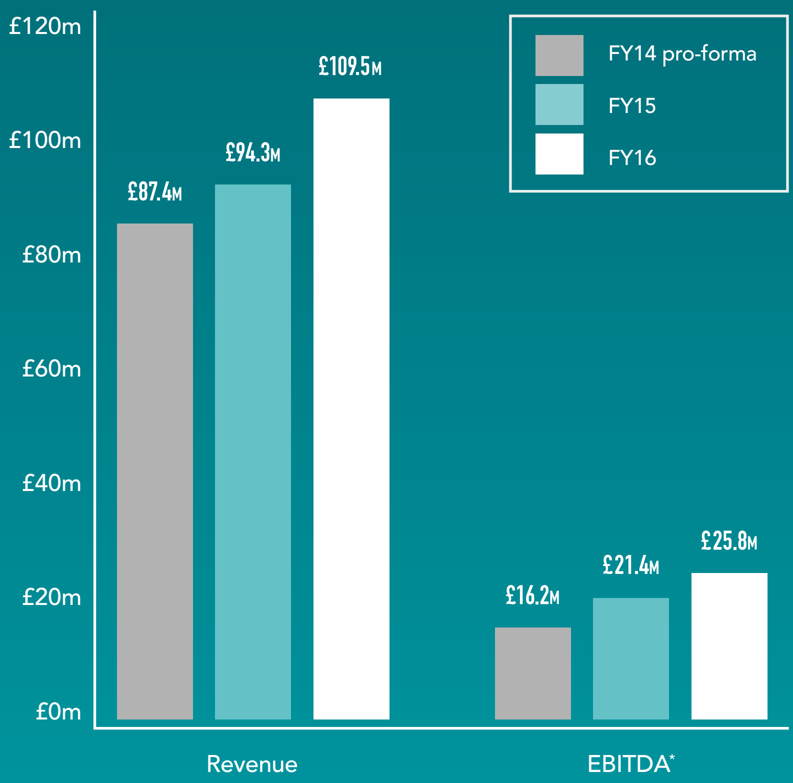
REDCENTRIC REPORT & ACCOUNTS 2016

redcentric
business technology. managed.

CONTENTS

FINANCIAL SUMMARY

REVENUE & EBITDA



Redcentric has continued along its established strategic plan with solid organic growth and increased recurring revenue which was complemented by two successful acquisitions in the year.

CHAIRMAN'S STATEMENT

I am delighted to present the annual results for Redcentric plc for the year to 31 March 2016. Redcentric has continued along its established strategic plan with solid organic growth and increased recurring revenue which was complemented by two successful acquisitions in the year. We have continued to invest in the business in support of future sustained growth.

Summary trading results

The revenue for the year grew by 16% to £109.5m (2015: £94.3m). This was a combination of organic growth of 8% and the contribution from the acquisitions of Calyx Managed Services and City Lifeline. Management's key focus, recurring revenue, grew organically by 11% and now represents 82% of the total revenue.

Operating profit was £8.4m (2015: £8.7m). Underlying profitability increased with adjusted EBITDA* up 21% to £25.8m (2015 £21.4m) and adjusted EBITDA margins were 23.6% (2015: 22.7%), reflecting improvements in the quality of revenue, the benefits of scale and successful execution of the business model.

Business Development

Following a year with no acquisitions and the consolidation of our platform, in April 2015 Redcentric acquired Calyx Managed Services Ltd and in January 2016 acquired City Lifeline Ltd. Calyx has been integrated, the integration of City Lifeline is proceeding to plan and both businesses are performing in line with expectations. The ability of the business to successfully augment organic growth with selective acquisitions enables the strength of the core platform to be leveraged. The Board will remain alert to further appropriate acquisition opportunities which will be undertaken to the Board's strict investment criteria.

Returns to shareholders

The strong performance of the business was reflected in underlying earnings per share growth, with adjusted EPS** growing by 24% to 10.5p (2015 8.5p). Earnings per share on an unadjusted basis were 3.6p (2015: 5.5p). The Board is pleased to announce a final dividend of 3.0p per share (2015 2.5p), which means an increase of 29% in the total dividend in respect of the year to 4.5p (2015: 3.5p).

The Group is cash generative and has access to a wide range of financial sources to support future investments. Given this financial strength and flexibility, the Board is committed to a progressive dividend policy aligned to the Group's performance.

Revenue for the year was

£109.5m

Underlying EBITDA growth of

21%

CHAIRMAN'S STATEMENT

CONTINUED

Board and employees

In November 2015 Fraser Fisher, previously Chief Operating Officer, took over from Tony Weaver as Chief Executive Officer. Tony remains on the Board as a non-executive Director. There have been no other changes to the Board during the year. The Board is well-balanced, with four non-executive Directors and two executive Directors, with a range of complementary and relevant skills and experience.

Our growth and good performance have as always been possible through the commitment and hard work of our Management and Staff and the Board is grateful to them for their contribution.

Outlook

There is significant opportunity for Redcentric to establish itself as a market leader in IT managed services for the mid-market. Customers continue to be attracted to the ability of the business to deliver reliable and innovative services from its own secure and well invested infrastructure. In addition it is a highly fragmented market, which provides opportunity to augment organic growth with acquisitive growth. The Board remains confident in the ability of the business to deliver increasing shareholder value over the coming years.

Chris Cole
Non-Executive Chairman
16 June 2016

Dividends per share of

4.5p

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of acquired intangibles, transaction and integration costs and share based payments.

** Adjusted Earnings Per Share excludes amortisation of acquired intangibles, transaction and integration costs and share based payments and replaces the reported tax charge or credit with a notional tax charge at the full rate of corporation tax.

OPERATIONAL REVIEW

Overview

This year has been a period of great success for Redcentric, achieving growth both organically, and through the successful execution of acquisitions. Since it started life as a new company in April 2013, Redcentric has grown and developed into one of the leading businesses in the UK managed services market, successfully delivering critical services to over 2,000 mid-market customers. We have built a strong platform, delivering a broad range of core services to our customers, enabling them to focus on improving their own businesses.

Redcentric's proposition

Redcentric's central aim is to provide its customers with a wide range of reliable, secure and innovative core IT services from a well-invested base of owned infrastructure. Redcentric operates highly accredited, state-of-the-art data centres in Harrogate, Reading, London and Cambridge which are connected to our network, and from which services are delivered. These are our own dedicated facilities, held on long leases, and have been fully resourced with well trained and qualified staff and technology to deliver critical services to our customers. We maintain very high levels of accreditation, and undergo rigorous audit from a range of external and government bodies throughout the year.

The data centres are connected to our own fully resilient national MPLS network, providing coverage and access across the UK, along with metropolitan fibre networks in Cambridge and Portsmouth. From this strong base of owned managed infrastructure we are able to offer a wide range of IT managed services including;

- **Network Services.** We are a significant service provider with a core backbone network, metro networks and extensive experience in delivering networks for a broad range of organisations.

- **Collaboration Services.** Through IP telephony, messaging and video conferencing we help organisations enable their staff to communicate more effectively.

- **Infrastructure.** As a leading provider of infrastructure services, Redcentric offers a suite of Cloud services, as well as colocation, data management and virtualisation services, all offered on an "As a Service" basis.

- **Applications Services.** We provide packaged solutions for many sectors as well as application management services from legacy to current architecture.

- **Security.** We help protect customers from deliberate malicious attacks, or unintentional security threats from unauthorised devices and a range of other threats.

- **Mobile.** We provide a fully managed mobile service with flexibility, reliability and security.

Along with our own highly assured and actively managed services, we also offer customers the ability to operate hybrid solutions. These may well include operating customer premise equipment, through to private or shared cloud solutions in Redcentric's data centres, through to public cloud. These can all be managed through Redcentric's assured "single pane of glass" management platform, allowing customers complete flexibility to implement the right solution for their needs, whilst enabling flexibility for future change.

Redcentric's headquarters are in Harrogate, with additional offices in London, Reading, Theale, Cambridge, Hyde and Hyderabad. The Hyderabad office operates as a fully integrated part of Redcentric, with highly skilled second and third line technical engineers complementing the support teams in the UK as well as providing back office services. The Hyderabad office provides access to one of the world's largest sources of highly skilled technical staff, and provides flexibility in delivering high quality services to our customers.

OPERATIONAL REVIEW

CONTINUED

Redcentric sees its mission as enabling its customers to focus on enhancing their own businesses whilst relying on a trusted partner to operate their underlying core IT infrastructure platform.

Performance

The financial performance of the company is covered in more detail in the Financial Review, however the headline revenue growth of 16% to £109.5m (2015: £94.3m) is pleasing as it was delivered partly from strong organic growth of 8%, and partly through the contribution from acquisitions. We focus particularly on recurring revenue, which grew by 17% to £90.2m (2015: £76.8m), of which 11% was organic growth. The organic growth was derived broadly 40:60 from winning new customers and from existing customers taking more services.

We have continued to experience good sales momentum, with 2016 proving to be a record year for sales order intake. On average our contracts are three years long, which provides a good level of revenue visibility. Customer churn remains low by industry standards at 5% p.a. Our qualified sales pipeline at the year-end stood at £95m, around 12% higher than at September 2015.

Redcentric's financial performance is covered in more detail elsewhere in this report, however the Company delivered a very strong performance on all of the following key metrics:

Key Performance Indicator	**FY16**	FY15	Growth	Organic Growth
Revenue	**£109.5m**	£94.3m	16%	8%
Recurring revenue	**£90.2m**	£76.8m	17%	11%
Recurring revenue as % of total	**82%**	81%		
Operating profit	**£8.4m**	£8.7m	(3%)	
Adjusted EBITDA	**£25.8m**	£21.4m	21%	
Adjusted EBITDA margin	**23.6%**	22.7%		
Ratio of net debt to adjusted EBITDA	**0.98x**	0.34x		
Earnings per share	**3.6p**	5.5p	(35%)	
Adjusted earnings per share	**10.5p**	8.5p	24%	

Acquisitions

Following a year with no M&A activity, this year we completed two acquisitions to complement our organic growth.

In April 2015 we acquired Calyx Managed Services Ltd for an agreed Enterprise Value of £12.0m. Calyx had previously disposed of its Break-Fix and Carrier Services divisions, and the remaining business delivered managed services to a very similar, and complementary, customer base. Calyx was sub-scale however and was unprofitable, and following consultation with staff, its main office in Didsbury, Manchester was closed in September 2015. From that date, all services have been provided to the Calyx customers from Harrogate and Hyderabad, the business has been completely integrated within Redcentric, and is delivering services profitably and in line with expectations. We have retained a small office in Hyde, Manchester, from which specialist contract support is provided.

City Lifeline Ltd was acquired in January 2016 for an agreed Enterprise Value of £4.8m. City Lifeline operates a well-established and well-connected data-centre in the heart of London's Tech City. The acquisition provides Redcentric with its own London data-centre, with plenty of expansion capacity. The integration is underway and is relatively straightforward, and the business is performing in line with our expectations.

Both of the acquisitions were acquired for cash, with no residual earn-outs or liabilities to the previous owners. The acquisitions were fully in line with our growth strategy, providing additional customers, services and infrastructure similar to those already existing within Redcentric.

Strategy

There are multiple different views of the size of the UK IT services market, however they all indicate a very significant market, worth in excess of £100bn spend per annum, showing low single digit growth. Within this market are a wide range of differing sub-sectors, from high-growth new technologies, to declining legacy markets. Redcentric is not exposed to markets in structural decline, and our focus on connectivity, infrastructure and cloud-based solutions means the markets we operate in are growing steadily.

Our strategy for future growth is threefold;

- Firstly, we will continue to invest in expanding and enhancing our own infrastructure so that we can provide our customers with the very highest levels of security and service.
- Secondly, we will use our scale to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry.
- Thirdly, we continue to look for suitable acquisitions to enhance our business.

Our acquisition criteria are strict, and mean that we would only consider buying a business which is similar to our own, would accrete earnings, have high recurring revenue, have synergies available, and would not over-leverage the Company.

We have a stable, growing and well-funded business, operating in a growing market, and we are confident that our strategy will deliver shareholder value in the coming years.

EBITDA for the year of

£25.8m

Organic recurring revenue growth of

11%

OPERATIONAL REVIEW

CONTINUED

People

Redcentric's success has been created through the hard work and dedication of its employees. The successful business they have helped to build has in turn created opportunities for others to join the business. Staff numbers have grown this year from 455 at the start of the year to 513 at the year-end, with around 25% being located in our Hyderabad office. We are investing in additional space in both our Harrogate and Hyderabad offices to support our planned growth.

Our Save-As-You-Earn share-save plan has continued its popularity; in December 2015 we operated the second annual grant of options to employees. Since its launch in December 2014, over 200 employees have committed to the plan, representing well over half of those eligible. The plan provides employees with a risk-free means of sharing in the success of the Company, and I am delighted that so many have been able to participate.

Outlook

Redcentric has continued along the path established since its creation, with strong organic growth, low customer churn and high levels of recurring revenue. We have been able to strengthen our core platform through well-executed acquisitions and continuing organic investment. We are operating in growing markets, with no exposure to those markets in structural decline. Our well established teams support our customers from the UK and India, with the scale and flexibility to invest and innovate. The sales pipeline is growing, with solid order intake momentum, and we are looking forward to further success in the years ahead.

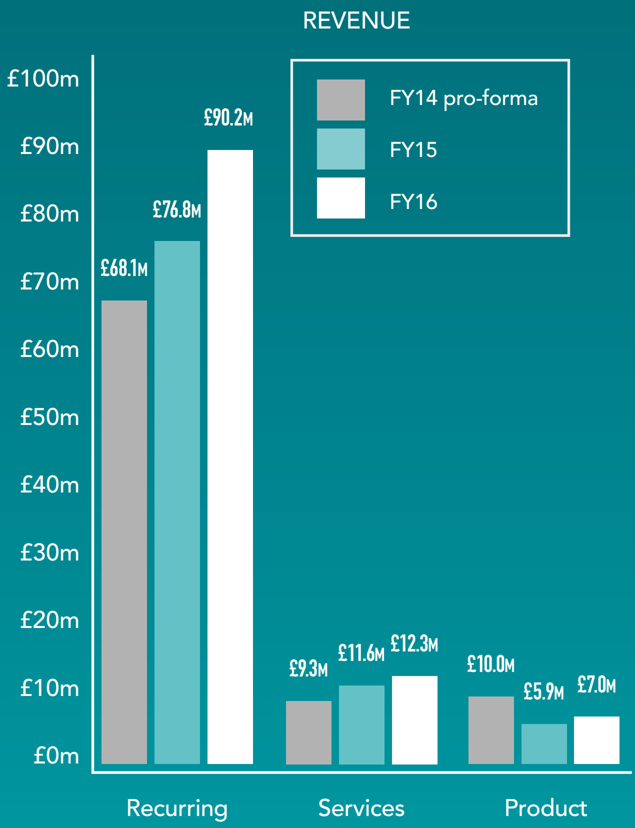
Fraser Fisher
Chief Executive Officer
16 June 2016

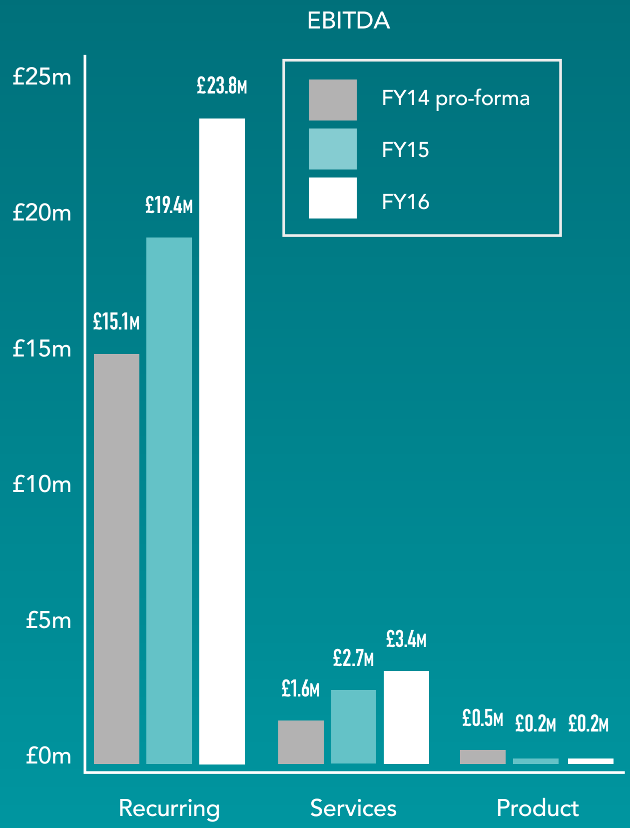
Recurring revenue as a % of total

82%

PERFORMANCE

MANAGED CHANGE IN REVENUE MIX





Redcentric has continued along the path established since its creation, with strong organic growth, low customer churn and high levels of recurring revenue.

FINANCIAL REVIEW

Trading Performance

Revenue for the year increased by 16% to £109.5m (2015: £94.3), which was through a combination of 8% organic growth supplemented by contributions from acquisitions during the year. The following table summarises the breakdown of revenue for the year:

	FY16 £m	FY15 £m	Reported growth	Organic growth
Recurring	**90.2**	76.8	17%	11%
Services	**12.3**	11.6	6%	4%
Product	**7.0**	5.9	19%	-19%
Total	**109.5**	94.3	16%	8%

The underlying growth in recurring revenue continued the pattern seen previously, with low churn levels of 5% enabling contract wins during the year to grow the recurring base. Customers typically engage through multi-year contracts which allows both the customer and Redcentric to plan ahead against a background of stability. Growth in the recurring contract base was driven by a combination of new business wins, and by expanding services to existing customers. Recurring revenue comprised 82% of total revenue in the year, and this proportion looks set to increase in the current year. Services revenue grew by 4% on an organic basis following a significant increase in FY15. Although there was an increase in headline revenue for Product sales, the underlying performance was a decline of 19%, continuing the pattern previously established. Product sales attract low margins, is a highly competitive market with little room for differentiation, and is not considered to be of strategic significance to the Group.

Operating profit was £8.4m (2015: £8.7m). Adjusted EBITDA grew by 21% to £25.8m (2015: £21.4m) representing an adjusted EBITDA margin of 23.6% (2015: 22.7%). The margin increase was driven by a combination of an improved revenue mix, cost synergies from acquisitions, the benefits of scale, and the effective execution of the Company's business model.

The Group uses adjusted EBITDA to monitor the trading performance of the business. Adjusted EBITDA is reconciled to statutory operating profit as follows:

	FY16 £m	FY15 £m
Adjusted EBITDA	**25.8**	21.4
Depreciation	**(5.8)**	(5.1)
Amortisation of acquired intangible assets	**(5.6)**	(5.5)
Transaction and integration costs	**(4.6)**	(0.5)
Share-based payments	**(1.4)**	(1.6)
Operating Profit	**8.4**	8.7

Acquisitions and amortisation of acquired intangibles

A central element of the Group's growth plan is the successful identification, execution and integration of complementary businesses. Following a year with no acquisition activity, during FY16 the Group acquired two businesses.

On 10 April 2015, Redcentric completed the acquisition of the entire share capital of Calyx Managed Services Ltd for an Enterprise Value of £12.0m. During 2015 Redcentric implemented an integration programme with Calyx, transferring most of its activities from its previous location in Didsbury, Manchester to provide service to customers from Redcentric's existing offices. As part of this integration, the office in Didsbury was closed in September 2015. The Group has booked a provision to cover the remaining lease liabilities, and incurred redundancy costs through the integration, part of which were funded by the vendors. The Calyx business has now been completely integrated within Redcentric, and is operating in line with the original acquisition plan.

On 28 January 2016, Redcentric completed the acquisition of City Lifeline Ltd for an Enterprise Value of £4.8m from its founders. City Lifeline operates a well-connected and well-invested data centre in Tech City, London, which has been trading for over 20 years.

The City Lifeline acquisition provides Redcentric with a low-risk means of expanding its owned infrastructure footprint, and will allow Redcentric to provide services to customers from a location in London which is completely controlled, managed and integrated with the rest of the business.

In FY16 the Group recorded an amortisation charge on acquired intangibles of £5.5m (2015: £5.5m). This charge was flat year on year as the amortisation of new intangibles acquired with Calyx and City Lifeline offset a reduction in underlying amortisation from previous acquisitions.

Capital expenditure and depreciation

Capital expenditure for the year grew significantly to £9.0m (2015: £6.1m) reflecting the nature and mix of contracts won during the year, £4.4m of which was funded through finance leases (2015: £2.4m). Around a third of the Group's capital expenditure programme is driven by investment in the core underlying infrastructure, with the balance being driven by the requirements of new customer contracts. Following this increased investment, the depreciation charge grew by 14% to £5.8m (2015: £5.1m).

Adjusted EPS growth of

24%

Dividend per share growth of

29%

FINANCIAL REVIEW

CONTINUED

Transaction and integration costs

The Group's transaction and integration costs in the year were £4.6m (2015: £0.6m). The costs relate to the acquisition and integration of two acquisitions during the year, and are separately analysed in detail in note 5 to the accounts in order to improve visibility and understanding of the Group's underlying performance. The costs are summarised as follows:

	FY16 £m	FY15 £m
Professional fees and costs of integrating subsidiaries	**0.8**	0.6
Fees and costs incurred in the acquisition of Calyx Managed Services	**0.6**	-
Fees and costs incurred in the acquisition of City Lifeline	**0.2**	-
Vacant property provision	**1.7**	-
Redundancy costs	**1.3**	-
Total	**4.6**	0.6

The largest single item is the provision for the closure of Calyx's Didsbury office which has now been shut, with all activities transferred to Redcentric's Harrogate office. The cash cost in respect of transaction and integration costs was £3.1m (2015: £2.3m).

Cash-flow

The business has inherently strong cash-flow characteristics, with high levels of recurring monthly billing providing a stable platform from which to invest. Operating cash conversion before transaction and integration costs for the year was 62% (2015: 74%) reflecting an increase in working capital of approximately £4m when compared to historical patterns, caused partly by a structural change in the timing of some monthly billing, and partly by collection issues, which are being addressed.

Operating cash-flow for the year was flat for the year at £15.2m (2015: £15.1m) with increases in profitability being offset by higher transaction and integration costs and working capital requirements. As noted above, capital expenditure was significantly higher, although the increased use of finance leases reduced the impact on cash balances. Finance leases at the end of the year had grown by £3.0m to £5.4m (2015: £2.4m).

At 31 March 2016, the Group had net debt of £25.3m (2015: £7.2m), representing a ratio of 0.98x EBITDA (2015: 0.34x).

Financing

On 2 April 2015, the Group entered into new long-term bank facilities. The facilities were established to re-finance the Company's previous bank facility, and provide cost effective and long-term funding stability for Redcentric.

The current facilities comprise a five-year £40m Revolving Credit Facility ("RCF"), along with a £5m Asset Financing Facility and a £5m Overdraft Facility, providing Redcentric with £50m of available financing. In addition, the RCF has a £20m accordion feature, with the potential to extend the RCF by a further £20m on the same terms, subject to lender approval. The structure of the facilities provides the Group with very flexible, cost effective credit arrangements, which support a range of potential future expansion opportunities.

In addition to the bank facilities, the Group has access to vendor financing to assist with the funding of capital expenditure. During the year, the Group took advantage of the facilities to increase the proportion of capital expenditure funded through finance leases, both through the Asset Financing Facility and various vendor funding programmes.

Interest expense in the year was £1.0m (2015: £0.8m), which consists of interest payments on bank facilities and finance leases of £0.9m (2015: £0.6m) and amortisation of loan arrangement fees of £0.1m (2015: £0.2m).

During the year the Company issued 1,152,277 new ordinary shares as a result of the exercise of options and warrants over the Company's shares, raising a total of £1.0m additional capital (2015: 817,754 shares issued, raising £0.6m).

Taxation

Redcentric has the benefit of significant tax trading losses, which are being offset against corporation tax liabilities wherever possible. As at 31 March 2016 the losses totalled approximately £17.5m (2015: £15.4m), and a deferred tax asset of £1.6m (2015: £5.9m) has been recognised in respect of them.

The income statement shows an accounting tax charge of £2.2m (2015: credit £0.2m) reflecting the unwinding of the deferred tax assets during the year. The Group paid no Corporation Tax during the year, as a result of utilising historic tax losses, and does not expect to any Corporation Tax in respect of the year to 31 March 2016. The ability to utilise historic losses will diminish thereafter, and the Group expects to start paying Corporation Tax on a proportion of its profits during 2018 in respect of the current financial year.

FINANCIAL REVIEW

CONTINUED

Share based payments, EPS and dividends

The Group recorded a charge for share based payments during the year of £1.4m (2015: £1.6m), with the year on year reduction being due to the profile of some of the options generating a higher charge in earlier vesting periods.

The statutory earnings per share ("EPS") in the year was 3.6p (2015: 5.5p). On a diluted basis, EPS was 3.4p (2015: 5.3p), with the reduction being due to the higher level of one-off transaction and integration costs in the year and the increase in the accounting tax charge. The Group also calculates an adjusted EPS figure to measure underlying performance, which excludes the effect of amortisation of acquired intangibles, share option charges and transaction and integration costs, and applies a normalised tax charge**. Adjusted EPS grew by 24% in the year to 10.5p (2015: 8.5p), with diluted adjusted EPS growing 22% to 9.9p (2014: 8.2p).

During the year Redcentric returned £5.8m (2015: £2.9m) to shareholders in the form of dividends. The Board has proposed a final dividend of 3.0p per share, which together with the interim dividend of 1.5p per share paid in February 2016 will make a total dividend in respect of the financial year of 4.5p per share. This is an increase of 29% on the 3.5p paid in respect of the previous financial year and represents the commitment of the Board to growing shareholder value. If approved by shareholders at the AGM on 26 July 2016, the Company intends to pay the final dividend on 21 September 2016 with an associated record date of 26 August 2016.

Tim Coleman
Chief Financial Officer
16 June 2016

Adjusted EPS of

10.5p

** The normalised tax charge applies a full rate of UK corporation tax of 20% (2015: 21%) to adjusted earnings, ignoring the effect of tax losses and movements in deferred tax balances.

FINANCIAL REVIEW

EARNINGS PER SHARE & DIVIDEND

Adjusted EBITDA* was

£25.8m

Represents an adjusted EBITDA* margin of

23.6%

* Throughout this document reference to "Adjusted EBITDA" is defined as Earnings Before Interest, Tax, Depreciation and Amortisation and excludes transaction and integration costs and charges for share-based payments. The Board regards Adjusted EBITDA as the key measure of underlying profitability.

** Adjusted Earnings Per Share excludes the effect of amortisation of acquired intangibles, share option charges and transaction and integration costs, and applies a normalised full UK tax charge of 20%, ignoring the effect of tax losses and movements in deferred tax balances.

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 enlarged company, WSP Global Inc. listed on the Toronto Stock Exchange.

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

David Payne
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 Chairman of the Remuneration Committee, and a member of the Audit and Nomination Committees, and is the Senior Independent non-executive Director. David is also Chairman of Castleton Technology plc.

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 and Chairman of the Audit Committee, and is a Director of the charity Kingston Carers' Network.

Stephen is Chairman of the Audit Committee and is a member of the Remuneration and Nominations Committees.

EXECUTIVE DIRECTORS

Tony Weaver
Non-Executive Director

Tony was previously CEO of Redcentric, having been the Chief Executive of Redstone plc from September 2010 up to the de-merger to Redcentric and had been responsible for effecting the restructuring of that business and its subsequent acquisition of Maxima Holdings plc. He became a Director of Redcentric plc on 11 February 2013.

Tony is a business leader and investor with proven sales, operations and management expertise in the ICT sector. With an IT, communications and electronics background that started in the mid 1980s, Tony established his first IT business in 1988 and has founded a number of other successful IT companies. Tony has also served on a number of private and publicly quoted company boards over the last 27 years.

Tony is also a founder of MXC Capital, a specialist merchant bank that invests and grows value in companies in the TMT sector. Tony is a member of the Remuneration and Nominations Committees.

Fraser Fisher
Chief Executive Officer

Fraser Fisher was appointed a Director of Redcentric on 8 April 2013, and became CEO on 9 November 2015. Fraser is an experienced IT business leader having successfully built and sold profitable businesses in the sector. Fraser was most recently Managing Director of Redstone with responsibility for leading its managed services offering while integrating Maxima Holdings plc. Prior to his appointment at Redstone, Fraser had a number of senior roles, including Managing Director at Maxima and was latterly responsible for developing its offshore support function in Hyderabad.

Prior to his appointment at Maxima, Fraser founded and was Managing Director of Centric Networks Limited, a mid-market managed and hosted services provider and was a founding Director of Netforce Group plc, an ISP and managed services provider.

Tim Coleman
Chief Financial Officer

Tim Coleman was appointed CFO of Redcentric plc in January 2014. Tim has held a range of financial roles in the technology and telecoms sector since the early 1990s including senior positions in quoted technology businesses.

Before Redcentric, Tim was CFO of m-hance, a privately owned software business. Prior to his role at m-hance, Tim was CFO of Trafficmaster Plc and was instrumental in the development and eventual sale of the business to private equity investors. Before this, Tim spent several years as UK Finance Director at Northgate Information Solutions Plc through a period of very high growth, both organic and through acquisition, before it was sold to KKR. This was preceded by a number of roles in software and telecoms businesses, including PacketVideo, MFS Communications and BT. Tim originally trained as a chartered accountant with Price Waterhouse.

CORPORATE GOVERNANCE

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, Fraser Fisher; the Chief Financial Officer, Tim Coleman; and non-executive Directors David Payne, Stephen Puckett and Tony Weaver.

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, Nominations 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.

David Payne is the Senior Independent non-executive Director and served throughout the year in this position.

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.

All Directors are subject to appraisal by the Board. The non-executive Directors are responsible for the evaluation of the Chairman.

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. Accordingly David Payne and Tony Weaver will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

Nominations Committee

The Nominations Committee consists of David Payne (Chairman), Stephen Puckett and Tony Weaver.

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 David Payne (Chairman), Stephen Puckett and Tony Weaver.

Details of the Committee and its policies are set out in the Directors' Remuneration Report on pages 24 to 26. The Committee has formal terms of reference (available on request from the Company Secretary).

Audit Committee

The Audit Committee consists of Stephen Puckett (Chairman) and David Payne.

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.

CORPORATE GOVERNANCE

CONTINUED

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.

David Payne, 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 2016 and 31 May 2016 (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 2016 Number	31 March 2016 %	31 May 2016 Number	31 May 2016 %
Schroder Investment Management	12,497,346	8.57	12,497,346	8.57
Hargreave Hale	11,551,135	7.92	11,229,865	7.70
Kestrel Partners LLP	9,840,637	6.75	9,848,137	6.75
Liontrust Asset Management	7,884,380	5.40	8,683,185	5.95
Blackrock Investment Management	7,427,537	5.09	7,314,756	5.01
Henderson Global Investors	7,808,175	5.35	7,289,948	5.00
Slater Investments	6,640,000	4.55	6,640,000	4.55
Coltrane Asset Management LP	6,613,392	4.53	6,546,681	4.49
Investec Asset Management	5,858,940	4.02	5,858,940	4.02
MXC Capital Ltd *	5,849,108	4.01	5,849,108	4.01

* MXC Capital Ltd is a related party as Tony Weaver, a Director of Redcentric plc, is a founder and shareholder of MXC.

DIRECTORS' REMUNERATION REPORT

UNAUDITED UNLESS STATED OTHERWISE

Remuneration Committee

The Remuneration Committee comprises David Payne (Chairman), Stephen Puckett and Tony Weaver. 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.

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.

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.

Service contracts

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

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)
Executive Directors		
Fraser Fisher	18 April 2013	12
Tim Coleman	15 January 2014	6
Non-executive Directors		
David Payne	18 March 2013	6
Chris Cole	1 September 2014	6
Stephen Puckett	17 November 2014	6
Tony Weaver	18 March 2013	1

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

Directors' remuneration (audited)

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

		Short-term benefits			Post-employment benefits		
		Basic salary, allowances and fees	Bonus	Benefits	Pension	**2016 Total**	2015 Total
		£000	£000	£000	£000	**£000**	£000
Executive							
Fraser Fisher		265	150	1	13	**429**	311
Tim Coleman		200	100	-	10	**310**	250
Non-executive							
Chris Cole		70	-	-	-	**70**	41
David Payne		40	-	-	-	**40**	40
Stephen Puckett		40	-	-	-	**40**	15
Tony Weaver	(a)	138	-	-	-	**138**	204
Total		**753**	**250**	**1**	**23**	**1,027**	**861**

(a) Directors' emoluments for Tony Weaver were paid to Mathian Ltd, a company controlled by MXC Capital Limited, which is a related party. Further details are provided in note 26. Tony Weaver was Chief Executive until 9 November 2014, when he became a non-executive Director.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Share options (audited)

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

		Exercise price Pence	Balance 31 March 2015	Granted in the year	Exercised in the year	Balance 31 March 2016
Fraser Fisher	(a)	70	761,143	-	-	761,143
	(b)	80	581,968	-	-	581,968
	(c)	107	16,822	-	-	16,822
Tim Coleman	(d)	112	1,100,000	-	-	1,100,000
	(c)	107	16,822	-	-	16,822
Tony Weaver	(e)	32	846,494	-	-	846,494

Further information regarding the options noted above is set out below.

(a) The options were granted under the Company's EMI scheme. 294,623 of the options are qualifying options, and 466,520 are non-qualifying under the terms of the scheme. For all of the options, the performance conditions have been met, the options have vested and are exercisable.

(b) The options were granted under the Company's EMI scheme, and all of the options are non-qualifying under the terms of the scheme. The options will vest on 15 November 2016 subject to the achievement of performance conditions related to the achievement of a pre-defined level of share price growth.

(c) 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 which is saved over three years to buy shares. The options are exercisable from 31 March 2018. There are no performance conditions.

(d) The options were granted under an unapproved share option contract. The performance conditions have been met for 550,000 options, and the options have vested and are exercisable. The remaining 550,000 options are subject to performance conditions being achieved by 18 April 2017. The performance conditions relate to the achievement of certain financial performance measurements related to the approved budget.

(e) The options were granted under the Company's EMI scheme as non-qualifying options. 282,165 of the options have vested, with the remaining 562,349 being subject to performance conditions. The performance conditions are linked to the occurrence of a qualifying transaction that will deliver a predefined return to shareholders. The options are held by Tony Weaver as a Trustee under a Declaration of Trust, the beneficiary of which is MXC Capital Ltd.

Share price

The market price of the Company's shares on 31 March 2016 was 192p per share. The highest and lowest market prices during the year were 199p and 133p respectively.

David Payne
Chairman, Remuneration Committee
On behalf of the Board
16 June 2016

STRATEGIC REPORT

Review of the business

A detailed review of the business is set out in the Chairman's Statement on pages 5 to 6 and in the Operational Review on pages 7 to 10. The Financial Review is set out on pages 12 to 17. Included in these reviews are comments on the key performance indicators that are used by the Board on a monthly basis to monitor and assess the performance of the business. These key performance indicators are: the level of revenue, recurring revenue proportion, adjusted EBITDA*, adjusted EBITDA margin, the ratio of net bank debt to adjusted EBITDA and adjusted earnings per share.

The Consolidated Income Statement for the year is set out on page 37. Operating profit was £8.4m (2015: £8.7m) and adjusted EBITDA of the Group for the year was £25.8m (2015: £21.4m). The Directors are recommending the payment of a final dividend of 3.0p per ordinary share.

Principal risks and uncertainties

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 businesses 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.

*Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, transaction and integration costs and share-based payments.

STRATEGIC REPORT

CONTINUED

Infrastructure failure

The Directors believe that one of the key differentiators 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
- 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
- Expansion through suitable acquisitions to enhance the business.

Our acquisition criteria are strict, and mean that we would only consider buying a business which is similar to our own, would accrete earnings, have high recurring revenue, have synergies available, and would not over-leverage the Company.

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. This underlying platform is the core strength of the Company, and the Company will continue to consider augmenting its underlying organic growth with acquisitions to leverage this platform, should there be a compelling strategic and financial case.

By order of the Board

Tim Coleman
Company Secretary
16 June 2016

Central House
Beckwith Knowle
Harrogate
HG3 1UG


Central House

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2016.

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 page 27 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:

Chris Cole
Stephen Puckett
David Payne
Tony Weaver
Fraser Fisher
Tim Coleman

As at 31 March 2016 the Directors beneficial interests and those of their families in the ordinary share capital of the Company were as follows:

	31 March 2016 Number of shares	31 March 2015 Number of shares
Fraser Fisher	**90,557**	90,557
David Payne	**100,626**	100,626
Tony Weaver	**5,849,108**	5,849,108

Tony Weaver's interest in the ordinary shares of Redcentric plc is held through MXC Capital Ltd, a company in which he has an interest.

David Payne and Tony Weaver 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 pages 24 to 26.

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 particular 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	-	**6**
Senior managers	3	2	**5**
Other employees	415	95	**510**
Total average headcount	**424**	**97**	**521**

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 two awards of options under the plan. 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 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.

DIRECTORS' REPORT

CONTINUED

The Group intends to grant options under the plan to eligible employees in future years. As at 31 March 2016, the following options had been granted under the plan:

Grant date	Exercise price	Options granted	Options exercised	Options cancelled	Options remaining
17 December 2014	107p	1,134,886	4,251	146,119	985,824
14 December 2015	154p	163,905	-	5,376	158,529
Total		**1,298,791**	**4,251**	**151,495**	**1,144,353**

Annual General Meeting

The Annual General Meeting will be held at 10.00 a.m. at 100 Fetter Lane, London EC4A 1BN on 26 July 2016.

A resolution is to be proposed at the forthcoming AGM for the re-appointment of PricewaterhouseCoopers LLP as auditor of the Company, at a rate of remuneration to be determined by the Audit Committee.

Dividend

The Company paid a final dividend in respect of the year to 31 March 2015 of 2.5p per ordinary share on 28 September 2015, with a total payment value of £3,618,000, making a total of 3.5p per share for the year. The Company paid an Interim dividend of 1.5p per ordinary share on 17 February 2016, with a total payment value of £2,188,000. Total dividends paid during the year amounted to £5,806,000.

The Directors are proposing a final dividend of 3.0p per share, which will make a total for the year of 4.5p per share. If approved by shareholders at the AGM, the final dividend, which the Directors expect to amount to £4,376,000, will be paid on 21 September 2016 to shareholders on record on 26 August 2016.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are described in note 19 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 30. 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 and in the Operational and Financial Reviews.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

By order of the Board

Tim Coleman
Company Secretary
16 June 2016

Central House
Beckwith Knowle
Harrogate
HG3 1UG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REDCENTRIC PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our opinion

In our opinion, Redcentric plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 March 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Balance Sheet as at 31 March 2016;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REDCENTRIC PLC

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of Redcentric plc for the year ended 31 March 2016.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Leeds
16 June 2016

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH

	Note	2016 £000	2015 £000
Revenue	2	**109,526**	94,321
Cost of sales		**(45,050)**	(40,596)
Gross profit		**64,476**	53,725
Selling and distribution costs		**(8,688)**	(9,285)
Administrative expenses		**(47,349)**	(35,770)
Adjusted EBITDA*		**25,844**	21,403
Depreciation	10	**(5,825)**	(5,099)
Amortisation of acquired intangibles	11	**(5,548)**	(5,507)
Transaction and integration costs included within administrative expenses	5	**(4,591)**	(558)
Share-based payments	22	**(1,441)**	(1,569)
Operating profit		**8,439**	8,670
Finance costs	6	**(995)**	(843)
Profit on ordinary activities before taxation		**7,444**	7,827
Tax (charge) / credit on profit on ordinary activities	8	**(2,188)**	150
Profit for the year (attributable to owners of the parent)		**5,256**	7,977
Earnings per share			
Basic earnings per share	9	**3.62p**	5.53p
Diluted earnings per share	9	**3.43p**	5.32p

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 £000	2015 £000
Profit for the year	**5,256**	7,977
Total comprehensive income	**5,256**	7,977

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Called up share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	**Total equity £000**
At 31 March 2014	**144**	**62,055**	**(9,454)**	**34,860**	**87,605**
Total comprehensive income	-	-	-	7,977	**7,977**
Transactions with owners:					
Share based payments (SBP)	-	-	-	1,403	**1,403**
Deferred tax on SBP	-	-	-	26	**26**
Share issues less costs	1	613	-	-	**614**
Dividends	-	-	-	(2,888)	**(2,888)**
At 31 March 2015	**145**	**62,668**	**(9,454)**	**41,378**	**94,737**
Total comprehensive income	-	-	-	5,256	**5,256**
Transactions with owners:					
Share based payments (SBP)	-	-	-	1,336	**1,336**
Deferred tax on SBP	-	-	-	935	**935**
Share issues less costs	1	999	-	-	**1,000**
Dividends	-	-	-	(5,806)	**(5,806)**
At 31 March 2016	**146**	**63,667**	**(9,454)**	**43,099**	**97,458**

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	10	**28,669**	23,397
Intangible assets	11	**92,285**	82,572
Total		**120,954**	105,969
Current assets			
Trade and other receivables	12	**35,762**	18,350
Cash and short term deposits	13	**8,492**	3,199
Total		**44,254**	21,549
Total assets		**165,208**	127,518
Equity and liabilities			
Equity			
Called up share capital	20	**146**	145
Share premium account		**63,667**	62,668
Other reserves		**(9,454)**	(9,454)
Retained earnings		**43,099**	41,378
Total equity		**97,458**	94,737
Non-current liabilities			
Provisions	21	**1,940**	489
Borrowings	16	**31,912**	9,412
Deferred tax liability	8	**5,139**	1,631
Total		**38,991**	11,532
Current liabilities			
Trade and other payables	14	**26,570**	18,542
Corporation tax payable		**-**	1,488
Borrowings	16	**1,855**	1,033
Provisions	21	**334**	186
Total		**28,759**	21,249
Total liabilities		**67,750**	32,781
Total equity and liabilities		**165,208**	127,518

The notes on pages 43 to 83 are an integral part of these financial statements. The consolidated financial statements of Redcentric Plc (reg. No 08397584) on pages 37 to 83 were approved by the Board on 16 June 2016 and are signed on its behalf by: **Fraser Fisher, Director** **Tim Coleman, Director**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH

	Note	2016 £000	2015 £000
Cash flows from continuing operating activities			
Cash generated from operations (before Transaction and integration costs)	23	**19,148**	18,222
Cash absorbed by Transaction and integration costs		**(3,066)**	(2,315)
Cash generated from operations		**16,082**	15,907
Interest paid		**(927)**	(809)
Corporation tax paid		**-**	-
Net cash generated from operating activities		**15,155**	15,098
Cash flows from investing activities			
Acquisitions of subsidiaries net of cash acquired	29	**(19,348)**	-
Purchase of property, plant and equipment	10	**(9,030)**	(6,094)
Net cash used in investing activities		**(28,378)**	(6,094)
Cash flows from financing activities			
Proceeds of issue of shares less costs of issue		**1,000**	614
Increase/(decrease) in bank loans and finance leases		**23,323**	(7,445)
Dividends paid to shareholders		**(5,806)**	(2,888)
Net cash flows generated from / (used in) financing activities		**18,517**	(9,719)
Net increase/(decrease) in cash and cash equivalents		**5,294**	(715)
Cash and cash equivalents at end of year	13	**8,492**	3,199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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

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 debt holders and shareholders. On 2 April 2015 the Group signed a new 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 EBITDA 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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 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

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.

Motor vehicles	3 years
Leasehold improvements	5 years or over lease term if shorter
Network infrastructure, equipment, fixtures and fittings	2-20 years

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.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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.

Vacant property

The Group currently has a number of vacant properties. Provisions have been recognised to cover the rents, business rates and service charges for the period that each property is expected to be vacant, being up to the lease expiry or break clause if earlier. Provisions are calculated using the contracted rates of rents and service charges on each individual lease arrangement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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. Although the Group does not hold any inventory and the products are in most cases delivered to customers directly by our suppliers, the Group has primary responsibility in selecting the product to meet the customer requirements, delivering the product, establishing the price and bears the credit risk. Consequently, the Group is acting as a principal in these arrangements. Revenue from the sale of product is recognised upon delivery to the customer. The costs incurred for this revenue stream match the revenue pattern. Although returns of equipment are rare, the Group bases its estimate of returns on historical patterns, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

1.21 Other income

Finance income

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

1.22 Transaction and integration 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 Transaction and Integration 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.

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 Executive Board assess the performance of the operating segments 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:

- **Estimated impairment of goodwill and intangible assets** The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1.5. The recoverable amount has been determined based on value-in-use calculations. These calculations require the use of estimates (note 11).
- **Deferred tax** The Group has substantial tax losses and unclaimed capital allowances carried forward. A deferred tax asset has been recognised in connection with trading losses carried forward to the extent that they are foreseen as being recoverable based on future profitability of the Group which is based on projections. A 10% fall in the forecast available profits would not result in a reduction in the deferred tax asset recognised.

- **Initial recognition of intangible assets on acquisition** Following an acquisition, the Group undertakes an assessment of the fair values attributable to the assets acquired, including an assessment of any intangible assets acquired. Valuation of such intangible assets includes the use of judgements, which are made based on historical experience. The resultant assets are included as part of the fair value balance sheet of the acquired company, and are tested for impairment as noted above.
- **Classification of Transaction and Integration costs** The Directors have exercised judgement when classifying certain costs as Transaction and Integration costs. They believe that these costs are all related to the costs described in note 1.22.

1.26 New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year that had a material impact on the Group.

A number of standards and interpretations issued by the IASB are effective for financial statements after this reporting period, including IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', both of which are effective for annual periods beginning on or after 1 January 2018, and IFRS 16 'Leases' which is effective for annual periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact that the application of these standards and interpretations will have on the Group's financial statements.

2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been identified as the Group Chief Executive and the Chief Financial Officer. The CODM is jointly responsible for resources allocation and assessing the performance of the operating segments. The operating segments are defined by distinctly separate product offerings or markets. All of the revenue derives from customers located in the United Kingdom. No single customer accounted for more than 10% of the revenue of any operating segment. All segment revenue is derived from external customers, and all segment results are derived from the United Kingdom.

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. Product revenues are derived from the sale of third party products, which comprises mostly hardware.

Results for the year ended 31 March 2016

	Recurring £000	Services £000	Product £000	Central £000	**Total £000**
Total segment revenue	90,172	12,310	7,044	-	**109,526**
Adjusted operating costs*	(66,401)	(8,906)	(6,876)	(1,499)	**(83,682)**
Adjusted EBITDA**	**23,771**	**3,404**	**168**	**(1,499)**	**25,844**
Depreciation	(5,825)	-	-	-	**(5,825)**
Share based payments	-	-	-	(1,441)	**(1,441)**
Amortisation of acquired intangible assets	(5,548)	-	-	-	**(5,548)**
Transaction and integration costs	-	-	-	(4,591)	**(4,591)**
Segment result	**12,397**	**3,404**	**168**	**(7,531)**	**8,439**
Net finance costs	-	-	-	(995)	**(995)**
Tax	(1,699)	(466)	(23)	-	**(2,188)**
Profit/(loss) for the year	**10,699**	**2,938**	**145**	**(8,526)**	**5,256**

Other segment information					
Capital expenditure					
Property, plant and equipment	9,029	-	-	-	**9,029**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

Results for the period ended 31 March 2015

	Recurring £000	Services £000	Product £000	Central £000	**Total £000**
Total segment revenue	76,807	11,598	5,916	-	**94,321**
Adjusted operating costs*	(57,411)	(8,909)	(5,693)	(905)	**(72,918)**
Adjusted EBITDA**	19,396	2,689	223	(905)	**21,403**
Depreciation	(5,099)	-	-	-	**(5,099)**
Share based payments	-	-	-	(1,569)	**(1,569)**
Amortisation of acquired intangible assets	(5,507)	-	-	-	**(5,507)**
Transaction and integration costs	-	-	-	(558)	**(558)**
Segment result	8,790	2,689	223	(3,032)	**8,670**
Net finance costs	-	-	-	(843)	**(843)**
Tax	112	35	3	-	**150**
Profit/(loss) for the year	8,902	2,724	226	(3,875)	**7,977**
Other segment information					
Capital expenditure					
Property, plant and equipment	6,094	-	-	-	**6,094**

* Operating costs excluding amortisation and transaction and integration costs
** Earnings before interest, tax, depreciation, amortisation, Transaction and integration costs and share-based payments

All of the depreciation, amortisation and capital expenditure has been allocated to the recurring revenue stream as this is the primary element of the business within which investment is focused. The Services and Product revenue streams have no capital expenditure, depreciation or acquired intangibles associated with them. All of the acquired goodwill has also been allocated to the recurring revenue segment as this was the segment that was expected to benefit from the synergies of the combination.

3 Expenses by nature

	2016 £000	2015 £000
Amortisation of acquired intangible assets	**5,548**	5,507
Depreciation – owned assets	**4,592**	4,565
Depreciation – assets held under finance lease	**1,233**	534
Share-based payments	**1,441**	1,569
Operating lease payments	**2,934**	3,056
Employee benefits expense, excluding share based compensation	**24,664**	20,304
Cost of third party product recognised in Cost of sales	**5,832**	4,409

4 Auditors' remuneration

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

	2016 £000	2015 £000
Audit services		
Fees payable to Company auditor and its associates for the audit of parent company and consolidated financial statements	**30**	26
Fees payable to Company auditor and its associates for other services:		
The audit of Company's subsidiaries	**96**	80
Tax advisory and compliance services	**54**	60
Total	**180**	166

5 Transaction and integration costs

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

	2016 £000	2015 £000
Redundancy costs	**1,256**	-
Contractors and one-off closure costs	**388**	-
Professional fees and costs incurred in the acquisition of subsidiaries	**489**	-
Professional fees and costs of integrating subsidiary	**760**	558
Vacant property provisions	**1,698**	-
Total	**4,591**	558

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As part of the acquisition and integration of other businesses, the Group incurs a range of one-off costs as set out in the table above. These costs are incurred on the basis that substantial cost savings and operational improvements are generated through the integration of acquired companies.

During the year the Group acquired Calyx and City Lifeline, and commenced integrating them into Redcentric. Redundancy costs were paid to staff who left the Group as a result of the acquisition and integration of the business. The contractor and one-off closure costs were incurred during the integration of Calyx and City Lifeline. The Group incurred professional fees in relation to the acquisition of Calyx and City Lifeline, and incurred further costs in relation to the team of external integration professionals who manage the integration activities. The vacant property provision was recorded in respect of the closure of the main trading office of Calyx, which was no longer needed following the integration with Redcentric.

6 Finance costs

Finance costs	**2016 £000**	2015 £000
Interest payable on bank loans and overdrafts	**927**	637
Amortisation of loan arrangement fees	**68**	206
Total	**995**	843

7 Employee benefits expense

	2016 £000	2015 £000
Staff costs for the year, including executive Directors, amounted to:		
Wages and salaries	**21,707**	17,808
Social security costs	**2,556**	2,133
Pension costs	**401**	363
Share options granted to Directors and employees	**1,441**	1,569
Total	**26,105**	21,873

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

	2016	2015
Operations	**376**	334
Selling and distribution	**95**	75
Administration	**50**	48
Total	**521**	457

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

		Short-term benefits			Post-employment benefits		
		Basic salary, allowances and fees	Bonus	Benefits	Pension	**2016 Total**	2015 Total
		£000	£000	£000	£000	**£000**	£000
Executive							
Fraser Fisher		265	150	1	13	**429**	311
Tim Coleman		200	100	-	10	**310**	250
Non-executive							
Chris Cole		70	-	-	-	**70**	41
David Payne		40	-	-	-	**40**	40
Stephen Puckett		40	-	-	-	**40**	15
Tony Weaver	(a)	138	-	-	-	**138**	204
Total		**753**	**250**	**1**	**23**	**1,027**	**861**

(a) Directors' emoluments for Tony Weaver were paid to Mathian Ltd, a company controlled by MXC Capital Limited, which is a related party. Further details are provided in note 26. Tony Weaver was Chief Executive until 9 November 2014, when he became a non-executive Director.

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Share options

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

		Exercise price Pence	Balance 31 March 2015	Granted in the year	Exercised in the year	Balance 31 March 2016
Fraser Fisher	(a)	70	761,143	-	-	761,143
	(b)	80	581,968	-	-	581,968
	(c)	107	16,822	-	-	16,822
Tim Coleman	(d)	112	1,100,000	-	-	1,100,000
	(c)	107	16,822	-	-	16,822
Tony Weaver	(e)	32	846,494	-	-	846,494

Further information regarding the options noted above is set out below.

(a) The options were granted under the Company's EMI scheme. 294,623 of the options are qualifying options, and 466,520 are non-qualifying under the terms of the scheme. For all of the options, the performance conditions have been met, the options have vested and are exercisable.

(b) The options were granted under the Company's EMI scheme, and all of the options are non-qualifying under the terms of the scheme. The options will vest on 15 November 2016 subject to the achievement of performance conditions related to the achievement of a pre-defined level of share price growth.

(c) 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 which is saved over three years to buy shares. The options are exercisable from 31 March 2018. There are no performance conditions.

(d) The options were granted under an unapproved share option contract. The performance conditions have been met for 550,000 options, and the options have vested and are exercisable. The remaining 550,000 options are subject to performance conditions being achieved by 18 April 2017. The performance conditions relate to the achievement of certain financial performance measurements related to the approved budget.

(e) The options were granted under the Company's EMI scheme as non-qualifying options. 282,165 of the options have vested, with the remaining 562,349 being subject to performance conditions. The performance conditions are linked to the occurrence of a qualifying transaction that will deliver a predefined return to shareholders. The options are held by Tony Weaver as a Trustee under a Declaration of Trust, the beneficiary of which is MXC Capital Ltd.

Share price

The market price of the Company's shares on 31 March 2016 was 192p per share. The highest and lowest market prices during the year were 199p and 133p respectively.

8 Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

		2016 £000	2015 £000
Current income tax:			
Current income tax		-	(1,914)
Prior year adjustment		1,914	-
Deferred tax:			
Origination and reversal of timing differences	– Deferred tax asset: prior year adjustments	(2,393)	1,947
	– Deferred tax asset: current year	(3,217)	(984)
	– Deferred tax liability	1,508	1,101
Total income tax (charge)/credit reported in the income statement		**(2,188)**	150

(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:

	2016 £000	2015 £000
Profit before taxation	**7,444**	7,827
Profit multiplied by the UK standard rate of corporation tax of 20% (2015: 21%)	1,489	1,644
Expenses not deductible for tax purposes	65	121
Effect of rate changes on deferred tax	(255)	6
Effect of tax losses for which no deferred tax asset was recognised	410	-
Prior year adjustment in deferred tax	2,393	(1,921)
Prior year adjustment to current income tax	(1,914)	-
Total income tax charge/(credit) reported in the income statement	**2,188**	(150)

(c) Deferred tax

	2016 £000	2015 £000
Deferred tax liability	(9,418)	(8,997)
Deferred tax asset	4,279	7,366
Net deferred tax liability at 31 March	**(5,139)**	(1,631)

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d) Deferred tax liability

	2016	2015
	£000	£000
Opening balance	**8,997**	10,098
Acquisition of subsidiaries	**1,743**	-
Acquired with subsidiaries	**186**	-
Credited to the income statement	**(1,508)**	(1,101)
At 31 March	**9,418**	8,997

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

(e) Deferred tax assets

	Share based payments temporary differences	Tax losses	Property, plant and equipment temporary differences	**Total**
	£000	£000	£000	**£000**
At 31 March 2015	709	5,888	769	**7,366**
Acquired with subsidiaries	-	1,587	-	**1,587**
Recognised in the income statement	267	(3,014)	(470)	**(3,217)**
Prior year adjustment	-	(2,818)	425	**(2,393)**
Recognised in equity	936	-	-	**936**
At 31 March 2016	**1,912**	**1,643**	**724**	**4,279**

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.

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.

During the year, the UK main corporation tax rate was reduced from 21% to 20% from 1 April 2015. The Finance Act 2015 set the main corporation tax rate at 20% for the Financial Year 2016. On 18 November 2015 Royal Assent was given for a reduction in the rate from 20% to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020.

9 Earnings per share

Basic earnings per share has been calculated using profit after tax for the year of £5,256,000 (2015: £7,977,000) and a weighted average number of shares of 145,223,982 (2015: 144,225,164). The dilutive effect of share options at 31 March 2016 increased the weighted average number of shares to 153,314,134 (2015: 149,887,342).

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:

	2016	2015
	£000	£000
Profit from operations for the year	**5,256**	7,977
Tax charge / (credit)	**2,188**	(150)
Amortisation of acquired intangibles	**5,548**	5,507
Share based payments	**1,441**	1,569
Transaction and integration costs	**4,591**	558
Adjusted earnings before tax	**19,024**	15,461
Notional tax charge at standard rate of 20% / 21%	**(3,805)**	(3,247)
Adjusted earnings	**15,219**	12,214
Weighted average number of shares in issue	**145,223,982**	144,225,164
Weighted dilutive effect of options and warrants in issue	**8,090,152**	5,662,178
Diluted weighted average number of shares in issue	**153,314,134**	149,887,342
Statutory basic earnings per shares	**3.62p**	5.53p
Statutory diluted earnings per share	**3.43p**	5.32p
Adjusted basic earnings per share	**10.48p**	8.47p
Adjusted diluted earnings per share	**9.93p**	8.15p

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10 Property, plant and equipment

	Motor Vehicles £000	Leasehold improvements £000	Network infrastructure, equipment, fixtures and fittings £000	**Total £000**
Cost				
At 31 March 2014	68	477	24,783	**25,328**
Additions	19	-	6,075	**6,094**
At 31 March 2015	87	477	30,858	**31,422**
Additions	-	61	8,968	**9,029**
Acquired with subsidiaries	-	140	1,928	**2,068**
At 31 March 2016	**87**	**678**	**41,754**	**42,519**
Accumulated depreciation				
At 31 March 2014	(21)	(108)	(2,797)	**(2,926)**
Charge for the year ended 31 March 2015	(26)	-	(5,073)	**(5,099)**
At 31 March 2015	(47)	(108)	(7,870)	**(8,025)**
Charge for the year ended 31 March 2016	-	(152)	(5,673)	**(5,825)**
At 31 March 2016	**(47)**	**(260)**	**(13,543)**	**(13,850)**
Net book amount				
At 31 March 2015	40	369	22,988	**23,397**
At 31 March 2016	**40**	**418**	**28,211**	**28,669**

Included in network infrastructure and equipment are assets held under finance leases with a carrying value of £5.7m at 31 March 2016 (2015: £2.9m). Of the £9.0m fixed assets acquired in the year, £4.4m were funded using finance leases (2015: £2.4m).

11 Intangible Assets

	Goodwill £000	Customer contracts and related relationships £000	Trademarks £000	**Total £000**
Cost				
At 31 March 2014	38,022	52,614	275	**90,911**
At 31 March 2015	38,022	52,614	275	**90,911**
Acquisition of subsidiaries	5,578	9,683	-	**15,261**
At 31 March 2016	**43,600**	**62,297**	**275**	**106,172**
Accumulated amortisation and impairment				
At 31 March 2014	-	(2,772)	(60)	**(2,832)**
Amortisation charge for the year ended 31 March 2015	-	(5,447)	(60)	**(5,507)**
At 31 March 2015	-	(8,219)	(120)	**(8,339)**
Amortisation charge for the year ended 31 March 2016		(5,488)	(60)	**(5,548)**
At 31 March 2016	**-**	**(13,707)**	**(180)**	**(13,887)**
Carrying amount at 31 March 2015	38,022	44,395	155	**82,572**
Carrying amount at 31 March 2016	**43,600**	**48,590**	**95**	**92,285**

Customer contracts have a weighted average remaining amortisation period of 8 years and 11 months (2015: 9 years and 8 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 balances transferred on the demerger and arising on the IMS acquisition were all allocated to the Recurring revenue segment, which also represents a cash generating unit ("CGU"), as that was the segment that was expected to benefit from the synergies of the combination. Goodwill balances arising on the acquisitions of Calyx and City Lifeline have also been allocated to the Recurring revenue segment. Goodwill is tested for impairment at least annually.

The recoverable amount of the Recurring CGU was based on a value in use calculation using budgeted cash flow projections for the period to 31 March 2017 and extrapolated for a further four years by growth rates applicable to the unit. A terminal value based on a perpetuity calculation using 2% real growth was then added. Discount rates were then applied to these projections reflecting management's expected risk profile for the CGU.

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

- Gross margin percentage of 66%;
- Pre-tax discount rate of 11%; and
- Terminal growth rate percentage of 2%.

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

A pre-tax discount rate of 11% (post-tax 9.3%) was applied to the CGU which reflects management's risk-adjusted estimate of the weighted average cost of capital. The CGU has 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 10.1%. These growth rates were determined 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

	2016	2015
	£000	£000
Trade receivables	**21,693**	10,208
Less: provision for impairment of trade receivables	**(661)**	(76)
Trade receivables – net	**21,032**	10,132
Other receivables	**8**	25
Prepayments	**5,777**	2,833
Accrued income	**8,945**	5,360
Total	**35,762**	18,350

As at 31 March 2016, trade receivables of £0.7m (2015: £0.1m) 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 2016, trade receivables of £6.2m (2015: £1.3m) were past due but not impaired. 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 net trade receivables is as follows:

Days outstanding	**2016 £000**	2015 £000
31– 60 days	**3,940**	486
61– 90 days	**1,158**	202
91–180 days	**795**	338
181–365 days	**280**	284
Total	**6,173**	1,310

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 are as follows:

	2016 £000	2015 £000
Balance at the start of the period	**76**	1,426
Acquired with subsidiaries	**93**	-
Increase in impairment provision	**715**	-
Utilisation of impairment provision	**(223)**	(1,350)
At 31 March	**661**	76

The creation and release of a provision for impaired receivables has been included in 'administrative 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.

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13 Cash and cash equivalents

	2016	2015
	£000	£000
Cash at bank	**8,492**	3,199

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

	2016	2015
	£000	£000
Current		
Trade payables	**12,126**	7,582
Other payables	**971**	111
Taxation and social security	**4,866**	3,063
Accruals	**3,959**	3,871
Deferred income	**4,648**	3,915
Total	**26,570**	18,542

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:

	Land and buildings 2016 £000	**Plant and machinery 2016 £000**	Land and buildings 2015 £000	Plant and machinery 2015 £000
Not later than 1 year	**2,411**	**197**	1,966	234
After 1 year but not more than 5 years	**7,078**	**92**	6,331	214
After 5 years	**7,733**	**-**	8,929	-
Total	**17,222**	**289**	17,226	448

The Group's operating leases relate to property, motor vehicles and office equipment, and have remaining terms of between 1 and 24 years. The amount recognised as an expense in the year is £2.9m (2015: £3.1m).

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 2016 (2015: £nil).

16 Borrowings

	2016 £000	2015 £000
Non-current		
Bank loan	**28,674**	8,000
Finance leases	**3,510**	1,412
Unamortised loan arrangement fee	**(272)**	-
Total non-current	**31,912**	9,412
Current		
Finance leases	**1,855**	1,033
Total current	**1,855**	1,033

At 31 March 2016 the Group was party to £50.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a Revolving Credit Facility ("RCF") of £40.0m with a £20.0m accordion, a £5.0m Overdraft Facility and a £5.0m 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.

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The movement in total net debt balances can be reconciled as follows:

	2016 £000	2015 £000
Net cash generated from operating activities	**15,155**	15,098
Purchase of property, plant and equipment	**(9,030)**	(6,094)
Acquisitions of subsidiaries net of cash acquired	**(19,348)**	-
Share issues	**1,000**	614
Dividends	**(5,806)**	(2,888)
Other non-cash movements in debt	**-**	(34)
Total (increase) / decrease in net debt	**(18,029)**	6,696

Fair value of non-current borrowings

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

Non-current:	**Carrying value 2016 £000**	**Fair value 2016 £000**	Carrying value 2015 £000	Fair value 2015 £000
Bank loan	**28,674**	**26,344**	8,000	7,562

Fair values are based on discounted cash flows, using an effective interest rate based on the borrowing rates at 31 March 2016 of 2.15% (2015: 3.23%).

Finance Leases	**Present Value 2016 £000**	**Finance Charges 2016 £000**	**Future Lease Payments 2016 £000**	Present Value 2015 £000	Finance Charges 2015 £000	Future Lease Payments 2015 £000
Not later than 1 year	**1,855**	**111**	**1,966**	1,033	78	1,111
After 1 year but not more than 5 years	**3,510**	**158**	**3,668**	1,412	108	1,520
Total	**5,365**	**269**	**5,634**	2,445	186	2,631

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 2016 £000	**Fair Value 2016 £000**	Carrying Value 2015 £000	Fair Value 2015 £000
Assets				
Trade receivables	**21,032**	**21,032**	10,132	10,132
Other receivables and prepayments	**5,785**	**5,785**	2,858	2,858
Other current assets	**8,945**	**8,945**	5,360	5,360
Cash and cash equivalents	**8,492**	**8,492**	3,199	3,199
Total	**44,254**	**44,254**	21,549	21,549
Liabilities				
Trade payables	**12,126**	**12,126**	7,582	7,582
Other payables and accruals	**4,930**	**4,930**	3,982	3,982
Other current liabilities	**9,514**	**9,514**	6,978	6,978
Borrowings	**33,767**	**33,767**	10,445	10,445
Total	**60,337**	**60,337**	28,987	28,987

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.

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(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 2016 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	1-5 years	Total
	£000	£000	£000
At 31 March 2016			
Borrowings	**-**	**28,674**	**28,674**
Finance leases	**1,855**	**3,510**	**5,365**
Trade and other payables	**12,126**	**-**	**12,126**
At 31 March 2015			
Borrowings	-	10,445	10,445
Finance leases	1,033	1,412	2,445
Trade and other payables	11,524	-	11,524

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. 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, transaction and integration costs and share-based payments. The Group's strategy is to maintain the ongoing ratio at below 2.0x, although the bank facilities can accommodate a higher ratio. The ratio was comfortably below this level throughout the year, and at 31 March 2016 was 0.78x.

The bank facilities referred to in Note 16 contain various covenants relating to EBITDA, interest cover, 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.

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20 Called up share capital

Ordinary shares of 0.1p each	**2016 Number**	**2016 £000**	2015 Number	2015 £000
Allotted, called up and fully paid share capital				
Issued during the year	**1,152,277**	**1**	817,794	1
Issued shares as at 31 March	**145,881,185**	**146**	144,728,908	145

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:

	2016 Number	2015 Number
Issued on the exercise of share options	**354,251**	291,000
Issued on the exercise of warrants	**798,026**	526,794
Total	**1,152,277**	817,794

The shares issued on the exercise of warrants relate to 1,381,055 warrants issued to certain shareholders ("Cornerstone Investors") on 6 December 2013 in connection with early stage commitment to raise equity to fund the acquisition of Intechnology Managed Services Limited. The warrants issued to the Cornerstone Investors have all either been exercised or have lapsed.

As at 31 March 2016 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.

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21 Provisions

	Dilapidations provision £000	Vacant property provision £000	Total provision £000
At 1 April 2014	796	448	1,244
Charged/(credited) to Income statement:			
Used during the year	(154)	(415)	(569)
At 31 March 2015	642	33	675
Charged/(credited) to Income statement:			
Additional provisions created during the year	-	1,698	1,698
Used during the year	(49)	(50)	(99)
At 31 March 2016	**593**	**1,681**	**2,274**

The provisions have been discounted to present value using a risk free discount rate. The remaining terms of these property leases range from 1 to 6 years.

Current and non-current analysis of provisions:

	2016			2015		
	Dilapidations provision £000	**Vacant property provision £000**	**Total provision £000**	Dilapidations provision £000	Vacant property provision £000	Total provision £000
Current	**-**	**334**	**334**	153	33	186
Non-current	**593**	**1,347**	**1,940**	489	-	489
Total	**593**	**1,681**	**2,274**	642	33	675

22 Share-based payment plans

Share-based payments

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

	2016 **£000**	2015 £000
Equity-settled share-based charge arising from share options*	**1,336**	1,403
National Insurance and other charges arising on share options	**105**	166
Total	**1,441**	1,569

* 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	**2016 Number of options**	**2016 WAEP**	2015 Number of options	2015 WAEP
Outstanding at the start of the year	**14,567,621**	**82.3p**	12,372,099	75.5p
Issued in the year	**163,905**	**154.0p**	2,684,886	110.7p
Exercised in the year	**(354,251)**	**102.1p**	(291,000)	66.0p
Lapsed in the year	**(146,823)**	**108.7p**	(198,364)	64.7p
Outstanding at the end of the year	**14,230,452**	**82.4p**	14,567,621	82.3p

The weighted average fair value of the options granted in the year ended 31 March 2016 was 154.0p (2015: 110.7p) per option. During the year ended 31 March 2016 there were new grants of 163,905 options (2015: 2,684,886 options) which were issued under the HMRC approved Redcentric plc Save-As-You-Earn Option Plan 2014, with an exercise price of 154p.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

The weighted average remaining contractual life for the share options outstanding at 31 March 2016 is 7 years and 3 months (2015: 8 years and 3 months). The range of exercise prices for options outstanding at the end of the year was 32p 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 2016**	**Weighted average life at 31 March 2016**	Number 31 March 2015	Weighted average life at 31 March 2015
32p	**1,692,988**	**7 years, 1 month**	1,692,988	8 years, 1 month
70p	**761,143**	**7 years, 1 month**	761,143	8 years, 1 month
80p	**7,581,968**	**7 years, 7 months**	7,581,968	8 years, 7 months
102p	**1,500,000**	**7 years, 11 months**	1,850,000	8 years, 11 months
112p	**1,100,000**	**8 years, 5 months**	1,100,000	9 years, 5 months
117p	**450,000**	**8 years, 8 months**	450,000	9 years, 8 months
107p	**985,824**	**2 years, 6 months**	1,131,522	3 years, 6 months
154p	**158,529**	**3 years, 6 months**	-	-
	14,230,452	**7 years, 3 months**	14,567,621	8 years, 3 months

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

Options	**2016 Number of options**	**2016 WAEP**	2015 Number of options	2015 WAEP
Performance conditions satisfied	**2,668,417**	**53.5p**	754,044	41.6p
Subject to performance conditions	**10,417,682**	**86.4p**	12,682,055	82.6p
Save-As-You-Earn	**1,144,353**	**113.5p**	1,131,522	107.0p
Outstanding at the end of the year	**14,230,452**	**82.4p**	14,567,621	82.3p

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.

The following table lists the inputs into the model used for the year ended 31 March 2016 and 31 March 2015. No change has been made to the assumptions used for valuing options granted before 31 March 2014.

Grant Date	April 2013	April 2013	November 2013	March 2014	August & November 2014	SAYE December 2014	**SAYE December 2015**
Option exercise price	32p	64p & 70p	80p	102p	112p & 117p	107p	**154p**
Dividend yield (%)	nil	3.0	3.0	3.0	2.9 & 2.7	2.4	**2.1**
Vesting period (years)	0 to 0.6	1 to 3	3.6	2.3 to 3.6	0.3 to 2.7	3.0	**3.0**
Assumed volatility at date of grant (% p.a.)	50%	50%	50%	50%	37% & 36%	34%	**27%**
Risk-free discount rate	0.2%	0.5 to 1.0%	1.1%	0.8 to 1.3%	0.8 to 1.4%	1.0%	**1.0%**
Expected life of option	0.6 years	6.2 years	3.6 years	3.6 years	2.6 to 3.7 years	3.7 years	**3.7 years**
Fair value per option	32.0p to 34.1p	14.2p to 20.5p	32.6p	40.9p to 46.5p	32.3p to 41.4p	48.8p	**44.0p**
Share price at grant	64.0p	64.0p	83.5p	113.5p	119.5p to 130.5p	145.5p	**188.0p**

23 Net Cash-flows from continuing operating activities

	2016 £000	2015 £000
Profit on ordinary activities before tax	**7,444**	7,827
Adjustments for:		
Transaction and integration costs	**4,591**	2,315
Net finance costs	**995**	843
Depreciation of property, plant and equipment	**5,825**	5,099
Amortisation of acquired intangible assets	**5,548**	5,507
Share based payments	**1,441**	1,569
(Increase)/decrease in trade and other receivables	**(17,412)**	2,279
Increase/(decrease) in trade and other payables	**10,716**	(7,217)
Cash generated by continuing operations	**19,148**	18,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

24 Pensions

The Group operates a defined contribution pension scheme for eligible employees. The charge for the year ended 31 March 2016 was £0.4m (2015: £0.4m). There were no prepayments or accruals relating to pension costs at the year end.

25 Subsidiaries

As at 31 March 2016, 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.

* 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.

26 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

The Group has engaged MXC Advisory LLP to provide corporate finance advice and consultancy. MXC Advisory LLP is owned by MXC Capital Limited ("MXC"), which is an AIM quoted merchant bank specialising in investing in technology companies. MXC is a shareholder in Redcentric plc and has options over the ordinary shares of Redcentric plc (as disclosed below) and therefore its interests are aligned with Redcentric plc's other shareholders. Tony Weaver, a Director of Redcentric plc, has an interest in MXC. Under the terms of the agreement, a fee representing a maximum of 2.5 per cent. of the enterprise value of successful transactions consulted upon is payable by the Company to MXC.

During the year, fees of £497,124 were paid to MXC (£2015: £224,000), which included £137,629 (2015: £204,000) for Tony Weaver's Director's fees, £59,495 (2015: £20,000) for the provision of corporate finance advice, and £300,000 (2015: £nil) for advisory fees in respect of the acquisition of Calyx. The acquisition of Calyx from MXC on 10 April 2015 for an Enterprise Value of £12.0m was a related party transaction.

As at 31 March 2016 MXC has the following interest in shares and options over ordinary shares in the Company:

	Quantity	Grant date	Exercise price	Expiry date
Ordinary shares	5,849,108	-	-	-
Options (a)	1,692,988	18 April 2013	32p	18 April 2023
Options (b)	7,000,000	15 November 2013	80p	15 November 2023

(a) the performance conditions with respect to 564,330 of these options have been met, and the options have fully vested. There is a performance condition in respect of 1,128,658 options linked to the occurrence of a qualifying transaction that will deliver a predefined return to shareholders. 846,494 of the options are held by Tony Weaver as a Trustee under a Declaration of Trust, the beneficiary of which is MXC Capital Ltd.

(b) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

Other

There were no other transactions with related parties in the year to 31 March 2016 other than those disclosed in note 29.

During the year ended 31 March 2015, a subsidiary of the Group was party to a lease agreement relating to Redcentric House, Banters Lane Trading Estate, Chelmsford, and paid rental and service charge payments of £124,000 to Moreland Limited, a company which Fraser Fisher is a Director and shareholder of. The company terminated the lease agreement on 31 March 2015, and paid £153,000 in respect of a contractual liability for dilapidations.

The balances outstanding at 31 March 2016 in respect of related parties was £30,000 payable to MXC.

27 Dividends

The Company paid a final dividend in respect of the year to 31 March 2015 of 2.5p per ordinary share on 28 September 2015, with a total payment value of £3.6m, making a total of 3.5p per share for the year. The Company paid an interim dividend of 1.5p per ordinary share on 17 February 2016, with a total payment value of £2.2m. Total dividends paid during the year amounted to £5.8m.

The Directors are proposing a final dividend of 3.0p per share, which will make a total for the year of 4.5p per share. If approved by shareholders at the AGM, the final dividend, which the Directors expect to amount to £4.4m, will be paid on 21 September 2016 to shareholders on record on 26 August 2016.

28 Subsequent events

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

29 Business combinations

29.1 Acquisition of Calyx

On 10 April 2015, Redcentric completed the acquisition of Calyx Managed Services Ltd ("Calyx") for an enterprise valuation of £12.0m. Calyx was acquired from MXC Capital following a period of significant restructuring, which included the disposals of the Break Fix and Carrier Services divisions. The remaining business was a focused IT managed services and professional and infrastructure services business. Calyx's portfolio of services and its range of customers are an excellent strategic addition for Redcentric.

The acquisition is considered a related party transaction under the AIM Rules for Companies on the basis that MXC is a substantial shareholder in the Company and Tony Weaver, a Director of Redcentric, is a substantial shareholder of MXC. In addition, Redcentric agreed a corporate finance advisory fee of £300,000 to MXC for advisory services in relation to the acquisition under an existing engagement with MXC, which is retained as corporate finance adviser to the Company (further details are in note 26 to the financial statements). The payment of the advisory fee is considered to be a related party transaction under the AIM Rules for Companies.

The book value of the Calyx net assets acquired and their fair values are summarised below:

	Book value £000	Fair value adjustments £000	**Fair value to Group £000**
Intangible assets	-	6,673	**6,673**
Deferred tax asset	-	1,587	**1,587**
Trade and other receivables	1,676	(93)	**1,583**
Prepayments	1,475	(192)	**1,283**
Cash and loans	5,465	-	**5,465**
Deferred revenue	(2,476)	-	**(2,476)**
Trade and other payables	(790)	-	**(790)**
Accrued costs and tax	(1,433)	-	**(1,433)**
Deferred tax liability	-	(1,201)	**(1,201)**
Net assets	3,917	6,774	**10,691**

Fair value of net assets	**10,691**
Goodwill	**4,834**
Total purchase consideration paid in cash	**15,525**

The fair value adjustments relate to the recognition of newly identified intangible assets, and the writing off of unrecoverable debtors and accrued revenue. The purchase consideration paid included an adjustment to reflect the cash proceeds of £4.9m from the disposal of the Break Fix and Carrier Services divisions and an adjustment of £1.5m to reflect certain lease liabilities.

On acquisition the Directors assessed the business acquired to identify any intangible assets. Customer contracts and related relationships met the criteria for recognition as intangible assets as they have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. For the customer contracts and related relationships the provisional fair value of the intangible assets was calculated by using the discounted cash flows arising from the existing contract base for the business. The reasonable economic life of the customer relationships was assumed to be ten years, and has been discounted using a rate of 10.6%. The identifiable intangible asset was valued at £6.7m.

The goodwill arising on the acquisition is attributable to the expected synergies.

From the date of acquisition to 31 March 2016, Calyx achieved revenue of £6.7m and a profit before taxation of £0.6m. As Calyx was acquired close to the start of the year, the revenue and profit before tax if Calyx had been consolidated for the full year would not be materially different.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

29.2 Acquisition of City Lifeline

On 28 January 2016, Redcentric completed the acquisition of City Lifeline Ltd ("City Lifeline") for an enterprise valuation of £4.8m from its founders.

City Lifeline is an established business, which has been trading for over 20 years. It was originally set up as a disaster recovery and back-up site, and has been developed over the years into an independent data centre offering hosting and colocation services from its well-connected and well-invested location in Tech City, London. The principal rationale behind the acquisition was to acquire a London data centre, enhancing Redcentric's go-to-market proposition based on the ownership and control of the underlying infrastructure from which services are delivered.

The book value of the City Lifeline net assets acquired and their fair values are summarised below:

	Book value £000	Fair value adjustments £000	**Fair value to Group £000**
Intangible assets	-	3,010	**3,010**
Property, plant and equipment	2,068	-	**2,068**
Trade and other receivables	94	-	**94**
Prepayments	216	-	**216**
Cash and loans	1,352	-	**1,352**
Borrowings	(722)	-	**(722)**
Trade and other payables	(251)	-	**(251)**
Accrued costs and tax	(330)	(383)	**(713)**
Deferred tax liability	(187)	(542)	**(729)**
Net assets	2,239	2,085	**4,324**
Fair value of net assets			**4,324**
Goodwill			**744**
Total purchase consideration paid in cash			**5,068**

The fair value adjustments relate to the recognition of newly identified intangible assets, a provision for contractual staff bonuses which were crystallised at the point of acquisition, and a provision for corporation tax.

On acquisition the Directors assessed the business acquired to identify any intangible assets. Customer contracts and related relationships met the criteria for recognition as intangible assets as they have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. For the customer contracts and related relationships the provisional fair value of the intangible assets was calculated by using the discounted cash flows arising from the existing contract base for the business. The reasonable economic life of the customer relationships was assumed to be ten years, and has been discounted at a rate of 10%. The identifiable intangible asset was valued at £3.0m.

The goodwill arising on the acquisition is attributable to the additional data centre capacity acquired and expected synergies.

From the date of acquisition to 31 March 2016, City Lifeline achieved revenue of £0.6m and a profit before taxation of £0.1m. If City Lifeline had been consolidated for the full year it would have achieved revenue of £3.5m and profit before tax of £0.3m.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REDCENTRIC PLC

REPORT ON THE COMPANY FINANCIAL STATEMENTS

Our opinion

In our opinion, Redcentric plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Company Balance Sheet as at 31 March 2016;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REDCENTRIC PLC

REPORT ON THE COMPANY FINANCIAL STATEMENTS – CONTINUED

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group Financial Statements of Redcentric plc for the year ended 31 March 2016.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors, Leeds, 16 June 2016

REDCENTRIC PLC COMPANY BALANCE SHEET

AS AT 31 MARCH

	Note	2016 £000	2015 £000
Fixed assets			
Investments	2	**100,056**	98,720
Current liabilities			
Creditors – amounts falling due within one year	3	**(9,198)**	(4,392)
Net current liabilities		**(9,198)**	(4,392)
Net assets		**90,858**	94,328
Capital and reserves			
Called up share capital	4	**146**	145
Share premium account		**63,667**	62,668
Profit and loss account		**27,045**	31,515
Total shareholders' funds		**90,858**	94,328

The notes on pages 89 to 93 are an integral part of these financial statements. The financial statements on pages 87 to 93 were approved by the Board on 16 June 2016 and are signed on its behalf by:

Fraser Fisher, Director **Tim Coleman, Director**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital £000	Share premium £000	Retained earnings £000	**Total equity £000**
At 31 March 2014	**144**	**62,055**	**33,000**	**95,199**
Transactions with owners:				
Share based payments (SBP)	-	-	1,403	**1,403**
Share issues less costs	1	613	-	**614**
Dividends	-	-	(2,888)	**(2,888)**
At 31 March 2015	**145**	**62,668**	**31,515**	**94,328**
Transactions with owners:				
Share based payments (SBP)	-	-	1,336	**1,336**
Share issues less costs	1	999	-	**1,000**
Dividends	-	-	(5,806)	**(5,806)**
At 31 March 2016	**146**	**63,667**	**27,045**	**90,858**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Accounting policies (FRS 101)

Redcentric plc has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to disclose the Company profit and loss account. Redcentric plc has taken advantage of the exemption provided under Section 404 of the Companies Act 2006 not to disclose the Company statement of cash flows. The result of the Company for the year was £nil (2015: £nil).

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 accounting policies, which have been applied consistently throughout the year in the preparation of the financial statements:

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

(b) Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with FRS 101.

The Directors have assessed going concern for the Company, taking into account that it operates as part of the Redcentric plc Group.

On 1 April 2015 the Group entered into new banking facilities, which run until 2 April 2020. A high proportion of the Group's revenue is recurring in nature, which provides good visibility of future cash flows. The present cash flow forecasts indicate that the Group will be able to operate within the present 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.

(c) Investments in subsidiaries

Investments are initially recognised at cost, being the fair value of the consideration given. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

(d) Current 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

(e) Foreign currencies

The functional and presentation currency of Redcentric plc is Pounds 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 profit and loss.

(f) Employees and Directors emoluments

The Company had no employees during the period. The Directors emoluments are paid by other Group entities. Their remuneration is disclosed in this annual report.

2 Investments

	2016 **£000**	2015 £000
Investments in subsidiaries	**98,720**	96,062
Capital contribution related to share-based payments for subsidiaries	**1,336**	2,658
	100,056	98,720

As at 31 March 2016, 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.

The Company does not have any associate operations.

3 Creditors – amounts falling due within one year

	2016 £000	2015 £000
Amounts owed to subsidiaries	**9,198**	4,392

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

4 Called up share capital

Ordinary shares of 0.1p each	**2016 Number**	**2016 £000**	2015 Number	2015 £000
Allotted, called up and fully paid share capital				
Issued during the year	**1,152,277**	**1**	817,794	1
At 31 March	**145,881,185**	**146**	144,728,908	145

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:

	2016 Number	2015 Number
Issued on the exercise of share options	**354,251**	291,000
Issued on the exercise of warrants	**798,026**	526,794
Total	**1,152,277**	817,794

The shares issued on the exercise of warrants relate to 1,381,055 warrants issued to certain shareholders ("Cornerstone Investors") on 6 December 2013 in connection with early stage commitment to raise equity to fund the acquisition of IMS. The warrants issued to the Cornerstone Investors have all either been exercised or have lapsed.

As at 31 March 2016 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

5 Auditors' remuneration

The Company audit fee is £24,000 (2015: £20,000). 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

The Group has engaged MXC Advisory LLP to provide corporate finance advice and consultancy. MXC Advisory LLP is owned by MXC Capital Limited ("MXC"), which is an AIM quoted merchant bank specialising in investing in technology companies. MXC is a shareholder in Redcentric plc and has options over the ordinary shares of Redcentric plc (as disclosed below) and therefore its interests are aligned with Redcentric plc's other shareholders. Tony Weaver, a Director of Redcentric plc, has an interest in MXC. Under the terms of the agreement, a fee representing a maximum of 2.5 per cent. of the enterprise value of successful transactions consulted upon is payable by the Company to MXC.

During the year, fees of £497,124 were paid to MXC (£2015: £224,000), which included £137,629 (2015: £204,000) for Tony Weaver's Director's fees, £59,495 (2015: £20,000) for the provision of corporate finance advice, and £300,000 (2015: £nil) for advisory fees in respect of the acquisition of Calyx. The acquisition of Calyx from MXC on 10 April 2015 for an Enterprise Value of £12.0m was a related party transaction.

As at 31 March 2016 MXC has the following interest in shares and options over ordinary shares in the Company:

	Quantity	Grant date	Exercise price	Expiry date
Ordinary shares	5,849,108	-	-	-
Options (a)	1,692,988	18 April 2013	32p	18 April 2023
Options (b)	7,000,000	15 November 2013	80p	15 November 2023

(a) the performance conditions with respect to 564,330 of these options have been met, and the options have fully vested. There is a performance condition in respect of 1,128,658 options linked to the occurrence of a qualifying transaction that will deliver a predefined return to shareholders. 846,494 of the options are held by Tony Weaver as a Trustee under a Declaration of Trust, the beneficiary of which is MXC Capital Ltd.

(b) 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 2016 other than as described in note 29 of the Group Financial Statements.

During the year ended 31 March 2015, a subsidiary of the Group was party to a lease agreement relating to Redcentric House, Banters Lane Trading Estate, Chelmsford, and paid rental and service charge payments of £124,000 to Moreland Limited, a company which Fraser Fisher is a Director and shareholder of. The company terminated the lease agreement on 31 March 2015, and paid £153,000 in respect of a contractual liability for dilapidations.

The balances outstanding at 31 March 2016 in respect of related parties was £20,000 payable to MXC.

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