors. In considering the remuneration for the year, the Committee consulted with the executive Directors about its proposals. The Board sets the fees payable to the Non-Executive Directors.

Chief Executive

On 10 August 2017, Fraser Fisher notified the Board of his intention to resign as a director and Chief Executive Officer on 31 December 2017. Following the appointment of Chris Jagusz to the Board on 20th October 2017, Fraser Fisher resigned as a Director on the same date.

Basic salary and benefits

Basic salaries are reviewed on a discretionary basis.

The benefits provided for each executive Director may include:

- I. life assurance cover of 4 times salary;
- II. private medical insurance for themselves, their spouse and their children;
- III. a contribution to a private pension plan.

Performance related bonus

The Remuneration Committee determines the criteria for the award of performance bonuses for the executive Directors in advance of each year. The bonuses are non-pensionable. Non-executive Directors do not receive a bonus.

In addition to the Long-Term Incentive Programme, the Board put in place during the year a special bonus scheme for the two Executive Directors which would pay out, in the event of a change of control, a sum linked to the growth in share price since October 2017, subject to an initial uplift requirement.

Share options

Executive Directors are entitled to participate in the Company share option schemes. The Remuneration Committee approves the granting of any share options.

Fees

The Board, within the limits stipulated by the Articles of Association and following recommendation by the executive Directors, determines Non-Executive Directors' fees. The Chairman receives a fee of £70,000 with the other Non-Executive Directors receiving a fee of £35,000, with an additional fee of £5,000 for chairing a Board committee.

Recruitment and promotion policy

The Committee proposes an executive director's remuneration package for new appointments in line with the principles outlined in the table below:

Element of remuneration	Policy
Base Salary	Base salaries are set by the Committee on appointment and then normally reviewed annually. In setting and reviewing salaries, the Committee considers the responsibilities of the role, progression in the role, individual performance, skills, experience and pay levels within the Group.
Benefits	Benefits as provided to current executive directors. Benefits for each executive Director may include life assurance cover of 4 times salary and private medical insurance for themselves, their spouse and their children.
Pension	A contribution to a private pension plan.
Annual bonus	The Remuneration Committee determines the criteria for the award of performance bonuses. An annual bonus would operate in the same way as current executives and would be pro-rated to reflect the period of employment.
Long-term incentives	Executive Directors are entitled to participate in the Company share options schemes. The Remuneration Committee approves the granting of any share options.

Service contracts

The Chief Executive Officer has a service contract with a provision for termination notice period of six months (twelve months in the event of a takeover), with the Chief Financial Officer having a termination notice period of six months (twelve months in the event of a takeover).

Non-executive Directors have letters of appointment. Appointments can be terminated with between one and six months' notice. The remuneration of the Non-Executive Directors takes the form solely of fees which are not pensionable.

The details of the executive and Non-Executive Directors' service contracts are summarised below:

	Date of contract	Notice period (months)	Length of service at 31 March 2018
Executive Directors			
Chris Jagusz (appointed 20 October 2017)	2 October 2017	6 ¹	5 months
Fraser Fisher (resigned 20 October 2017)	8 April 2013	12	
Peter Brotherton	28 November 2016	6 ¹	1 year 4 months
Non-Executive Directors			
David Payne (resigned 31 March 2018)	19 February 2013	6	5 years 1 month
Chris Cole	1 September 2014	6	3 years 7 months
Stephen Puckett	17 November 2014	6	3 years 4 months
Jon Kempster	10 January 2017	6	1 year 2 months
Stephen Vaughan	13 June 2017	6	9 months

¹12 months in the event of a takeover.

The service contracts continue until notice on either side is given.

Directors' remuneration (audited)

The executive directors' salaries for the 2018 financial year are set out in the table below:

	Salary 31 March 2018	Salary 31 March 2017
Executive directors	£000	£000
Chris Jagusz	310	-
Peter Brotherton	200	170

Chairman and Non-Executive Directors' fees

The Board, within the limits stipulated by the Articles of Association and following recommendation by the executive Directors, determines Non-Executive Directors' fees. The Chairman receives a fee of £70,000 with the other Non-Executive Directors receiving a fee of £35,000, with an additional fee of £5,000 for chairing a Board committee.

	Annual fee 31 March 2018	Annual fee 1 April 2017
	£000	£000
Chris Cole	70	70
David Payne (resigned 31 March 2018)	40	40
Stephen Puckett	40	40
Jon Kempster	35	5
Stephen Vaughan	28	-

Directors may claim reasonable business expenses within the terms of the Group's expense policy and be reimbursed on the same basis as all employees. The Group may reimburse business expenses which are in future classified as taxable benefits by HMRC.

Total remuneration for the Chief Executive Officer

The table below shows the total remuneration figure for the Chief Executive Officer over a five-year performance period. The total remuneration figure includes bonus and benefits.

Year	Executive	Total single figure £000
2018	Chris Jagusz	154
	Fraser Fisher**	209
2017	Fraser Fisher	369
2016	Fraser Fisher	266
	Tony Weaver*	120
2015	Tony Weaver	204
2014	Tony Weaver	204

*Tony Weaver was Chief Executive Officer until his retirement on 1 November 2016. Fraser Fisher was appointed Chief Executive Officer at this time.

**Fraser Fisher was Chief Executive Officer until his retirement on 20 October 2017. Chris Jagusz was appointed Chief Executive Officer at this time.

The remuneration of the Directors in respect of the year was as follows (audited):

	Basic Salary, allowances and fees	Bonus	Payment in lieu of notice	Holiday	Pension	Gain on Option Exercise	2018 Total	2017 Total
	£000	£000	£000	£000	£000	£000	£000	£000
<u>Executive</u>								
Chris Jagusz (appointed 20 October 2017)	154	-	-	-	-	-	154	-
Peter Brotherton	200	40	-	4	10	-	254	88
Fraser Fisher (resigned 20 October 2017)	199	-	159	-	10	59	427	369
Tim Coleman (resigned November 2016)	-	-	-	-	-	-	-	208
<u>Non-Executive</u>								
Chris Cole	70	-	-	-	-	-	70	70
David Payne	40	-	15	-	-	-	55	40
Stephen Puckett	40	-	-	-	-	-	40	40
Tony Weaver (resigned November 2016)	-	-	-	-	-	-	-	18
Stephen Vaughan	28	-	-	-	-	-	28	-
Jon Kempster	35	-	-	-	-	-	35	5
Total	766	40	174	4	20	59	1,063	838

Details of share options in the Company held by the Directors during the year are as follows (audited):

	Exercise Price (p)	Balance 31 Mar 2017	Granted	Forfeited / Expired	Exercised	Balance 31 Mar 2018
Chris Jagusz (a)	nil	-	349,800	-	-	349,800
Peter Brotherton (b)	nil	161,905	-	-	-	161,905
(c)	nil	-	192,481	-	-	192,481
(d)	63	-	28,571	-	-	28,571
		161,905	221,052	-	-	382,957
Fraser Fisher (c)	nil	-	421,052	(421,052)	-	-
(e)	70	276,143	-	-	(276,143)	-
(f)	80	581,968	-	-	-	581,968
(g)	107	16,822	-	(16,822)	-	-
		874,933	421,052	(437,874)	(276,143)	581,968

Further information regarding the options noted on the prior page is set out below.

(a) The options were granted on 4 December 2017 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2020 subject to the achievement of performance conditions related to the growth in earnings per share.

(b) The options were granted on 29 December 2017 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2019 subject to the achievement of performance conditions related to the growth in earnings per share.

(c) The options were granted on 29 June 2017 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2020 subject to the achievement of performance conditions related to the growth in earnings per share. Fraser Fisher's options lapsed on him leaving the Company.

(d) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2017 under which employees contribute a monthly amount the Company's results for the year ended 31 March 2020 subject to the achievement of performance conditions related to the growth in earnings per share.

(e) The options were granted on 18 April 2013 under the Company's EMI scheme. The options were exercised on 24 January 2018.

(f) The options were granted on 17 December 2014 pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014 under which employees contribute a monthly amount monthly amount which is saved over three years to buy shares. The options are exercisable from 30 September 2018. There are no performance conditions. Fraser Fisher's options lapsed on him leaving the Company.

(g) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014 under which employees contribute a monthly amount the Company's results for the year ended 31 March 2018 subject to the achievement of performance conditions related to the growth in earnings per share. Fraser Fisher's options lapsed on him leaving the Company.

Directors' interests in shares

The interests (both beneficial and family interests) of the directors in office at the date of this report in the share capital of the Company were as follows:

	Interests in ordinary shares £0.001		Interests in share based incentives
	At 31 March 2018	At 1 April 2017	Options (unvested)
<i>Executive</i>			
Chris Jagusz	7,953	-	349,800
Fraser Fisher	-	106,807	581,986
Peter Brotherton	20,000	-	382,957
<i>Non-Executive</i>			
Chris Cole	20,000	-	-
David Payne	100,626	100,626	-
Stephen Puckett	-	-	-
Jon Kempster	-	-	-
Steven Vaughan	20,000	-	-
Total	168,579	207,433	1,314,743

Remuneration policy for executive directors compared to other employees

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive Officer (CEO) between the current and previous financial year compared to that of the total amounts for all employees of the Group for each of these elements of pay.

	2018 £000	2017 £000	% change
Chief Executive Officer			
Salary	342	350	-2.3%
Benefits	11	1	1000%*
Annual Bonus	-	18	-
Average of all employees			
Salary	37	38	-2.6%
Benefits	1	1	0%
Annual Bonus	1	1.3	-23%

*In the 2018 financial year the Chief Executive Officer received a car allowance as part of his remuneration package.

Relative importance of the spend on pay

The table below shows the total pay for all Redcentric's employees compared to other key financial indicators. Additional information on the number of employees, total revenue and underlying profit has been provided for context.

	2018 £000	2017 £000	% change
Employee costs	23,292	25,350	-8.2%
Dividends to shareholders	-	4,406	-100%
Income tax	1,004	(1,870)	-
Average number of employees	501	541	-7.4%
Revenue	99,990	104,623	-4.4%
Adjusted EBITDA	18,085	17,273	4.7%

Retirement arrangements for Fraser Fisher

Fraser Fishers' employment with the Group ended on 31 December 2017 following a handover period to ensure a smooth transition process. Chris Jagusz was appointed as Chief Executive on 16th October 2017 and as a Director on 20th October 2017, on this date Fraser Fisher resigned from the Board.

The Committee determined that he will continue to be paid his salary and normal package benefits up to 10th August 2018 in line with his notice period of 12 months.

The remuneration arrangements for Chris Jagusz who replaced Fraser Fisher as Chief Executive Officer are in line with the Remuneration Policy.

Share price

The market price of the Company's shares on 31 March 2018 was 78p per share. The highest and lowest market prices during the year were 97p and 70p respectively.

Stephen Vaughan

Chairman, Remuneration Committee

On behalf of the Board

27 June 2018

Governance | Independent auditors' report to the members of Redcentric plc

1. Our opinion is unmodified

We have audited the financial statements of Redcentric Plc ("the Company") for the year ended 31 March 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, Consolidated Cash Flow Statement, the Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

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 31 March 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: Group Financial statements as a whole	£549k (2017: £520k) 0.55% of group revenue (2017: 0.50% of group revenue).
Coverage:	97% of group profit before tax (2017: 97%) ¹
Risks of material misstatement: Management judgement Low risk, high value	Recoverability of trade receivables and accrued revenue Carrying value of investments (parent company risk)

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows.

Provision for trade receivables and accrued income £18.6m (2017: £20.4m), Risk vs 2017: down

The risk: subjective estimate

The Group has a history of material charges against the recoverability of trade receivables and accrued income. Accordingly, the Group has recognised a provision for irrecoverable items against both trade receivables and accrued income reflecting the value of these balances which the Group anticipates will not be realised. As there is a significant level of judgement involved in estimating the value of this provision there is a risk that the amount of provision recognised may be misstated and we consider this to be a key audit matter.

Our audit procedures included:

- **Historical comparisons:** Considering the historical accuracy of provisions over trade receivables and accrued income by comparing prior year provisions to actual utilisation in the year and actual levels of debtor and accrued income recovery;
- **Our sector experience:** Challenging key assumptions behind the provisions against accrued income and trade receivables such as history of trading with clients, based on our knowledge of the Group;
- **Our sector experience:** Assessing whether the level of provision recognised by the directors in respect of aged and overdue trade receivables and accrued income reflected our knowledge of the Group or probable changes in the business environment;
- **Tests of details:** Agreeing a sample of accrued trade receivables at the year end to post year end cash receipts; and
- **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

Recoverability of parent company investment in subsidiaries £101.6m (2017: £101.0), Risk vs 2017: stable

The risk: forecast based valuation

The carrying amount of the parent company's investments in subsidiaries are significant and at risk of irrecoverability due to weakening demand in certain areas of the business. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets for the subsidiary companies.

Our audit procedures included:

- **Benchmarking assumptions:** Challenging the assumptions used in the cash flows included in the forecasts based on our knowledge of the Group and the markets in which the subsidiaries operate;
- **Historical comparisons:** Assessing the reasonableness of the forecasts by considering the historical accuracy of the previous forecasts;
- **Our sector experience:** Evaluating the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; and
- **Assessing transparency:** Assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiaries.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £549k (2017: £520k), determined with reference to a benchmark of Total Revenues of £100.0m (2017: £104.6m), of which it represents 0.55% (2017: 0.50%).

The materiality for the Parent company financial statements as a whole was set at £548k (2017: £490k), determined with reference to a benchmark of gross assets of £101.6m (2017: £101.0m), of which it represents 0.54% (2017: 0.48%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £27.0k (2017: £15.6k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 3 (2017: 5) reporting components, we subjected 2 (2017: 4) to full scope audits for group purposes. All components subject to full scope audit were audited by the Group audit team at the Group's head office. The other component was subject to a desktop review.

The components within the scope of our work accounted for the following percentages of the Group's results:

	Number of components	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	2 (2017: 4)	100% (2017: 100%)	97% (2017: 97%)	100% (2017: 100%)
Total	2 (2017: 4)	100% (2017: 100%)	97% (2017: 97%)	100% (2017: 100%)

The Group audit team approved the component materialities, which ranged from £215k to £548k (2017: £145k to £490k), having regard to the mix of size and risk profile of the Group across the components.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 26, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.



John Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA
27 June 2018

Consolidated Income Statement

For the year ended 31 March 2018

		2018	2017
	Note	£000	£000
Revenue		99,990	104,623
Cost of sales*		(39,996)	(44,159)
Gross profit		59,994	60,464
Operating expenditure*		(57,382)	(57,985)
Exceptional costs	5	(1,672)	(5,474)
Operating Profit/(Loss)		940	(2,995)
Analysed as:			
Adjusted EBITDA**		18,085	17,273
Depreciation	10	(7,769)	(7,507)
Amortisation of intangibles	11	(7,136)	(6,207)
Exceptional costs	5	(1,672)	(5,474)
Share-based payments	22	(568)	(1,080)
		940	(2,995)
Interest payable	6	(1,452)	(1,254)
Interest receivable	6	19	1
Loss on ordinary activities before taxation		(493)	(4,248)
Tax credit on profit on ordinary activities	8	1,004	1,870
Profit/(Loss) for the year (attributable to owners of the parent)		511	(2,378)
Earnings per share			
Basic earnings per share	9	0.34p	(1.60)p
Diluted basic earnings per share	9	0.34p	(1.60)p

*Certain costs in 2017 have been reclassified between COS and opex – see Note 28

**Earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments.

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	2018 £000	2017 £000
Profit/(Loss) for the year	511	(2,378)
Exchange differences arising on re-translation of foreign subsidiary	(45)	94
Total comprehensive income	466	(2,284)

Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 31 March 2016	146	63,667	(9,454)	27,328	81,687
Loss for the year	-	-	-	(2,378)	(2,378)
Other comprehensive gain – before tax	-	-	-	94	94
Total comprehensive income	-	-	-	(2,284)	(2,284)
<i>Transactions with owners:</i>					
Issue of new shares	3	1,728	-	-	1,731
Dividends to shareholders	-	-	-	(4,406)	(4,406)
IFRS2 Charge	-	-	-	975	975
Deferred tax on SBP	-	-	-	(974)	(974)
At 31 March 2017	149	65,395	(9,454)	20,639	76,729
At 31 March 2017	149	65,395	(9,454)	20,639	76,729
Profit for the year	-	-	-	511	511
Other comprehensive loss – before tax	-	-	-	(45)	(45)
Total comprehensive income	-	-	-	466	466
<i>Transactions with owners:</i>					
Issue of new shares	-	193	-	-	193
Dividends to shareholders	-	-	-	-	-
IFRS2 Charge	-	-	-	534	534
Deferred tax on SBP	-	-	-	-	-
At 31 March 2018	149	65,588	(9,454)	21,639	77,922

Consolidated Statement of financial position

As at 31 March 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Property plant and equipment	10	20,238	21,998
Intangible assets	11	82,486	88,725
		102,724	110,723
Current assets			
Inventories		666	234
Trade and other receivables	12	26,120	26,222
Cash and short-term deposits	13	6,089	4,340
		32,875	30,796
Total assets		135,599	141,519
Current liabilities			
Creditors: amounts falling due within one year	14	26,585	20,040
Provision: amounts falling due within one year		-	339
Non-Current liabilities			
Creditors: amounts falling due after more than one year	16	30,671	41,092
Provision: amounts falling due after more than one year	21	376	1,207
Deferred tax liability	8	45	2,112
Total Liabilities		57,677	64,790
Net assets		77,922	76,729
Equity and liabilities			
Equity			
Called up share capital	20	149	149
Share premium account		65,588	65,395
Capital redemption reserve		(9,454)	(9,454)
Retained earnings		21,639	20,639
Total equity		77,922	76,729

The notes on pages 41 to 70 are an integral part of these financial statements. The consolidated financial statements of Redcentric Plc (Registration Number 08397584) on pages 37 to 70 were approved by the Board on 27 June 2018 and are signed on its behalf by:



Chris Jagusz, Director



Peter Brotherton, Director

Consolidated Cash Flow Statement
For the year ended 31 March 2018

	2018	2017
	£000	£000
<i>Cash flows from operating activities</i>		
Loss before taxation	(493)	(4,248)
Net finance expense	1,433	1,253
Operating loss	940	(2,995)
Depreciation and amortisation	14,905	13,714
Exceptional costs	1,672	5,474
Share based payments	568	1,080
Operating cash flow before exceptional costs and movements in working capital	18,085	17,273
Exceptional costs and NI on share based payments	(3,002)	(3,159)
Operating cash flow before movements in working capital	15,083	14,114
Decrease (increase) in inventories	(432)	196
Decrease (increase) in trade and other receivables	1,079	1,589
(Decrease) increase in trade and other payables	3,912	(9,616)
Cash generated from operations	19,642	6,283
Corporation tax received	217	71
Net cash inflow from operating activities	19,859	6,354
<i>Cash flows from investing activities</i>		
Proceeds on disposal of property, plant and equipment	-	5,000
Purchase of property, plant and equipment	(6,778)	(6,744)
Net cash outflow from investing activities	(6,778)	(1,744)
<i>Cash flows from financing activities</i>		
Dividends paid to shareholders	-	(4,406)
Interest paid	(1,196)	(1,209)
Bank fees	(50)	-
Repayment of borrowings	(323)	(2,435)
(Repayment)/Drawdown on revolving credit facility	(10,000)	10,000
Proceeds of issue of shares less costs of issue	193	1,731
Net cash (outflow) / inflow from financing activities	(11,376)	3,681
Net increase in cash and cash equivalents	1,705	8,291
Opening cash and cash equivalents	4,340	(3,970)
Net increase (decrease) in cash and cash equivalents	1,705	8,291
Effect of exchange rates	44	19
Cash and cash equivalents	6,089	4,340

Notes to the Consolidated Financial Statements

Year ended 31 March 2018

1 Accounting policies – Group

Redcentric plc is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM division of the London Stock Exchange. Redcentric plc was incorporated on 11 February 2013, and admitted to AIM on 24 April 2013.

The principal activity of the Group is the supply of IT managed services.

The principal accounting policies, which have been applied consistently in the preparation of these consolidated financial statements throughout the period and by all subsidiary companies, are set out below:

1.1 Basis of preparation

The consolidated financial statements of Redcentric plc have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The Directors are required to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. The validity of this assumption depends on the ability of the Group to meet its cash flow forecasts and the continuing support of its bankers by providing adequate overdraft facilities and of its debtholders and shareholders. On 27 April 2017, the Group signed a revised banking facility agreement which runs until 2 April 2020. A high proportion of the Group's revenue is recurring in nature, which provides good visibility of future cash-flows. However, there can be no absolute certainty that the Group will achieve its cash flow forecasts. The present cash flow forecasts indicate that the Group will be able to operate within its banking facilities for at least 12 months from the date of approval of these financial statements. For these reasons, the Directors believe the going concern basis to be appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.25 in the accounting policies.

1.2 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

Business Combinations under Common Control

Business combinations under common control are accounted for in the consolidated financial statements from the date the Group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their historic carrying amount in the consolidated financial statements of the ultimate parent entity, Redcentric plc. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly as a common control reserve.

1.3 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net asset of the subsidiary, in the case of a bargain purchase, the difference is recognised directly to the income statement.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and impairment losses (note 1.5).

Other intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives, as follows:

Customer contracts and related relationships	5–15 years
Trademarks	5 years
Software Licences	5 years (or over the contract term if shorter)

Impairment and amortisation charges are included within the administrative expenses line in the income statement.

1.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value (note 1.5). The cost includes the original price of the asset and the cost attributable to bringing the asset to its current working condition for its intended use.

Depreciation, down to residual value, is calculated on a straight-line basis over the estimated useful life of the asset which is reviewed on an annual basis.

Office Fixtures and fittings	4 - 5 years
Leasehold improvements	5 - 10 years
Vehicles and Computer Equipment	3 - 5 years (or over the contract term if shorter)

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is de-recognised.

1.5 Impairment of assets

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date any goodwill acquired is allocated to each of the cash generating units expected to benefit from the business combination's synergies. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually. If any such indication exists and where the carrying amounts exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of intangible assets and property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined by the cash generating unit to which the asset belongs. Fair value less costs to sell is, where known, based on actual sales price net of costs incurred in completing the disposal.

Non-financial assets that were impaired in the previous periods are annually reviewed to assess whether the impairment is still relevant.

1.6 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds.

1.7 Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over the shorter of their useful economic life and the lease term. The resulting lease obligations are included in borrowings net of finance charges. Interest costs on finance leases are charged to the income statement.

1.8 Current and deferred income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided for on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences carried forward tax credits or tax losses can be utilised.

1.9 Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original value and recoverable amounts. Provision is made where there is evidence that the balances will not be recovered in full. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Group's trade and other receivables are non-interest bearing.

1.10 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

1.11 Foreign currencies

The functional and presentation currency of Redcentric plc is Pounds Sterling (£) and the Group conducts the majority of its business in Sterling.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the profit or loss.

1.12 Trade payables

Trade payables are stated at their nominal value, recognised initially at fair value and subsequently valued at amortised cost.

1.13 Accruals and deferred income

The liability for costs which have been incurred in an accounting period but for which no invoice has been received are recognised in the period the costs relate to. Income which has been invoiced in advance of its recognition criteria being met is recognised on the balance sheet as deferred income until the recognition criteria are met.

1.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dilapidations

The dilapidation provisions are built up over the life of the associated lease based on estimates of costs of work required to fulfil the Group's contractual obligation under the lease agreements to return the property to the same condition as at the commencement of the lease.

1.15 Pensions

The Group operates a defined contribution scheme. Pension costs are charged directly to the income statement in the period to which they relate on an accruals basis. The Group has no further payment obligations once contributions have been paid.

1.16 Share-based payment transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the existing charge is recognised immediately. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The Group does not operate any cash settled share based payment schemes.

1.17 Financial assets

The Group classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents', and other receivables which are expected to be settled in cash.

1.18 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition,

interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the finance cost line in the income statement.

1.19 Finance costs

Loans are carried at fair value of initial recognition, net of unamortised issue costs of debt. These costs are amortised over the loan term.

All other borrowing costs are recognised in the income statement on an accruals basis, using the effective rate method.

1.20 Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services and goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group does not generally bundle various services and products. When bundles occur, the revenue is allocated to each segment based on the fair value of each element within the contract.

a) Recurring revenue

The largest portion of the Group's revenue relates to a number of managed services, which the Group offers to its customers. All of the revenue in this category is contracted, and includes a full range of managed support, maintenance, subscription and service agreements. Revenue for these types of services is recognised evenly over the period of the agreement as the services are provided. The costs incurred for this revenue stream typically match the revenue pattern. Deferred income is recognised when billing occurs ahead of revenue recognition and the same applies to cost of sales. Accrued income is recognised when the revenue recognition criteria were met but in accordance with the underlying contract the sales invoice has not been issued yet. Deferred income is recognised within trade and other payables and accrued income is recognised within trade and other receivables.

b) Service revenue

These professional services include mainly installation and consultancy services. Revenue from these services is recognised in accordance with the underlying contracts. Customer acceptance of milestones is often required for the recognition of consultancy and installation revenue. The costs incurred for this revenue stream generally match the revenue pattern, however a significant portion of consultancy costs relate to staff costs, which are recognised as incurred.

The Group does not provide any of its professional services under fixed price contracts. Installations are typically completed in a very short period of time and the revenue is recognised upon completion and/or customer acceptance. Consultancy services are generally provided on a time and material basis.

c) Product sales

This revenue stream relates predominantly to the sale of third party equipment to customers, and almost always takes place in connection with the provision of other services. Revenue from the sale of product is recognised upon delivery to the customer. The costs incurred for this revenue stream match the revenue pattern.

1.21 Other income

Finance income

Income is recognised on an accrual basis using the effective interest method.

1.22 Exceptional costs

It is the policy of the Group to identify certain costs separately on the face of the Income Statement in order that the underlying profitability of the business can be clearly understood. These costs are identified as Exceptional costs, and comprise;

- (a) Professional fees incurred in sourcing and completing acquisitions and disposals
- (b) Professional fees incurred in restructuring and refinancing acquisitions
- (c) Integration costs which are incurred by the Group when integrating one trading business into another, including rebranding of acquired businesses

- (d) Redundancy costs, including employment related costs of staff made redundant up to the date of their leaving as a consequence of integration
- (e) Property costs such as lease termination penalties and vacant property provisions and third-party advisor fees
- (f) Non-cash accounting charges relating to aligning accounting policies of acquired businesses with the Group where traditional fair value accounting methods are not appropriate.
- (g) Other exceptional costs

For further detail refer to note 5.

1.23 Holiday pay accrual

It is the Group policy to accrue for holiday pay to the extent of the total amount that would be paid out if all employees of the Group left the business at its reporting date.

1.24 Segmental reporting

The Chief Operating Decision Maker ("CODM") has been identified as the Group Chief Executive and the Chief Financial Officer. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board believes that the Group comprises a single reporting segment, that being the provision of managed services to customers. Whilst the Board still reviews revenue streams of three categories separately (recurring, product and service), the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting to the CODM.

The Executive Board assess the performance of the operating segment based on adjusted EBITDA. Information provided to the Executive Board is measured in a manner consistent with that in the Financial Statements.

1.25 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Impairment of trade debtors

The group policy is to establish a provision for impairment of trade debtors when there is evidence of a risk of non-payment.

Historically the group has little history of non-payment arising from business failure and as such specific provisions are generally not required. A provision is created as a result of timing differences when processing renewals or where there is a risk of non-payment due to disputed debtor balances.

Following a year of significant improvement in this area, historical analysis shows that the reduced level of provisioning is adequate to cover these eventualities.

Annually the group reviews the appropriateness of the impairment provision by taking into account ageing, known post balance sheet corrections, previous losses experienced and general economic conditions.

Management complete an exercise assessing recoverability of overdue balances based on an internal assessment of the recoverability of balances. This allows management to conduct sensitivity analysis of debtor balances and related provisions reflecting alternative potential judgements. In managements view the sensitivities conducted do not show material different outcomes with regards to the level of provision recognised.

- Impairment of accrued income

The group assesses on an on-going basis the make-up and recovery of accrued income balances. A provision for impairment is established where there is evidence of a risk of non-payment taking in to account ageing, known post balance sheet corrections,

previous losses experienced and general economic conditions.

The ageing of accrued income can vary depending on the length of project delivery schedules. Aged balances are reviewed regularly and a provision is established where a risk of non-payment has been identified.

1.26 IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)

The Group intends to adopt IFRS 15 retrospectively in its consolidated financial statements for the year ending 31 March 2019. IFRS 15 replaces all existing revenue requirements in IFRS and sets out principles for recognising revenue that must be applied using a five step model. Revenue should only be recognised when (or as) control of goods or services is passed to the customer, when distinct 'performance obligations' are met, at the amount to which the entity expects to be entitled.

The Group has completed its assessment of IFRS 15 and has not identified any material differences between the Group's current revenue recognition policy and the requirements of IFRS 15. Materially all of the Group's revenues are derived from a full range of contracted managed services which includes support, maintenance subscription and service agreements, which result in performance obligations being met 'over time' rather than at a 'point in time'. It is therefore appropriate that these managed services revenues continue to be recognised over the period that the services are provided to the customer.

Revenues enabling the provision of the managed services such as CPE, cabling and professional services, are often combined in the customers contracts. Judgement will be required here to determine whether these should be 'bundled' together or treated as distinct and accounted for as separate performance obligations.

It is not expected that this aggregation will materially change either the period over which revenue is recognised or how the Group's significant revenue streams (as set out in note 1.20) are classified and reported.

The Group's sale of hardware has a performance obligation that is met at a point in time, being the point in time when hardware is delivered or installed. Revenue recognition for hardware is unchanged under IFRS 15. The performance obligations for the Group's other material revenue streams, set out in note 1.20, are satisfied over time, either as the service is provided or the project delivered. Revenue recognition would not change for these under IFRS 15.

IFRS 15 requires that the incremental costs of obtaining a contract, including sales commissions paid to employees, are recognised in line with the transfer of goods/services to the customers. For those relevant costs that are currently expensed as incurred, recognising these over the period that performance obligations are satisfied would not result in a material change to the financial results for the year.

1.27 IFRS 9 Financial Instruments (effective date 1 January 2018)

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: Recognition and Measurement and will be adopted by the Group for the year ending 31st March 2019. IFRS 9 covers the requirements for assessing the impairment of financial assets.

The Group's policy, in accordance with IAS 39, is to make specific provisions against high risk trade receivable balances, where balances are in dispute or where doubt exists about the customer's ability to pay.

IFRS 9 requires a consideration of the likelihood of default of trade receivables; firstly by splitting out the high risk balances and continuing to provide for these separately, and then applying a 'loss rate' to the remaining balance where it is known from experience that the loss rate is not nil. On the basis that the Group has little or no history of unprovided trade receivable write off it is not expected that the impact will be material.

1.28 IFRS 16 Leases (effective date 1 January 2019)

IFRS 16 covers the requirements for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. This is a significant departure from the current standard, IAS 17 Leases, and will result in most of the Group's operating leases being brought onto the balance sheet (and the associated operating lease charge, currently charged to operating profit, being replaced with a finance cost and depreciation charge).

The Group is in the process of assessing the impact of this standard, which will be first applied for the year ending 31st March 2019.

Details of the Group's operating leases, currently accounted for under IAS 17 Leases, can be found in note 15.

2 Segment reporting

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker (CODM). The Group's CODM is deemed to be the Executive Directors on the Board, who are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts.

The Board believes that the Group comprises a single reporting segment, that being the provision of managed services to customers. Whilst the Board still reviews revenue streams of three categories separately (recurring, product and service), the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting to the CODM.

Recurring revenue is derived from the provision of the Group's services to customers under long-term agreements, including data, connectivity, hosting, cloud and support services. Services revenue is derived from the provision of consultancy or installation services regarding the provision and set-up of a new service

Revenue for the year ended 31 March 2018 was generated wholly from the UK, and all non-current assets are based in the UK.

	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000
Recurring revenue	87,065	90,219
Product sales	7,180	6,278
Services revenue	5,745	8,126
One-off revenue	12,925	14,404
Total revenue	99,990	104,623

3 Expenses by nature

	2018 £000	2017 £000
Amortisation of acquired intangible assets: Owned	7,111	6,207
Amortisation of acquired intangible assets: Leased	25	-
Depreciation – owned assets	5,174	5,425
Depreciation – assets held under finance lease	2,595	2,082
Share-based payments	568	1,080
Operating lease payments	2,837	2,791
Employee benefits expense, excluding share based compensation	23,860	25,350

4 Auditors' remuneration

Below are the fees payable to the auditors and their associates:

	2018 £000	2017 £000
Audit services - KPMG		
Fees payable to Company auditor and its associates for the audit of parent company and consolidated financial statements	24	110
The audit and interim review of Company's subsidiaries	115	115
Fees payable to Company auditor and its associates for other services:		
Tax advisory and compliance services	12	32
Total	151	257

5 Exceptional costs

In accordance with the Group's policy of separately identifying exceptional costs, the following charges were recognised in the year:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	672	1,291
Staff restructuring	868	187
Integration costs	132	471
Non-recurring impairment of trade debtor balances	-	2,933
Sale of metro ring to City Fibre	-	207
Vacant property provisions	-	385
	1,672	5,474

- Exceptional impairment of trade debtor balances;
 - Following the audit of the 31 March 2017 annual results, a debtor impairment charge was taken in FY17.
- Professional fees associated with the forensic review and FCA investigation;
 - These costs relate to legal and forensic advice received in respect of the ongoing FCA investigation.
- Staff restructuring costs;
 - During the year a restructuring exercise was undertaken which resulted in 18 redundancies
- Integration costs;
 - The integration costs relate to the integration of the City Lifeline acquisition which was undertaken in January 2016. The integration process is complete, and no further costs will be incurred in this regard.
- Disposal of City Fibre network;
 - On 30 September 2016, the Company disposed of its fibre network to City Fibre Limited. This led to an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.
- Vacant property provision;
 - In FY17, the Birmingham and Hoddesdon offices were vacated, leading to a vacant property charge of £0.4m in the year.

6 Finance costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interest receivable		
Other interest receivable	(19)	(1)
Interest payable		
Interest payable on bank loans and overdrafts	1,241	869
Interest payable on finance leases	143	317
Amortisation of loan arrangement fees	68	68
	1,452	1,254
Net financing costs	1,433	1,253

7 Employee benefits expense

	2018 £000	2017 £000
Staff costs for the year, including Executive Directors, amounted to:		
Wages and salaries	20,655	21,450
Social security costs	2,240	2,392
Share options granted to Directors and employees	568	1,080
Pension costs	397	428
	23,860	25,350

Average monthly number of people (including Executive Directors) employed:

	2018	2017
Operations	367	427
Selling and distribution	81	81
Administration	53	33
	501	541

These numbers as split as follows:

	2018	2017
UK	362	386
India	139	155
	501	541

The remuneration of the Directors in respect of the year was as follows:

	Basic Salary, allowances and fees	Bonus	Payment in lieu of notice	Holiday	Pension	Gain on Option Exercise	2018 Total	2017 Total
	£000	£000	£000	£000	£000	£000	£000	£000
<u>Executive</u>								
Chris Jagusz (appointed 20 October 2017)	154	-	-	-	-	-	154	-
Peter Brotherton	200	40	-	4	10	-	254	88
Fraser Fisher (resigned 20 October 2017)	199	-	159	-	10	59	427	369
Tim Coleman (resigned November 2016)	-	-	-	-	-	-	-	208
<u>Non-Executive</u>								
Chris Cole	70	-	-	-	-	-	70	70
David Payne	40	-	15	-	-	-	55	40
Stephen Puckett	40	-	-	-	-	-	40	40
Tony Weaver (resigned November 2016)	-	-	-	-	-	-	-	18
Stephen Vaughan	28	-	-	-	-	-	28	-
Jon Kempster	35	-	-	-	-	-	35	5
Total	766	40	174	4	20	59	1,063	838

Details of share options in the Company held by the Directors during the year are as follows:

	Exercise Price (p)	Balance 31 Mar 2017	Granted	Forfeited / Expired	Exercised	Balance 31 Mar 2018
Chris Jagusz (a)	nil	-	349,800	-	-	349,800
Peter Brotherton (b)	nil	161,905	-	-	-	161,905
(c)	nil	-	192,481	-	-	192,481
(d)	63	-	28,571	-	-	28,571
		161,905	221,052	-	-	382,957
Fraser Fisher (c)	nil	-	421,052	(421,052)	-	-
(e)	70	276,143	-	-	(276,143)	-
(f)	80	581,968	-	-	-	581,968
(g)	107	16,822	-	(16,822)	-	-
		874,933	421,052	(437,874)	(276,143)	581,968

Further information regarding the options noted above is set out over the page.

(a) The options were granted on 4 December 2017 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2020 subject to the achievement of performance conditions related to the growth in earnings per share.

(b) The options were granted on 29 December 2017 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2019 subject to the achievement of performance conditions related to the growth in earnings per share.

(c) The options were granted on 29 June 2017 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2020 subject to the achievement of performance conditions related to the growth in earnings per share. Fraser Fisher's options lapsed on him leaving the Company.

(d) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2017 under which employees contribute a monthly amount the Company's results for the year ended 31 March 2020 subject to the achievement of performance conditions related to the growth in earnings per share.

(e) The options were granted on 18 April 2013 under the Company's EMI scheme. The options were exercised on 24 January 2018.

(f) The options were granted on 17 December 2014 pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014 under which employees contribute a monthly amount monthly amount which is saved over three years to buy shares. The options are exercisable from 30 September 2018. There are no performance conditions. Fraser Fisher's options lapsed on him leaving the Company.

(g) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014 under which employees contribute a monthly amount the Company's results for the year ended 31 March 2018 subject to the achievement of performance conditions related to the growth in earnings per share. Fraser Fisher's options lapsed on him leaving the Company.

Share price

The market price of the Company's shares on 31 March 2018 was 78p per share. The highest and lowest market prices during the year were 97p and 70p respectively.

8 Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

	2018 £000	2017 £000
Current income tax:		
Current income tax	331	64
Adjustment in relation to prior year	696	38
Overseas tax	53	
Deferred tax:		
Origination and reversal of timing differences - Deferred tax asset: adjustment in relation to prior year	(604)	312
- Deferred tax asset: current year	(410)	200
- Deferred tax liability: adjustment in relation to prior year		(501)
- Deferred tax liability: current year	(1,070)	(1,983)
Total income tax (credit) reported in the income statement	(1,004)	(1,870)

The tax credit for the year was £1.0m (FY17: credit of £1.9m) which was made up of a corporation tax charge of £1.1 (FY17: charge of £0.1m) and a deferred tax credit of £2.1m (FY17: credit of £2.0m).

The corporation tax charge comprises a current year corporation tax charge of £0.3m, a prior year corporation tax charge of £0.7m and an overseas tax charge of £0.1m.

The prior year corporation tax charge relates to the resubmission of the FY15 and FY16 tax computations. The group is made up several historical acquisitions some of which have tax losses brought forward. The streaming of these tax losses had been incorrectly applied in the FY15 and FY16 tax computations and hence the reason for the prior year corporation tax adjustment.

(b) Reconciliation of the total income tax charge/ (credit)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2018 £000	2017 £000
Loss before taxation	(493)	(4,248)
Profit multiplied by the UK standard rate of corporation tax of 19%/20%	(94)	(850)
Expenses not deductible for tax purposes	467	286
Share scheme deduction under Part 12 CTA 2009	(12)	-
Movement in unprovided tax losses	(1,000)	(847)
Adjustment in relation to prior year	92	(151)
Effect of tax rate change	28	(318)
Impact of overseas tax rates	8	10
Total income tax (credit) reported in the income statement	(1,004)	(1,870)

(c) *Deferred tax*

Deferred Tax	2018 £000	2017 £000
Deferred tax liability	(6,197)	(7,267)
Deferred tax assets	6,152	5,155
Net deferred tax liability at 31 March	(45)	(2,112)

(d) *Deferred tax liability*

	2018 £000	2017 £000
Opening balance	7,267	9,751
Recognised in the income statement	(1,070)	(1,983)
Adjustment in relation to prior year	-	(501)
At 31 March	6,197	7,267

Deferred tax liabilities arose in respect of the amortisation of intangible assets recognised on acquisitions made.

(e) *Deferred tax assets*

	India – deferred tax asset £000	Share based Payments temporary differences £000	Tax losses £000	Property, plant and equipment temporary differences £000	Other timing differences £'000	Total £000
At 31 March 2017	27	49	2,725	2,344	10	5,155
Recognised in income statement	(16)	8	(123)	523	1	393
Adjustment in relation to prior year	-	-	604	-	-	604
At 31 March 2018	11	57	3,206	2,867	11	6,152

Deferred tax assets have been recognised where it is the view of the Directors that it is probable that there will be future sustainable taxable profits from which prior tax losses can be offset. This is based on projections of future taxable profits and indicators such as the level of orders that support the Directors' projections. There would have to be a material change in the Groups' trading activity for the Directors to reassess the recoverability of the asset.

Deferred tax assets have been netted off with deferred tax liabilities on the face of the Balance sheet. This is because the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority, being the UK's HMRC. The Group operates as one tax group and settles its tax liabilities on a net basis. This is not expected to change in the foreseeable future.

The adjustment in relation to prior year relates to the resubmission of the FY15 and FY16 tax computations. The group is made up several historical acquisitions some of which have tax losses brought forward. The streaming of these tax losses had been incorrectly applied in the FY15 and FY16 tax computations and hence the reason for the prior year corporation tax adjustment.

9 Earnings per share

Basic earnings per share has been calculated using profit after tax for the year of 1.2m (2017: loss after tax £2.4m) and a weighted average number of shares of 148,890,948 (2017: 148,448,225). The dilutive effect of share options at 31 March 2018 increased the weighted average number of shares to 149,871,478 (2017: 152,744,106).

In addition, the Board uses adjusted earnings per share figure, which has been calculated to reflect the underlying performance of the business. This measure is derived as follows:

	2018 £000	2017 £000
Statutory earnings	511	(2,378)
Tax charge / (credit)	(1,004)	(1,870)
Amortisation of acquired intangibles*	6,252	5,944
Share based payments	568	1,080
Exceptional costs	1,672	5,474
Adjusted earnings before tax	7,999	8,250
Notional tax charge at standard rate of 19%/20%	(1,520)	(1,650)
Adjusted earnings	6,479	6,600
Weighted average number of shares in issue	148,890,948	148,448,225
Weighted dilutive effect of options and warrants in issue	980,529	4,295,881
Diluted weighted average number of shares in issue	149,871,477	152,744,106
Statutory basic earnings per shares	0.34p	(1.60)p
Statutory diluted earnings per shares	0.34p	(1.60)p
Adjusted basic earnings per share	4.35p	4.45p
Adjusted diluted earnings per share	4.32p	4.32p
*Amortisation charge per P&L	7,136	6,207
Amortisation of software	(884)	(263)
Customer contracts and related relationships	6,252	5,944

The Board feels that the adjusted EBITDA and adjusted EPS measures give a better view of the ongoing performance of the business as these measures exclude exceptional costs.

10 Property, plant and equipment

	Leasehold improvements* £000	Office fixtures and fittings* £000	Vehicles & computer equipment* £000	Total £000
Cost				
At 31 March 2017	14,388	1,168	32,120	47,676
Additions	74	244	5,745	6,063
Disposals	(566)	-	(8,028)	(8,594)
Exchange differences	-	(40)	-	(40)
At 31 March 2018	13,896	1,372	29,837	45,105
Accumulated depreciation				
At 31 March 2017	8,674	888	16,116	25,678
Charge for the year ended 31 March 2017	1,418	100	6,251	7,769
Disposals	(566)	-	(8,028)	(8,594)
Exchange differences	-	14	-	14
At 31 March 2018	9,526	1,002	14,339	24,867
Net book amount				
At 31 March 2018	4,370	370	15,498	20,238
At 31 March 2017	5,714	280	16,004	21,998

*In 2018, the split of the fixed assets between classes has been aligned across the group. The result of this is to bring the published results in line with internal management reporting. None of the assets affected required any change in useful economic life. The total NBV as at 31 March 2017 of £21.998m remains unchanged from prior published accounts.

Included in vehicle and computer equipment are assets held under finance leases with a carrying value of £4.9m at 31 March 2018 (2017: £5.2m). Of the £6.1m fixed assets acquired in the year, £3.0m were funded using finance leases (2017: £2.5m).

11 Intangible Assets

	Goodwill £000	Customer contracts and related relationships £000	Trademarks £000	Software & Licences £000	Total £000
<i>Cost</i>					
At 31 March 2016	43,269	62,297	275	3,962	109,803
Additions	-	-	-	738	738
FOREX difference on carrying value	-	3	-	-	3
At 31 March 2017	43,269	62,300	275	4,700	110,544
Additions	-	-	-	913	913
Exchange differences	-	(16)	-	-	(16)
At 31 March 2018	43,269	62,284	275	5,613	111,441
<i>Accumulated amortisation and impairment</i>					
At 31 March 2016	-	13,712	180	1,720	15,612
Amortisation charge for the year ended 31 March 2017	-	5,884	60	263	6,207
Impairment	-	-	-	-	-
At 31 March 2017	-	19,596	240	1,983	21,819
Amortisation charge for the year ended 31 March 2018	-	6,217	35	884	7,136
Impairment	-	-	-	-	-
At 31 March 2018	-	25,813	275	2,867	28,955
Carrying amount at 31 March 2017	43,269	42,704	35	2,717	88,725
Carrying amount at 31 March 2018	43,269	36,471	-	2,746	82,486

Included in software and licences are intangibles assets held under finance leases with a carrying value of £0.4m at 31 March 2018 (2017: £0). Of the £0.9m intangible assets acquired in the year, £0.4m were funded using finance leases (2017: £0m).

Customer contracts have a weighted average remaining amortisation period of 6 years and 11 months (2017: 7 years and 11 months).

Intangible assets are reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is tested for impairment at least annually.

The recoverable amount was based on the value in use calculation using forecast cash flow projections to the period of 31 March 2021 and extrapolated for a further two years by growth rates applicable. A terminal value based on a perpetuity calculation using a 2.5% real growth was then added. Discount rates were then applied to these projections reflecting management's expected risk profile.

In addition to revenue growth, the key assumptions used in the impairment testing were as follows:

- Gross margin percentage of c.58% reducing to c.48%;
- Pre-tax discount rate of 9.13% (post tax 7.39%); and
- Terminal growth rate percentage of 2.5%.

The assumption of margins remaining flat after the 3 year management forecast period is based on the assumption that a mix of cost savings in service delivery will be offset by competitive market influences, which is in line with management's experience.

A pre-tax discount rate of 9.13% (post-tax 7.39%) was applied which reflects management's risk-adjusted estimate of the weighted average cost of capital. There is a significant element of recurring revenue through maintenance contracts and this reduces the risk inherent in the business.

Over the five-year period, revenues are projected to grow at an average of 7.68%. The first three years were derived from management's forecast based on management's past experience and the detailed analysis of market trends.

A reasonably possible adverse movement in any of the above key assumptions made would not give rise to impairment.

12 Trade and other receivables

	2018 £000	2017 £000
Trade receivables	16,779	22,826
Less: provision for impairment of trade receivables	(981)	(5,576)
Trade receivables – net	15,798	17,250
Other receivables	265	71
Prepayments	7,211	5,377
Accrued income	2,846	3,155
Corporation tax repayable	-	369
	26,120	26,222

As at 31 March 2018, trade receivables of £1.0m (2017: £5.6m) were impaired and fully provided for. The Directors monitor the quality of the receivables not impaired and believe them to be recoverable. The non-impaired receivables are fully performing and relate to independent customers with no history of default. The individually impaired receivables relate to receivables over 365 days, customers in financial difficulty, customer acceptance issues and cancelled contracts.

As at 31 March 2018, net trade receivables of £4.5m (2017: £8.3m) were past due. In the table below, these comprise the receivables over 30 days, which relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of trade receivables is as follows:

	2018	2018	2018	2017	2017	2017
	Gross	Provision	Net	Gross	Provision	Net
Days overdue	£000	£000	£000	£000	£000	£000
Current	11,323	(67)	11,256	9,095	(101)	8,994
1 to 30 days overdue	1,951	(90)	1,861	2,950	(266)	2,684
31 to 60 days overdue	1,417	(40)	1,377	2,220	(532)	1,688
61 to 90 days overdue	550	(18)	532	704	(169)	535
91 to 180 days overdue	945	(481)	464	3,277	(988)	2,289
> 180 days overdue	593	(285)	308	4,580	(3,520)	1,060
Gross trade debtors	16,779	(981)	15,798	22,826	(5,576)	17,250

The provision is calculated by management on a specific basis based on their best estimate of recoverability taking into account the age and specific circumstances relating to the debtor. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security. The carrying amounts of the Group's trade and other receivables are denominated in pounds.

Movements on the Group provision for impairment of trade receivables as at 31 March 2018 are as follows:

	£000
Balance at 31 March 2016	7,005
Utilisation of impairment provision	(5,639)
Creation of Impairment provision treated as exceptional costs	2,933
Creation of impairment provision treated as operating costs*	1,277
At 31 March 2017	5,576
Utilisation of impairment provision	(5,459)
Creation of impairment provision treated as operating costs*	864
At 31 March 2018	981

*The creation and release of a provision for impaired receivables has been included in 'operating expenses' in the income statement. Amounts charged to the allowance account are generally written-off, when there is no expectation of recovering additional cash.

The other asset classes within trade and other receivables do not contain impaired assets.

13 Cash and cash equivalents

	2018	2017
	£000	£000
Cash at bank	6,089	4,340

The Group's cash is held at accounts with Barclays Bank PLC, which has a Standard and Poor's rating of A.

14 Trade and other payables

	2018	2017
	£000	£000
<i>Current</i>		
Trade payables	9,005	7,483
Other payables	27	39
Taxation and social security	2,490	1,671
Accruals	2,705	2,264
Provision	-	339
Deferred income	8,343	5,804
Finance Lease	3,125	2,456
Corporation Tax	890	-
Term loan	-	323
	26,585	20,379

15 Commitments and contingencies

a) Operating leases

Future aggregate minimum annual lease payments under non-cancellable operating leases as at 31 March are as follows:

	2018	2017
	£000	£000
Not later than 1 year	2,881	2,264
After 1 year but not more than 5 years	11,095	3,142
After 5 years	20,942	4,586
	34,918	9,992

The Group's operating leases relate to property, motor vehicles and office equipment, and have remaining terms of between 2 and 23 years. The amount recognised as an expense in the year is £2.8m (restated 2017: £2.8m).

None of the above leases are sublet by the Group. There are no contingent rent arrangements and the Group does not have a purchase option with respect to the above leases. The lease terms can only be extended if the terms of the underlying contracts are approved by both the Group and the lessor.

(b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 March 2018 (2017: £nil).

16 Borrowings

	2018	2017
	£000	£000
<i>Non-current</i>		
Bank loan	28,000	38,000
Finance leases	2,807	3,296
Unamortised loan arrangement fee	(136)	(204)
Total non-current	30,671	41,092
<i>Current</i>		
Finance leases	3,125	2,456
Term Loans	-	323
Total current	3,125	2,779

At 31 March 2018, the Group was party to £68.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a Revolving Credit Facility ("RCF") of £40.0m (£28.0m utilised at 31 March 2018) with a £20.0m accordion (£nil utilised at 31 March 2018), a £2.0m Overdraft Facility (£nil utilised at 31 March 2018) and a £6.0m Asset Financing Facility.

The RCF has been provided jointly by Barclays Bank PLC and The Royal Bank of Scotland PLC, with Lombard Technology Services Ltd providing the Asset Financing Facility and Barclays Bank PLC the Overdraft Facility.

Reconciliation of adjusted net debt:

Instrument	As at 31 March 2017	Net cash flow	Net non-cash flow	As at 31 March 2018
Cash	4,340	1,705	44	6,089
RCF	(37,796)	10,000	(68)	(27,864)
Term Loan	(323)	323	-	-
Finance Lease	(5,752)	(180)	-	(5,932)
Total	(39,531)	11,848	(24)	(27,707)

Fair value of non-current borrowings

The carrying amounts and fair value of the non-current borrowings are as follows:

<i>Non-current</i>	Carrying value	Fair value	Carrying value	Fair value
	2018	2018	2017	2017
	£000	£000	£000	£000
Bank loan	27,864	26,001	38,135	34,495

Fair values are based on discounted cash flows, using an effective interest rate based on the borrowing rates at 31 March 2018 of 3.4% (2017: 3.4%).

Finance leases

	Present value 2018 £000	Finance charges 2018 £000	Future lease payments 2018 £000	Present value 2017 £000	Finance charges 2017 £000	Future lease payments 2017 £000
Not later than 1 year	3,125	68	3,193	2,456	132	2,588
After 1 year but not more than 5 years	2,807	21	2,828	3,296	89	3,385
	5,932	89	6,021	5,752	221	5,973

17 Financial instruments by category

The objectives of the Group's treasury activities are to manage financial risk, secure cost-effective funding where necessary and minimise adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on cash flows of the Group.

The Group's principal financial instruments for fundraising are bank borrowings, overdraft facilities and loans. The Group has various other financial instruments such as cash, trade receivables and trade payables that arise directly from its operations.

	Carrying value 2018 £000	Fair value 2018 £000	Carrying value 2017 £000	Fair value 2017 £000
<i>Assets</i>				
Trade receivables	15,798	15,798	17,250	17,250
Other receivables and prepayments	7,476	7,476	5,448	5,448
Other current assets	3,512	3,512	3,758	3,758
Cash and cash equivalents	6,089	6,089	4,340	4,340
Total	32,875	32,875	30,796	30,796
<i>Liabilities</i>				
Trade payables	9,005	9,005	7,483	7,483
Other payables and accruals	2,732	2,732	2,303	2,303
Other current liabilities	11,254	11,254	7,814	7,814
Borrowings	33,796	33,796	43,871	43,871
Other non-current liabilities	890	890	3,319	3,319
Total	57,677	57,677	64,790	64,790

18 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, fair value interest rate risk, cash flow interest rate risk, and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investments of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates within the UK and foreign exchange risk arises from certain transactions with counterparties denominated in foreign currencies. This is not a significant risk for the Group.

(ii) Cash flow risk

The Group receives interest on cash and cash equivalents and pays interest on its borrowings.

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 March 2018 the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift and manages its cash flow interest rate risk accordingly.

Based on the simulations performed, the impact on post-tax profit and equity of a +/- 1% shift in the interest rate would be not be material. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by management.

(iii) Price risk

The Group is not exposed to significant commodity or security price risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures to customers. Individual risk limits are set based on internal and external ratings in accordance with limits set by the divisions and review by the Board where appropriate. The utilisation of credit limits is regularly monitored with appropriate action taken by management in the event of a breach of credit limit.

(c) Liquidity risk

Management monitors rolling forecasts of the Group's undrawn borrowing facility and cash and cash equivalents based on expected cash flow. The Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. These amounts disclosed in the table are the contracted undiscounted cash flows. Balances within 12 months equal their carrying balances as the impact of discounting is not significant.

	Within 1 year £000	1-5 years £000	Total £000
At 31 March 2018			
Borrowings		28,000	28,000
Finance leases	2,828	3,104	5,932
Trade and other payables	8,752		8,752
At 31 March 2017			
Borrowings	-	38,000	38,000
Finance leases	2,456	3,296	5,752
Trade and other payables	7,483	-	7,483
Term loans	323		323

19 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's future growth and its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group operates in the managed services sector which, generally, does not require substantial fixed asset investments. Consequently, the Group is financed predominantly by equity.

In order to maintain or adjust the capital structure the Group has previously both issued new shares and borrowed using bank facilities. The Group monitors capital on the basis of the ratio of net bank debt to adjusted EBITDA. Adjusted net debt is calculated as total bank borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents, and adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments. The Group's strategy is to maintain the ongoing ratio at below 2.5x, although the bank facilities can accommodate a higher ratio. The ratio was comfortably below this level throughout the year, and at 31 March 2018 was 1.5x (2017 – 2.2x).

The bank facilities referred to in Note 16 contain various covenants relating to EBITDA, interest cover, adjusted net debt and cash flow, which the Group monitors on a monthly basis. The Group adopts a risk-averse position with respect to borrowings, and maintains a significant amount of head-room in its bank facilities to ensure that any unexpected situations do not create financial stress.

The Group has committed to a progressive dividend policy, and intends to return a proportion of free cash-flow to shareholders each year in the form of dividends, whilst retaining a prudent amount of capital in the business to fund potential future expansion and to provide operational flexibility. The Group also grants share options to Directors and other selected employees. However, these do not have a significant impact on the Group's capital structure.

20 Called up share capital

	Allotted and fully paid Number	£'000
At 31 March 2016	145,881,185	146
New shares issued	2,977,988	3
At 31 March 2017	148,859,173	149
New shares issued	276,143	-
At 31 March 2018	149,135,316	149

The number of share authorised is the same as the number of shares issued. Ordinary shareholders have the right to attend, vote and speak at meetings, receive dividends, and receive a return on assets in the case of a winding up.

Share issues

During the year the following shares were issued:

	2018 Number	2017 Number
Issued on the exercise of share options	276,143	2,977,988
	276,143	2,977,988

Shares issue relate to the exercise of 276,143 options at an exercise price of 70p (nominal value 0.1p), creating £193,024 of share premium.

21 Provisions

	Dilapidations provision	Vacant property provision	Total provision
	£000	£000	£000
At 31 March 2017	273	1,273	1,546
Charged/(credited) to Income statement:			
Prior Year Adjustment	146	(146)	-
At April 2017	419	1,127	1,546
Additional provisions created during the year	50	-	50
Utilised during the year	(93)	(1,127)	(1,220)
At 31 March 2018	376	-	376

Current and non-current analysis of provisions:

	2018	2018	2018	2017	2017	2017
	Dilapidations provision	Vacant property provision	Total provision	Dilapidations provision	Vacant property provision	Total provision
	£000	£000	£000	£000	£000	£000
Current	-	-	-	-	339	339
Non-current	376	-	376	273	934	1,207
Total	376	-	376	273	1,273	1,546

22 Share-based payment plans

During the year the Group recognised an expense for the following share-based payments:

	2018	2017
	£000	£000
Equity-settled share-based charge arising from share options*	534	975
National insurance and other charges arising on share options	34	105
Total	568	1,080

* This is an IFRS 2 charge arising from share options issued in terms of a share-based payment plan.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

Options	2018 Number of options	2018 WAEP	2017 Number of options	2017 WAEP
Outstanding at the start of the year	10,037,417	80.5p	14,230,452	82.4p
Issued in the year	2,752,820	28.0p	919,048	45.7p
Exercised in the year	(276,143)	70.0p	(2,977,988)	58.1p
Lapsed in the year	(2,590,973)	57.1p	(2,134,095)	107.9p
Outstanding at the end of the year	9,923,121	72.2p	10,037,417	80.5p

The weighted average fair value of the options granted in the year ended 31 March 2018 was 28.0p (2017: 45.7p) per option. During the year ended 31 March 2018 there were new grants of 2,752,820 options (2017: 919,048 options) which were issued under the Company's Long-Term Incentive Plan ("LTIP").

The weighted average remaining contractual life for the share options outstanding at 31 March 2018 is 5 years and 2 months (2017: 5 years and 9 months). The range of exercise prices for options outstanding at the end of the year was 0p to 154p. Share options outstanding at the end of the year with approximate remaining average life are as follows:

Range of prices	Number 31 March 2018	Life at 31 March 2018	Number 31 March 2017	Life at 31 March 2017
0p	845,621	9 years, 2 months	419,048	2 years, 3 months
63p	1,167,678	2 years, 11 months	-	-
70p	-	-	276,143	6 years, 1 month
80p	7,581,968	5 years, 3 months	7,581,968	6 years, 8 months
84p	-	-	500,000	1 years, 3 months
102p	-	-	225,000	6 years, 11 months
117p	-	-	225,000	7 years, 8 months
107p	294,669	0 years, 6 months	721,731	1 years, 6 months
154p	33,185	1 years, 6 months	88,527	2 years, 6 months
	9,923,121	5 years, 2 months	10,037,417	5 years, 9 months

The following table illustrates the status of the options outstanding at the end of the year:

Options	2018 Number of options	2018 WAEP	2017 Number of options	2017 WAEP
Performance conditions satisfied	0	0p	276,143	70p
Subject to performance conditions	8,427,589	69p	8,951,616	78p
Save-As-You-Earn	1,495,532	74p	809,658	112.1p
Outstanding at the end of the year	9,923,121	72p	10,037,417	80.5p

The fair value of the equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted.

	2018 £000	2017 £000
SAYE schemes	224	188
Director and senior manager schemes	162	156
MXC options	148	631
Employers NI	34	105
	568	1,080

At 31 March 2018, the Group had the following share-based payment arrangements

- i. **Enterprise Management Incentives (EMI)**
The Group has legacy position of EMI share options outstanding, issued prior to the formation of the Group.
- ii. **Long-Term Incentive Plan (LTIP)**
The Group operates a Long-Term Incentive Plan (LTIP) under which the executive directors and key management personnel are awarded nil cost options that will vest subject to the achievement of performance conditions relating to the growth in earnings per share.
- iii. **Save As You Earn (SAYE)**
The Group operates a HMRC approved SAYE scheme which offers its UK based employees the opportunity to participate in a share purchase plan. To participate in the plan, the employees are required to save an amount of their gross monthly salary, up to a maximum of £500 per month, for a period of 36 months. Under the terms of the plan, at the end of the three-year period the employees are entitled to purchase shares using funds saved at a price 20% below the market price at grant date. Only employees who remain in service and save the required amount of their gross monthly salary for 36 consecutive months will become entitled to purchase the shares. Employees who cease their employment, do not save the required amount of their gross monthly salary in any month before the 36-month period expires, or elect not to exercise their options to purchase shares will be refunded their saved amounts.
- iv. **MXC**
Historic options awarded to MXC Capital Limited.

	EMI	LTIP	SAYE	MXC	TOTAL
Balance at 31 March 2016	4,393,111	-	1,144,353	8,692,988	14,230,452
Issued in the year	-	919,048	-	-	919,048
Forfeited in the year	(1,250,000)	-	(44,448)	-	(1,294,448)
Cancelled in the year	-	-	(288,339)	-	(288,339)
Exercised in the year	(1,285,000)	-	(1,308)	(1,692,988)	(2,979,296)
Lapsed in the year	(550,000)	-	-	-	(550,000)
Balance at 30 March 2017	1,308,111	919,048	810,258	7,000,000	10,037,417
Issued in the period	-	1,529,430	1,223,390	-	2,752,820
Forfeited in the period	-	(1,602,857)	-	-	(1,602,857)
Cancelled in the period	-	-	(538,116)	-	(538,116)
Exercised in the year	(276,143)	-	-	-	(276,143)
Lapsed in the year	(450,000)	-	-	-	(450,000)
Balance at 30 March 2018	581,968	845,621	1,495,532	7,000,000	9,923,121

As at 31 March 2018 the Company had a total of 350,000 warrants in issue with an exercise price of 36p. The warrants were issued to Barclays Bank PLC on demerger in April 2013 in exchange for warrants previously held in Redstone PLC, and can be converted to shares at any time before the sale of the entire share capital of the Company.

23 Pensions

The Group operates a defined contribution pension scheme for eligible employees. The charge for the year ended 31 March 2018 was £0.4m (2017: £0.4m). At the year-end there was a pension's creditor of £0.1m (2017: £0.1m)

24 Subsidiaries

As at 31 March 2018, the Company had the following subsidiary undertakings:

	Principal activity	Country of incorporation	% Ordinary share capital owned
Held directly by Redcentric plc			
Redcentric Holdings Limited	Holding company	England and Wales	100%
Redcentric Solutions Limited	Managed Services	England and Wales	100%
Held indirectly			
Redcentric Solutions Private Limited	Support services	India	100%
Redcentric MS Limited	Dormant*	England and Wales	100%
Redcentric Managed Solutions Limited	Dormant*	England and Wales	100%
Redcentric Communications Limited	Dormant*	England and Wales	100%
Hotchilli Internet Limited	Dormant*	England and Wales	100%
Redcentric US Limited	Dormant	USA	100%
Calyx Managed Services Limited	Dormant	England and Wales	100%
City Lifeline Limited	Dormant	England and Wales	100%
City Lifeline Data Centre Limited**	Dormant*	England and Wales	100%

All of the Company's subsidiaries have been consolidated in the Group financial statements.

All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate HG3 1UG, except Redcentric Solutions Private Limited which has a registered office of # 606-611, 6th Floor, Manjeera Trinity Corporate, JNTU – Hitech City Road, Kukatpally, Hyderabad - 72

* The companies marked with an asterisk are exempt from filing audited accounts under s394A of the Companies Act 2006 as they have been dormant throughout the period.

** Dissolved 11/07/2017

25 Related parties

The Group has taken exemption not to disclose transactions with entities wholly-owned by the Group.

Directors' emoluments are disclosed in the Remuneration Report.

MXC Capital

Up until 30 November 2016, the Group engaged MXC Advisory LLP to provide corporate finance advice and consultancy (fees - 2017: £97,500). MXC Advisory LLP is owned by MXC Capital Limited ("MXC"), which is an AIM quoted merchant bank specialising in investing in technology companies. MXC was a shareholder in Redcentric plc and still has options over the ordinary shares of Redcentric plc and therefore its interests are aligned with Redcentric plc's other shareholders.

As at 31 March 2018 MXC has the following interest in shares and options over ordinary shares in the Company:

	Quantity	Grant date	Exercise price	Expiry date
Ordinary shares				
Options (a)	7,000,000	15 November 2013	80p	15 November 2023

(a) The options have a performance condition which allows the option to be exercised if the average mid-market closing price of the shares for the preceding 10 working days at any point after 15 November 2016 is greater than 112.4p.

Other

There were no other transactions with related parties in the year to 31 March 2018.

26 Dividends

	2018 £000	2017 £000
Amounts recognised as distributions to Shareholders in year:		
Final dividend for year ended 31 March 2017 of nil (2016: 3.0p) per share	Nil	4,406
	Nil	4,406

The Company paid a final dividend in respect of the year to 31 March 2016 of 3.0p per ordinary share on 16 September 2016, with a total payment value of £4.4m.

27 Subsequent events

There have been no significant events affecting the Company since the year end.

28 Cost reclassification

A cost reclassification was undertaken to align comparative periods with the directors' view of appropriate cost allocation.

	31 Mar 2017 As previously reported £000	Cost reclassification £000	31 Mar 2017 As reclassified £000
Revenue	104,623	-	104,623
Cost of sales	(43,304)	(855)	(44,159)
Gross profit	61,319	(855)	60,464
Operating expenditure	(64,314)	855	(63,459)
Operating loss	(2,995)	-	(2,995)

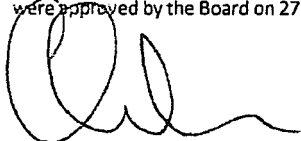
Redcentric plc

Company Balance Sheet

As at 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Investments	2	101,565	101,031
Current liabilities			
Creditors – amounts falling due within one year	3	(11,680)	(11,873)
Net current liabilities		(11,680)	(11,873)
Net assets			
		89,885	89,158
Capital and reserves			
Called up share capital	4	149	149
Share premium account		65,588	65,395
Share option reserve		5,503	4,969
Retained earnings		18,645	18,645
Total shareholders' funds		89,885	89,158

The notes on pages 73 to 76 are an integral part of these financial statements. The financial statements on pages 71 to 76 were approved by the Board on 27 June 2018 and are signed on its behalf by:



Chris Jagusz, Director



Peter Brotherton, Director

Company Statement of Changes in Equity

	Called up share capital	Share premium	Reserves	Total equity
	£000	£000	£000	£000
At 31 March 2016	146	63,667	27,045	90,858
<i>Transactions with owners:</i>				
Issue of new shares	3	1,728	-	1,731
Dividends to shareholders	-	-	(4,406)	(4,406)
Share Based Payments (SBP)	-	-	975	975
At 31 March 2017	149	65,395	23,614	89,158
<i>Transactions with owners:</i>				
Issue of new shares	-	193	-	193
Dividends to shareholders	-	-	-	-
Share Based Payments (SBP)	-	-	534	534
At 31 March 2018	149	65,588	24,148	89,885

Notes to the Company Financial Statements

1 Accounting policies (FRS 101)

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of [ultimate parent undertaking] include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of the cash flows of discontinued operations;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company [in the current and prior periods including the comparative period reconciliation for goodwill; and]
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2 Investments

	2018 £000	2017 £000
Investments in subsidiaries	96,062	96,062
Capital contribution related to share-based payments for subsidiaries	5,503	4,969
	101,565	101,031

At 31 March 2018, the Company had the following subsidiary undertakings:

	Principal activity	Country of incorporation	% Ordinary share capital owned
Held directly by Redcentric plc			
Redcentric Holdings Limited	Holding company	England and Wales	100%
Redcentric Solutions Limited	Managed Services	England and Wales	100%
Held indirectly			
Redcentric Solutions Private Limited	Support services	India	100%
Redcentric MS Limited	Dormant*	England and Wales	100%
Redcentric Managed Solutions Limited	Dormant*	England and Wales	100%
Redcentric Communications Limited	Dormant*	England and Wales	100%
Hotchilli Internet Limited	Dormant*	England and Wales	100%
Redcentric US Limited	Dormant	USA	100%
Calyx Managed Services Limited	Dormant	England and Wales	100%
City Lifeline Limited	Dormant	England and Wales	100%
City Lifeline Data Centre Limited**	Dormant*	England and Wales	100%

* The companies marked with an asterisk are exempt from filing audited accounts under s394A of the Companies Act 2006 as they have been dormant throughout the period.

** Dissolved 11/07/2017

All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate HG3 1UG, except Redcentric Solutions Private Limited which has a registered office of # 606-611, 6th Floor, Manjeera Trinity Corporate, JNTU – Hitech City Road, Kukatpally, Hyderabad - 72

The Company does not have any associate operations

3 Creditors – amounts falling due within one year

	2018 £000	2017 £000
Amounts owed to subsidiaries	11,680	11,873

Amounts due to Group undertakings are unsecured, interest-free and have no fixed payment terms.

4 Called up share capital

	Allotted and fully paid Number	£'000
At 31 March 2016	145,881,185	146
New shares issued	2,977,988	3
At 31 March 2017	148,859,173	149
New shares issued	276,143	-
At 31 March 2018	149,135,316	149

The number of share authorised is the same as the number of shares issued. Ordinary shareholders have the right to attend, vote and speak at meetings, receive dividends, and receive a return on assets in the case of a winding up.

Share issues

During the year the following shares were issued:

	2018 Number	2017 Number
Issued on the exercise of share options	276,143	2,977,988
	276,143	2,977,988

As at 31 March 2018 the Company had a total of 350,000 warrants in issue with an exercise price of 36p. The warrants were issued to Barclays Bank PLC on demerger in April 2013 in exchange for warrants previously held in Redstone Plc, and can be converted to shares at any time before the sale of the entire share capital of the Company.

5 Auditors' remuneration

The Company audit fee is £24,000 (2017: £110,000). This fee was borne by another Group company.

6 Related parties

The Group has taken exemption not to disclose transactions with entities wholly-owned by the Group.

Directors' emoluments are disclosed in the Remuneration Report.

MXC Capital

Up until 30 November 2016, the Group engaged MXC Advisory LLP to provide corporate finance advice and consultancy (fees - 2017: £97,500). MXC Advisory LLP is owned by MXC Capital Limited ("MXC"), which is an AIM quoted merchant bank specialising in investing in technology companies. MXC was a shareholder in Redcentric plc and still has options over the ordinary shares of Redcentric plc and therefore its interests are aligned with Redcentric plc's other shareholders.

As at 31 March 2018 MXC has the following interest in shares and options over ordinary shares in the Company:

	Quantity	Grant date	Exercise price	Expiry date
Options (a)	7,000,000	15 November 2013	80p	15 November 2023

- (a) The options have a performance condition which allows the option to be exercised if the average mid-market closing price of the shares for the preceding 10 working days at any point after 15 November 2016 is 112.4p plus 12% p.a. with effect from that date.

Other

There were no other transactions with related parties in the year to 31 March 2018.