redcentric

REPORT & ACCOUNTS

2019

Year ended 31 March 2019

Redcentric plc

redcentric

OUR VALUE PROPOSITION

ORGANISATIONAL AGILITY

Helping organisations respond to operational, financial and regulatory pressures

ASSURED AVAILABILITY

Delivering the robust infrastructure and resilient environments that organisations can rely on for productivity, performance and profit regulatory pressures

SMARTER WORKING

Enabling and empowering organisations to connect, communicate, collaborate, change and compete through the intelligent leveraging of technology

Contents

Chairman's statement

I am pleased to present Redcentric's results for the year ended 31 March 2019.

The Chief Executive's review highlights the progress made in addressing the significant challenges that the business has faced over the last three financial years and the positive steps taken this year to position the company for the future. The cost base has received considerable attention, ensuring that we have mitigated some customer losses. In the second half of the year, the business had particular success in the public sector by winning a number of the Health and Social Care Network (HSCN) tenders. The balance sheet is strong with exemplary cash flows for the year resulting in a net debt reduction of £10.1m. Our restructuring and attention to sales growth is our business imperative.

Financial results

Revenue declined by 6.7% to £93.3m, and adjusted EBITDA decreased from £18.1m to £16.7m. Statutory operating profit decreased from £0.9m to an operating loss of £0.3m.

Net debt fell from £27.7m to £17.6m, a decrease of £10.1m in the year.

Operating cash flows were particularly strong with an operating cash conversion of 127% reflecting a significant reduction in debtor days to 38.8 days at 31 March 2019 (48.6 days: 31 March 2018).

Dividend

At the half year we announced the reinstatement of a progressive dividend policy. An interim dividend of 0.4p was paid in December 2018, reflecting a dividend cover of 4 times adjusted earnings. In light of the continued excellent cash performance, the Board has re-evaluated this policy in the second half of the year and decided to increase the dividend to reflect a cover of 2 times adjusted earnings. This will result in a final dividend of 1.0p per share.

In addition to this final dividend, the Board will also be seeking approval at the upcoming AGM to buy back up to 5% of the issued share capital of the Company.

Board changes and people

In November 2018, Redcentric announced the resignation of Chris Jagusz from his directorship and position as Chief Executive Officer. Peter Brotherton, Chief Financial Officer, assumed an interim position as Chief Executive and we are pleased to report that he has now accepted the Board's invitation to become the permanent Chief Executive.

In February 2019, Stephen Puckett resigned from the Board as a Non-Executive Director and Chair of the Audit Committee, and Chris Rigg joined the Board as a Non-Executive Director. Jon Kempster has taken over Stephen's responsibility as Chair of the Audit Committee.

Finally, we are also pleased to announce that Dean Barber will be joining the Board as Chief Financial Officer and Executive Director on 1 September 2019.

My thanks to the Board for their support, and special thanks to our management and employees for their hard work and dedication to progress the Company's performance.

Outlook

The recent Board and management changes, operational improvements and financial stability of the Company, all demonstrate that we are well positioned for the future and a return to organic revenue growth.

Chris Cole
Non-Executive Chairman

Chief Executive's review

Overview

Over the last 12 months we have made significant progress in addressing historical issues and focussing on creating a platform for sustainable growth.

During the last three financial years the business has operated in a very competitive market, we have been materially affected by Crown Hosting and the FCA investigation has been ongoing.

Whilst the impact this year of these historical issues has been significant, both in terms of management attention and financial consequence, it is pleasing to report that they have largely worked their way through the business. In parallel, the positive steps that have been taken to address the structure and capability of the sales and delivery functions, coupled with significant cost efficiencies and improvements to our network and platforms, gives us confidence for FY20 and beyond.

FY19 focus and achievements

Sales function

Significant progress has been made in the restructuring of the Sales function, with the objective of improving our capabilities and enabling our teams to adopt a consultative sales methodology.

We have created dedicated field and desk-based sales teams across both the public and private sectors, focusing on continuing to develop our relationships with our existing customers and new customer acquisition. These teams are supported by our Marketing, Service Delivery, Pre-sales technical and Product Management teams that are part of our revised Sales function.

We have made progress in the year to clearly identify our target markets and create propositions that deliver the requisite business outcomes for our customers. Our key growth priorities, established in the second half of the year, will continue into FY20 as we focus on: further developing our relationships with our customers in the public and private sector, maximising the potential of our public sector wins and acquiring new name business in the private sector.

To deliver against these priorities we have developed, over the course of the second half of the year, a marketing plan and go to market proposition underpinned by strategic vendors that leverages our provenance in both the public and private sector.

These changes have resulted in an enabled, proactive, motivated and capable team that has a clear set of strategic priorities and engagement across the public and private sectors.

Delivery function

During the second half of the year we made a significant investment in our delivery function with dedicated project management and engineering teams created to support both the public and private sectors. This investment has increased the headcount in our delivery team by 20% and will initially focus on facilitating and expediting the delivery of the orders secured against the HSCN procurement waves and YHPSN framework in the last six months.

Cost efficiencies

In the second half of the year annualised savings of £5m were realised.

We have rationalised and re-engineered our core network which has yielded annualised savings of £1.4m. A further £2m of annualised savings have been realised through renegotiation of supplier contracts in relation to direct costs.

Additionally, we reorganised and streamlined several business functions resulting in a headcount reduction of 20 and annualised savings of £1.5m. We also closed our Theale office and transferred the staff to our Reading data centre and office. This has yielded annualised savings of £130k and as there are 3 years remaining on the lease, an onerous lease exceptional charge of £553k has been made in the FY19 accounts.

Public sector

Health and Social Care Network (HSCN)

During the year, much focus was devoted to the conversion of opportunities in the public sector and in particular those associated with HSCN. HSCN is replacing the legacy N3 network and provides the underlying network arrangements to help integrate and transform health and social care. Over the course of this year, suppliers tendered for, and were appointed to, frameworks across the country and this one-off process is now largely concluded.

In the initial stages, our approach to HSCN tendering was poor and this resulted in a very low conversion rate. We learned important lessons from this, and the Company took decisive steps to ensure that the pricing was appropriate to the project, the product list was aligned to customer demand and the overall sales process was substantially improved.

Chief Executive's review continued

This action led to a strong performance in the public sector in the second half of the year with high levels of conversion and a more successful end to the tender process. As at the end of June 2019, we have secured contracts with seven HSCN partners totalling £13m as follows:

Customer	Average Contract Length	Total Contract Value £000	Total Annualised Revenue £000
Worcester Health	5 years	1,600	300
Midlands & Lancashire	3 years	800	270
Bedford, Luton & Milton Keynes	5 years	5,300	1,000
East Aggregate Procurement	3 years	980	260
Birmingham & Solihull	3 years	2,200	680
Sandwell & West	3 years	1,300	375
Telford & Wrekin	3 years	570	190
Total		**12,750**	**3,075**

In addition to revenues derived from connectivity services, there exists significant opportunity for cross-selling additional products. We have already been awarded a £1.7m contract for supplying IP telephony services to more than 6,000 users by Worcester Health. When fully rolled out this will equate to £300k additional annualised sales. (N.B. these additional figures are not included in the table above.)

Yorkshire and Humber Public Sector Network (YHPSN) Framework

During the second half of the year we put a number of actions in place to enable us to maximise the opportunity afforded by the YHPSN framework. We have made good progress across the framework and after our initial focus on health partners, we have now broadened our approach to include education and local government. This positive momentum has delivered a total contract value of £4.1m across more than 30 partners in the first quarter.

The Public Sector sales team will continue to focus on successful account management and sales and cross-selling opportunities. Their progress this year, in the second half particularly, demonstrates the momentum in this side of our business and we expect to see further progress in FY20. Looking forward, we now have the processes and structures in place to tender for contracts with confidence.

Crown Hosting

Due to our past success in public sector hosting we have been more exposed to the financial impact of the establishment of Crown Hosting than most of our competitors. In FY17 public sector hosting revenue amounted to £8.2m. This year's results reflect like for like revenue of £4.4m and we anticipate that by the end of FY21 all such business will have been migrated away from Redcentric.

Products, Networks and Platforms

The Company has continued to invest in its core network and operational platforms, which will underpin some key developments in FY20. These investments reinforce our view that it is our network infrastructure and capabilities that form our most important competitive advantage.

The connectivity portfolio is being upgraded to allow 10gb connections to terminate into the network, and we are also working on the overall expansion of the network to give a 100gb core. The need for this is driven by increased usage and demand from customers who require 10gb circuits from day one. Additionally, this will help future-proof the network as customer requirements change.

In parallel we are developing a robust software-defined wide area network offering for launch in FY20 which is intended to complement our core network technologies. This will afford our customers more flexibility and control whilst maintaining the high level of service that they have come to expect.

Whilst the trend towards the hyper-cloud continues, there is still customer demand for private shared cloud. To support this and to ensure the Company can offer the best service to its customers, we are upgrading its internal Infrastructure as a Service platform. This will increase the efficiency and stability of the service offered to customers and will also modernise the user experience. We have also developed and launched a range of transition and management services which will help our customers migrate their workloads to both Microsoft Azure and our own platforms.

Chief Executive's review continued

External Updates

Brexit

Whilst there is ongoing political and economic uncertainty as to the outcome of Brexit, we do not foresee any material impact on the Company as a result. The vast majority of our revenue is generated in the UK from UK based customers and all of our suppliers are UK based also. Any revenue from outside of the UK is immaterial.

Financial Conduct Authority (FCA)

Unfortunately, the business continues to experience the effect of the FCA investigation. As well as diverting management time, significant costs are still being incurred (£0.6m in FY19 and £2.5m since November 2016), we are constrained in the markets into which we can sell, and strategic options are limited.

The FCA investigation is still ongoing and has not yet reached its conclusion. At this time, the FCA has not communicated how it intends to proceed and what, if any, action it might bring against the Company. Until such stage as the FCA's intention becomes clear, the Directors are not able to judge whether a fine will be likely and therefore whether we would need to make a relevant provision in the accounts. We continue to cooperate as fully as we can with the investigation and whilst the overall timing is out of our control, we are seeking to expedite it as soon as practicably possible.

Summary and outlook

We have had a productive year. The resolution of some of the historical issues has allowed us to increasingly focus our attention on the future. The ongoing investigation by the FCA and the effect of Crown Hosting will remain a challenge into FY20 with an anticipated further reduction in revenue of £2.6m from the latter.

We have taken positive steps to address the structure and capability of the sales and delivery functions, coupled with significant cost efficiencies and improvements to our network and platforms. Our key strategic growth priorities, established in the second half of the year, will continue into FY20 as we focus on: further developing the relationships with our customers in the public and private sector, maximising the potential of the YHPSN and other public sector frameworks and acquiring new business in the private sector.

Strong cash flows have been a consistent feature of the business and this, taken with the positive steps achieved throughout the year and the low levels of net debt, gives the Board confidence in the outlook for Redcentric. It also enables us to announce a revised and more substantial dividend policy with future dividends based on a pay-out of 50% of adjusted earnings. In addition, we will seek shareholder approval at the upcoming AGM for the authority to buy back up to 5% of the issued share capital of the Company.

Peter Brotherton
Chief Executive Officer
25 June 2019

Financial review

Financial highlights and overview

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
Statutory financial reporting measures				
Revenue	**£93.3m**	£100.0m	£(6.7)m	(6.7)%
Operating profit / (loss)	**£(0.3)m**	£0.9m	£(1.2)m	(133.3)%
Basic earnings per share	**(1.32)p**	0.34p	(1.66)p	(484.5)%
Net debt	**£17.6m**	£27.7m	£10.1m	(36.5)%
Adjusted performance measures (APMs)				
Adjusted EBITDA	**£16.7m**	£18.1m	£(1.4)m	(7.6)%
Adjusted EBITDA margin	**17.9%**	18.1%	(20)bps	
Adjusted cash generated from operations	**£21.3m**	£22.6m	£(1.3)m	(5.7)%
Adjusted operating cash conversion	**127.3%**	125.2%	201bps	
Adjusted operating profit	**£8.2m**	£9.4m	£(1.2)m	(12.6)%
Adjusted basic earnings per share	**3.89p**	4.35p	(0.46)p	(10.6)%

The Directors use the APMs listed above as they are critical to understanding the financial performance of the Group. Most of the Adjusted measures remove the impact of depreciation, amortisation, share based payments and exceptional costs as these are deemed to not be indicative of the underlying operational performance of the business.

As the APMs are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

APM	Definition	Reconciliation to equivalent IFRS measure of performance
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments	A reconciliation of this measure is provided in the consolidated income statement
Adjusted EBITDA margin	Adjusted EBITDA to revenue	Adjusted EBITDA less exceptional costs less share-based payments, all as a percentage of revenue
Adjusted cash generated from operations	Cash generated from operations add exceptional costs	Cash generated from operations less exceptional costs
Adjusted operating cash conversion	Adjusted cash generated from operations to adjusted EBITDA	Cash generated from operations less exceptional costs, divided by EBITDA
Adjusted operating profit	Operating profit add amortisation on acquired intangibles, exceptional costs and share based payments	Operating profit as disclosed on the consolidated income statement
Adjusted basic earnings per share	Adjusted earnings – profit/loss add amortisation (acquired intangibles), share based payments, exceptional costs, tax charge/credit	A reconciliation of this measure is provided in Note 9
Adjusted operating costs	Operating costs less depreciation, amortisation and share based payments and exceptional costs	Operating expenditure as outlined in the consolidated income statement

Financial review continued

Revenue

Revenue for the year ended 31 March 2019 was £93.4m, a decrease of £6.7m on the previous financial year.

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000	Variance £000	%
Recurring revenue	**80,544**	87,065	(6,521)	(7.5)%
Product revenue	**5,810**	7,180	(1,369)	(19.1)%
Services revenue	**6,906**	5,745	1,161	20.2%
Total revenue	**93,260**	99,990	(6,730)	(6.7)%

The key revenue metric of RMR (recurring monthly revenue) was down 7.5% compared to last year and accounted for 86% of total revenue in-line with 2018 at 87%.

Gross profit

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000	Variance £000	%
Gross profit	**56,365**	59,994	(3,629)	(6.0)%
Gross margin	**60.4%**	60.0%		

Gross profit has decreased year on year due to a reduction in revenue. The overall gross margin has increased slightly due to a significant reduction in direct costs through supplier renegotiations and better management of all third-party costs.

Adjusted operating costs

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000	Variance £000	%
Staff costs (excluding share-based compensation)	**20,507**	23,292	(2,785)	(12.0)%
Office and data centre costs	**7,049**	6,942	107	1.5%
Network and equipment costs	**7,311**	6,805	506	7.4%
Other sales, general and administration costs	**2,693**	3,010	(317)	(10.5)%
Offshore costs	**2,091**	1,860	231	12.4%
Total adjusted operating costs	**39,651**	41,909	(2,258)	(5.4)%

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

Financial review continued

Employees

	31 March 2019	31 March 2018	Variance
Year-end headcount			
UK	**310**	347	(37)
India	**156**	141	15
Total	**466**	488	(22)

	31 March 2019	31 March 2018	Variance
Average headcount			
UK	**329**	362	(33)
India	**150**	139	11
Total	**479**	501	(22)

Overall, adjusted operating costs for FY19 were £2.3m (5.4%) lower than FY18 as a result of the following:

- Headcount has reduced by 37 heads in the UK driving a favourable variance year on year of £2.8m. These reductions have not had an impact on the operational running of the business. One-off exceptional costs of these reductions totalled £0.8m.
- Office and data centre costs have increased slightly by 1.5% in the year. Large electricity increases in FY19 have been offset by the annualised impact of the closures made in FY18. Additionally, the Company has combined its office in Theale with the data centre in Reading and has therefore allocated the costs of the Theale office to a vacant property provision (January 2019 onwards).
- Network and equipment costs have increased due to reclassification of items from cost of sales to operating costs as well as additional licensing costs for internal platforms.
- Savings have also been made in other sales, general and administration costs, achieved by reducing the number of third-party consultants in the business and a tighter control of marketing and corporate costs.
- Offshore costs have increased due to movement of roles from the UK to India. This is reflected in the headcount numbers above.

Adjusted EBITDA (and adjusted operating profit)

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£000	£000	£000	%
Adjusted EBITDA	**16,714**	18,085	(1,371)	(7.6)%
Adjusted EBITDA margin	**17.9%**	18.1%		
Adjusted operating profit	**8,243**	9,432	(1,189)	(12.6)%
Adjusted operating profit margin	**8.8%**	9.4%		

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

Adjusted EBITDA decreased by £1.4m or 7.6% to £16.7m reflecting the decrease in gross profit of £3.6m offset by the decrease in operating costs of £2.3m. Adjusted EBITDA margin decreased slightly from 18.1% to 17.9%.

Financial review continued

With the implementation of IFRS 16 for FY20, adjusted operating profit has been included here as a point of reference. The impact of this standard is expected to make a material impact to EBITDA so the Company is considering moving to operating profit to assess the underlying performance of the business.

Exceptional costs

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£000	£000	£000	%
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**554**	672	(118)	(17.6)%
Staff restructuring	**804**	868	(64)	(7.4)%
Integration costs	**-**	132	(132)	(100.0)%
Vacant property provisions	**553**	-	553	100.0%
	1,911	1,672	239	14.3%

Overall, the level of exceptional items has increased from £1.7m to £1.9m. The key movements are as follows:

- Professional fees associated with the forensic review and FCA investigation – these costs relate to legal advice received in respect of the ongoing FCA investigation. Whilst the Company is still incurring these costs, they are steadily reducing.
- Staff restructuring costs – as part of the overall cost base review and movement of UK roles to India. This restructuring resulted in 20 redundancies.
- Post the integration of City Lifeline, there have been no further costs of this nature. All the group companies are now fully integrated.
- Vacant property provision relates to closure of the Theale office. All staff have been transferred to the data centre in Reading.

Net financing costs

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£000	£000	£000	%
Interest receivable				
Other interest receivable	**(13)**	(19)	6	(31.6)%
Interest payable				
Interest payable on bank loans and overdrafts	**947**	1,241	(294)	(23.7)%
Interest payable on finance leases	**93**	143	(50)	(35.0)%
Amortisation of loan arrangement fees	**51**	68	(17)	(25.0)%
	1,091	1,452	(361)	(24.9)%
Net financing costs	**1,078**	1,433	(355)	(24.8)%

The reduction in net financing costs in FY19 is primarily due to the reduced balance on the revolving credit facility.

Financial review continued

Share-based payments

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000	Variance £000	%
SAYE schemes	**134**	224	(90)	(40.2)%
Director and senior manager schemes	**220**	162	58	35.8%
MXC options	**-**	148	(148)	(100.0)%
Employers NI	**12**	34	(22)	(64.7)%
	366	568	(202)	(35.6)%

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

Taxation

The tax charge for the year was £0.6m (FY18: credit of £1.0m) which was made up of a corporation tax charge of £0.8m (FY18: charge of £1.1m) and a deferred tax credit of £0.2m (FY18: credit of £2.1m).

The corporation tax charge comprises a current year corporation tax charge of £0.6m, a prior year corporation tax charge of £0.1m and an overseas tax charge of £0.1m.

As at 31 March 2019, the Group had £16.4m of tax losses carried forward comprising:

	% of profits	Losses available
No tax losses carried forward	70.66%	-
Losses carried forward:		
- Stream 1	19.64%	8,813,109
- Stream 2	9.70%	7,535,445
	100.00%	**16,348,554**

The Group is made up several historic acquisitions, some of which had tax losses brought forward. The Group’s taxable profits are streamed in proportion to the relative size of the original acquired company as a percentage of Redcentric as a whole. At 31 March 2019 £16m of tax losses were still available to be utilised against 29.34% of future profits.

Earnings per share and dividends

Basic loss per share for FY19 was (1.32)p (FY18: basic earnings per share of 0.34p).

Basic adjusted earnings per share for FY19 was 3.9p, compared to 4.3p in FY18. Diluted adjusted earnings per share for FY19 was 3.8p compared to 4.3p in FY18.

Dividends

A progressive dividend policy was announced at the interim accounts with a 0.4p per share dividend paid out in December 2019. This equated to a total payment of £597k. A final dividend payment of 1.0p per share will be paid on 6 September 2019, subject to approval at the Company's Annual General Meeting. The shares will have an ex-dividend date of 4 July 2019 and a record date of 5 July 2019. No dividends were paid during FY18.

Financial review continued

Financial position

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Non-current assets	**94,077**	102,724
Net current assets (excl. net debt)	**14**	3,326
Non-current liabilities (excl. net debt)	**(881)**	(421)
Net debt	**(17,565)**	(27,707)
Net assets	**75,645**	77,922

Net current assets have declined by £3.3m as a result of better working capital management and better conversion of debtors into cash. This, along with normalised funds generated from operations, accounts for the material decrease in net debt.

Net debt and cash flows

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Revolving credit facility	**19,500**	28,000
Term loans	**363**	-
Cash	**(7,206)**	(6,089)
Finance leases	**4,976**	5,932
Unamortised loan arrangement fees	**(68)**	(136)
Net debt	**17,565**	27,707

During FY19, net debt fell from £27.7m at 31 March 2018 to £17.6m as at 31 March 2019. The movements in net debt are analysed on page 14. For the second consecutive year the company has achieved an operating cash conversion greater than 100%.

Financial review continued

Net debt and cash flows (continued)

	Year ended 31 March 2019 £000
Adjusted EBITDA	**16,714**
Working capital movements	**4,575**
Adjusted cash generated from operations	**21,289**
Cash conversion	127%
Capital expenditure	
- Cash purchases	**(5,229)**
- Finance lease purchases	**(2,506)**
- Proceeds from sale and lease back of assets	**1,181**
- Proceeds from sale of fixed asset	**665**
	(5,889)
Corporation tax	**(1,873)**
Interest paid	**(1,044)**
Other movements in adjusted net debt	
Amortisation of loan arrangement fees	**(68)**
Effect of exchange rates	**(8)**
	(76)
Decrease in adjusted net debt pre-exceptional costs	**12,407**
Exceptional costs	
- Exceptional costs	**(1,668)**
- Dividend paid to shareholders	**(597)**
	(2,265)
Net decrease in adjusted net debt	**10,142**
Net debt at the beginning of the period	**(27,707)**
Adjusted net debt at the end of the period	**(17,565)**

Financial review continued

Working capital movements

There has been a large focus in FY19 on, not only clearing down legacy debt, but improving processes to ensure a consistently low level of debt over 90 days old. Debt greater than 90 days has reduced by 48% year on year, whilst debt greater than 180 days has reduced by 30%. Trade debtor days have also reduced to 38.8 days (2018: 48.6 days).

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Current	**9,074**	11,323
1 to 30 days overdue	**2,628**	1,951
31 to 60 days overdue	**505**	1,417
61 to 90 days overdue	**99**	550
91 to 180 days overdue	**390**	945
> 180 days overdue	**416**	593
Gross trade debtors	**13,112**	16,779
Credit note provision	**(1,521)**	(981)
Net trade debtors	**11,591**	15,798

Trade creditor days were 28 at 31 March 2019 compared to 28 as at 31 March 2018.

Financing

	31 March 2019			31 March 2018		
	Available £000	**Drawn £000**	**Undrawn £000**	Available £000	Drawn £000	Undrawn £000
Committed						
- Revolving credit facility	**25,000**	**19,500**	**5,500**	40,000	28,000	12,000
- Term loans	**363**	**363**	**-**	-	-	-
- Finance leases	**4,976**	**4,976**	**-**	5,932	5,932	-
	30,339	**24,839**	**5,500**	45,932	33,932	12,000
Uncommitted						
- Bank overdraft	**2,000**	**-**	**2,000**	2,000	-	2,000
- Finance leases	**4,724**	**-**	**4,724**	4,603	-	4,603
	6,724	**-**	**6,724**	6,603	-	6,603
Total borrowing facilities	**37,063**	**24,839**	**12,224**	52,535	33,932	18,063

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

During the year the company cancelled £15m of unutilised facility, reducing the committed level down from £40m to £25m and thereby saving £186k in annualised commitment fees.

Post the year end a further £2.5m was cancelled from the facility leaving a committed revolving credit facility of £22.5m.

Peter Brotherton
Chief Executive Officer
25 June 2019

Risk management

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

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

Reliance on key personnel and management

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

Competition

Redcentric operates in a highly competitive marketplace and, while the Directors believe the Group enjoys significant strengths and advantages in competing for business, some of the competitors are much larger with considerable scale that could allow them to offer similar services for lower prices than the Group would be prepared to match. Competitors could therefore materially adversely impact the scale of the Group's revenues and its profitability. The Group monitors competitors' 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 risks, such as viruses, hacking, and an ever-changing spectrum of security risk. The Group maintains constant pro-active vigilance against such risks and maintains membership of some of the highest levels of security accreditation as part of the service it offers its customers.

Infrastructure failure

The Directors believe that one of the key differentiators that Redcentric offers is that its services are provided over its own controlled and managed infrastructure, such as its own networks and data centres. Whilst this provides customers with comfort around 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.

FCA Investigation

The FCA investigation is ongoing and has yet to reach its conclusion. The Company continues to cooperate fully with the FCA with a view to bringing the matter to a conclusion as soon as possible. The Company has taken specialist legal advice in respect of the investigation, given its significance and to ensure that it manages the associated risks as effectively as possible.

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.

Risk management continued

Through these differentiators, Redcentric aims to attract new customers and to deepen and broaden its relationships with existing customers. The Board's strategy for growth comprises of:

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

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

Corporate responsibility

Employees

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

Through Redcentric's apprenticeship programme, we have given two young people the opportunity to develop their careers with us and gain qualifications in networks, data storage, computing and electro-technical systems. We have also launched an internal Future Leaders Programme that will provide formal management qualifications for a number of employees against an apprenticeship framework.

Gender pay report

Our gender pay report at the snapshot date of 5th April 2018 showed that the overall difference between men and women's earnings at Redcentric was 23% (mean) or 11% (median), based on hourly rates of pay at the snapshot date of 5th April 2018. Like most organisations in our industry, the primary reason for our gender pay gap is an imbalance of male and female colleagues at different levels across the organisation. We have fewer female colleagues in more senior positions, which attract higher salaries. We are confident that as we make progress towards achieving greater gender balance across all roles within Redcentric, particularly within our technical, sales management and senior management roles, our gender pay gap will reduce.

Equality and diversity

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

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

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

Charitable activity

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

We work with several charities on a regular basis including Sue Ryder, Macmillan and Sports Relief. Through a combination of funds raised by employees for their own chosen charities or charitable donations from Redcentric, we contributed over £10,000 to various charities in 2018.

By order of the Board
Harn Jagpal
Company Secretary
25 June 2019

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 a former Non-Executive Chairman at Ashtead Group plc. Chris, as a Chartered Engineer, founded and led the development of WSP both organically and acquisitively into a global consultancy with 10,000 people operating in 40 countries. Following WSP's merger with Genivar, Inc. in August 2012, Chris is the Non-Executive Chairman of the new engaged company, WSP Global Inc. listed on the Toronto Stock Exchange.

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

Chris is Chairman of the Nomination Committee.

Jon Kempster
Independent Non-Executive Director

Jon Kempster was appointed as a Non-Executive Director on 10 January 2017. Jon is the Chief Financial Officer and member of the Board at Sports Direct International plc. Jon was previously the Chief Financial Officer at Utilitywise, Wincanton plc, Low and Bonar plc, Linden Group plc and Fii Group plc.

Jon is an ACA qualified chartered accountant, Chairman of the Audit Committee (from 1 February 2019 onwards), and a member of the Remuneration and Nominations Committees.

Stephen Vaughan
Independent Non-Executive Director

Stephen Vaughan was appointed as a Non-Executive Director on 13 June 2017. Through his career, Stephen has held a number of Executive and Non-Executive roles focused on the technology sector. Stephen is also currently the Non-Executive Chairman of Progressive Equity Research, the paid-for equity research house and a Non-Executive Director of Amino Technologies plc, the AIM listed technology provider of media and entertainment solutions.

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

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

Chris Rigg (appointed 1 February 2019)
Independent Non-Executive Director

Chris Rigg was appointed as a Non-Executive Director on 1 February 2019. Chris currently holds Non-Executive roles with Sportech plc and Ridge Pharma Limited. He was also previously Chief Executive Officer and Chief Financial Officer at Quantum Pharma plc and Chief Executive Officer at Northern Recruitment Group Limited.

Chris is a qualified chartered accountant and is a member of the Audit, Remuneration and Nomination Committees.

EXECUTIVE DIRECTORS

Peter Brotherton
Chief Executive Officer (from 22 November 2018), formally Chief Financial Officer

Peter Brotherton was appointed as Chief Financial Officer on 28 November 2016 and as Interim Chief Executive Officer on 21 November 2018. Peter is a senior and experienced Chief Financial Officer with over 25 years' experience across a number of senior finance roles. Peter's two previous roles were as Chief Financial Officer of Gametech and Chief Financial Officer at PKR Group.

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

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

Corporate governance report

The Board is responsible for the Group's corporate governance policies and recognises the important of high standards of corporate governance and integrity. The Board has chosen to adopt the Quoted Companies Alliance (QCA) Code for Small and Mid-sized Quoted Companies 2018. A copy of the Group's full Corporate Governance Statement is available on the Group's website at www.redcentricplc.com

The Board of Directors

At the financial year end the Board comprised the Non-Executive Chairman, Chris Cole; the Chief Executive, Peter Brotherton; and Non-Executive Directors Jon Kempster, Stephen Vaughan, and Chris Rigg. The experience and skills of each of the members of the Board are set out on page 19. The Board has significant and appropriate levels of experience given the nature and size of the Company and each member is responsible for ensuring their continuing professional development to maintain their effective skills and knowledge.

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

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

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

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

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

Formal agendas and reports are provided to the Board on a timely basis in advance of Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources. The Company has taken external legal advice in respect of the ongoing FCA investigation, being a significant matter. Further details are included in note 5 to the Consolidated Financial Statements.

The Executive Directors of the Company are employed on a full-time basis. The Non-Executive Directors are required to devote such time to Company matters as is necessary for the proper performance of their duties and this changes from time to time. In addition to monthly Board meetings, members of the Board are required to attend committee meetings as detailed below, other ad hoc Board meetings, the annual general meeting of the Company, site visits, Board dinners and any other business or general meetings as required. Board members are also required to consider all relevant papers before each meeting and to devote additional time in respect of preparation and ad hoc matters which may arise. The Non-Executive Directors are required to obtain the agreement of the Chairman before accepting additional commitments that might affect the time that they are able to devote to their role as a non-executive director.

The Board recognises the importance of evaluating its performance and therefore plans to undertake a board performance review towards the end of 2019. As part of the review, the time required and spent on Company matters by the Board will be assessed.

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.

Corporate governance report continued

The following table details the attendance of the Board members at Board and Committee meetings in FY19:

Name	Position at 31/3/19	Main Board Total	Main Board Attended	Audit Committee Total	Audit Committee Attended	Remuneration Committee Total	Remuneration Committee Attended	Nomination Committee Total	Nomination Committee Attended
Chris Cole	Chairman	16	16	-	-	-	-	2	2
Stephen Vaughan	NED	16	15	2	1	2	2	2	2
Jon Kempster	NED	16	16	2	2	2	2	2	2
Chris Rigg[1]	NED	2	2	0	0	0	0	0	0
Peter Brotherton	CEO	16	16	-	-	-	-	-	-
Stephen Puckett[2]	NED	14	11	1	1	2	1	2	0
Chris Jagusz[3]	NED	9	9	-	-	-	-	-	-

[1] Appointed with effect from 1 February 2019

[2] Resigned with effect from 1 February 2019

[3] Resigned with effect from 21 November 2018

Nomination Committee

The Nomination Committee consists of Chris Cole (Chairman), Stephen Vaughan, Jon Kempster and Chris Rigg.

The Committee meets at least once a year and at other times during the year as agreed between the members of the Committee or as otherwise requested. 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 once a year reviews the structure, size and composition of the Board (including gender balance), considers succession planning for the Board and other senior Executives and review the Executive and Non-Executive leadership needs of the organisation.

Remuneration Committee

The Remuneration Committee consists of Stephen Vaughan (Chairman), Jon Kempster and Chris Rigg.

Details of the Committee and its policies are set out in the Directors' Remuneration Report on pages 28-33. The Committee has formal terms of reference (available on request from the Company Secretary).

Audit Committee

The Audit Committee consists of Jon Kempster (Chairman), Stephen Vaughan and Chris Rigg.

During the year, Jon Kempster was appointed as Chairman of the Committee and the Committee adopted new terms of reference. In accordance with these, the Committee will meet at least three times a year at appropriate intervals in the financial reporting and audit cycle, and at other times during the year as agreed between the members of the Committee or as required.

Corporate governance report continued

Audit Committee (continued)

The Committee's terms of reference are available on request from the Company Secretary. They 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 formal announcements and the integrity of the financial statements, including significant estimates and judgements made in connection with the preparation of the statements (further details of which are in note 1.25 to the Consolidated Financial Statements). A whistleblowing 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 Director of Financial Control (covering part of the Chief Financial Officer role pending the start of a new 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.

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 FRC Guidance on risk management and internal control, related financial and business reporting, 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 Director of Financial Control (pending start of the new CFO) 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 17-19 to the financial statements.

Corporate culture

The Board leads by example with respect to promoting a healthy corporate culture and ensuring that ethical values and behaviours are embedded in the business. The processes in place for decision making which are documented in its committee terms of reference, the Company's share dealing code and the requirement for regular disclosure of interests are all examples of processes which require high standards of behaviour from the Board.

Employment policies adopted by the Company, such as its whistleblowing and anti-bribery policies assist in embedding a culture of ethical behaviour and the values set out in its corporate social responsibility statement (www.redcentricplc.com/about-us/redcentric-and-the-community/corporate-social-responsiblity) and Modern Slavery Act statement (www.redcentricplc.com/about-us/redcentric-and-the-community/corporate-social-responsiblity/modern-slavery-act) also reinforce this culture.

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.

Corporate governance report continued

During the year, the Chief Executive Officer and the Director of Financial Control met with institutional investors after the announcement of the preliminary and interim results. There has also been regular dialogue with shareholders through the Group's corporate brokers, Numis Securities and finnCap Limited, and the Group seeks to stay abreast of shareholder expectations and reactions through its brokers, registrars, investor roadshows, meetings with key investors and its internal investor relations team.

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

Substantial shareholders

As at 31 March 2019 and 31 May 2019 (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 2019 Number	**31 March 2019 %**	25 May 2019 Number	25 May 2019 %
Coltrane Asset Management LP	33,768,246	22.64	33,768,246	22.64
ND Capital Investments Limited	23,274,689	15.61	23,274,689	15.61
Kestrel Partners LLP	21,207,814	14.22	21,399,362	14.35
Mr Richard Griffiths	16,017,141	10.74	16,250,941	10.90
Slater Investments	8,728,656	5.85	8,728,656	5.85
Harwood Capital Mgt Group	7,500,000	5.03	7,525,000	5.05
Eugenia II Investment Holdings	5,540,495	3.72	5,540,495	3.72

Directors' report

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2019.

Principal activity

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

The Strategic report on pages 4-18 contains a review of the business, future developments and the principal risks and uncertainties.

Directors

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

Peter Brotherton
Chris Cole
Jon Kempster
Stephen Vaughan
Chris Rigg (appointed 1 February 2019)
Chris Jagusz (resigned 21 November 2018)
Stephen Puckett (resigned 1 February 2019)

As at 31 March 2019 the Director's beneficial interests and those of their families in the ordinary share capital of the Company were as follows:

	31 March 2019 Number of shares	31 March 2018 Number of shares
Peter Brotherton	**20,000**	20,000
Chris Cole	**20,000**	20,000
Stephen Vaughan	**20,000**	20,000

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

Details of the Directors' contracts, remuneration and share options granted are set out in the Directors' Remuneration Report on page 28-33.

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.

Directors' report continued

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

Employees

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

	Male	Female	Total
Directors	6	0	6
Senior managers	6	2	8
Other employees	370	95	465
Total average headcount	**382**	**97**	**479**

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 an HMRC approved Redcentric plc Save-As-You-Earn Option Plan where employees contribute a monthly amount which is saved over three years to buy shares in the Company at a pre-determined price.

At 31 March 2019, there was one active plan as follows (the two previous schemes have both now come to maturity).

On 30 August 2017, the Company granted options over a total of 1,223,390 ordinary shares to 91 employees. These options are available for exercise from 30 August 2020, with an exercise price of 63p, which is a 20% discount to the average closing price on the three days ending 4 August 2017, the last trading date before the launch of the Plan.

As at 31 March 2019, the following options had been granted under the plan:

Grant date	Exercise price	Options granted	Options exercised	Options lapsed / cancelled	Options remaining
17 December 2014	107p	1,134,886	-	(1,134,886)	-
14 December 2015	154p	163,905	-	(163,905)	-
30 August 2017	63p	1,223,390	-	(248,870)	974,520
Total		**2,522,181**	**-**	**(1,547,661)**	**974,520**

Directors' report continued

Annual General Meeting

The Annual General Meeting will be held at midday at CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF on 2 September 2019.

Dividend

The Board re-instated the Company's dividend policy in FY19 with an interim dividend of 0.4p per share being paid on 21 December 2018, totalling £596k. The final dividend of 1.0p per share will be payable to shareholders on 6 September 2019, subject to approval at the Company's Annual General Meeting, based on a record date of 5 July 2019 and ex-dividend date of 4 July 2019.

Financial risk management objectives and policies

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

Disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 24. Having made enquiries of fellow Directors, each of these Directors confirms that:

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

Subsequent events

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

Future developments

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

By order of the Board
Harn Jagpal
Company Secretary
25 June 2019

Statement of Directors' responsibilities

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the directors are required to:

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

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

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

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

By order of the Board
Harn Jagpal
Company Secretary
25 June 2019

Directors' remuneration report (audited)

Annual statement by the Chairman of the Remuneration Committee

The Remuneration Committee comprises Stephen Vaughan (Chairman), Jon Kempster and Chris Rigg.

The Committee meets at least twice a year and at other times during the year as agreed between the members of the Committee.

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, while at the same time ensuring they are not rewarded for failure.

Terms of reference

The Committee makes recommendations to the Board, within agreed Terms of Reference, on the remuneration and other benefits, including bonuses and share options, of the Executive Directors. The Terms of Reference includes committee oversight of several other significant remuneration matters beyond those of the Executive Directors. In considering the remuneration for the year, the Committee consulted with the Executive Directors about its proposals. The Board sets the fees payable to the Non-Executive Directors.

Chief Executive

On 21 November 2018, Chris Jagusz resigned as a director and Chief Executive Office. Peter Brotherton (formerly Chief Financial Officer) has taken on the role of Chief Executive Officer from 22 November 2019 onwards.

Chief Financial Officer

The Board are pleased to announce the Dean Barber will be joining the Company as Chief Financial Officer and Executive Director with effect from 1 September 2019. The remuneration package offered to the Chief Financial Officer was reviewed and approved by the Remuneration Committee as part of the recruitment process.

Basic salary and benefits

Basic salaries are reviewed on a discretionary basis.

The benefits provided for each Executive Director may include:

i. life assurance cover of 4 times salary;

ii. private medical insurance for themselves, their spouse and their children;

iii. a contribution to a private pension plan.

Performance related bonus

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

In addition to the Long-Term Incentive Programme, the two Executive Directors benefited from a special bonus scheme which would pay out, in the event of a change of control, a cash sum linked to the growth in share price since October 2017, subject to an initial uplift requirement. Mr Jagusz's participation in this scheme lapsed upon his leaving the Company. Post the balance sheet date, the Board has amended this scheme to allow for any bonus to be paid in shares, or alternatively with an equivalent monetary value at the change of control price, subject to the discretion of the Remuneration Committee at the time. It is intended to include the newly recruited Chief Financial Officer in this scheme when he joins the Board.

Share options

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

Directors' remuneration report (audited) continued

Fees

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

Recruitment and promotion policy

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

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

Service contracts

The Chief Executive Officer and Chief Financial Officer have service contracts with a provision for termination notice period of six months (twelve months in the event of a takeover).

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

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

	Date of contract	Notice period (months)	Length of service at 31 March 2019
Executive Directors			
Peter Brotherton	28 November 2016	6*	2 years 4 months
Chris Jagusz (resigned 21 November 2018)	2 October 2017	6	
Non-Executive Directors			
Chris Cole	1 September 2014	6	4 years 7 months
Stephen Puckett (resigned 1 February 2019)	17 November 2014	6	4 years 2 months
Jon Kempster	10 January 2017	6	2 years 2 months
Stephen Vaughan	13 June 2017	6	1 year 9 months
Chris Rigg	21 January 2019	6	2 months

*12 months in the event of a takeover.

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

Directors' remuneration report (audited) continued

Service contracts (continued)

The Executive directors' salaries as at 31 March 2019 are set out in the table below:

	Salary 31 March 2019 £000	Salary 31 March 2018 £000
Executive Directors		
Peter Brotherton	**300**	200

Chairman and Non-Executive Directors' fees

The Board, within the limits stipulated by the Articles of Association and following recommendation by the Executive Directors, determines Non-Executive Directors' fees. The Chairman receives a fee of £70,000 with the other Non-Executive Directors receiving a fee of £40,000.

	Annual fee 31 March 2019 £000	Annual fee 31 March 2018 £000
Chris Cole	**70**	70
Jon Kempster	**40**	35
Stephen Vaughan	**40**	28
Chris Rigg (appointed 1 February 2019)	**40**	-

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

Total remuneration for the Chief Executive Officer

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

Year	Executive	Total single figure £000
2019	Peter Brotherton Chris Jagusz*	100 207
2018	Chris Jagusz Fraser Fisher**	154 209
2017	Fraser Fisher	369
2016	Fraser Fisher Tony Weaver†	266 120
2015	Tony Weaver	204

*Chris Jagusz was Chief Executive Officer until his resignation on 21 November 2019. Peter Brotherton was appointed interim Chief Executive Officer at this time.

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

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

Directors' remuneration report (audited) continued

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

	Basic salary, allowances and fees £000	Bonus £000	Payment in lieu of notice £000	Holiday £000	Pension £000	Share based payments* £000	**2019 Total £000**	2018 Total** £000
Executive								
Peter Brotherton	236	40	-	-	12	131	**419**	254
Chris Jagusz (resigned 21-Nov-18)	224	-	155	4	-	-	**383**	154
Fraser Fisher (resigned 20-Oct-17)	-	-	-	-	-	-	**-**	427
Non-Executive								
Chris Cole	70	-	-	-	-	-	**70**	70
Stephen Vaughan	40	-	-	-	-	-	**40**	28
Jon Kempster	36	-	-	-	-	-	**36**	35
Chris Rigg (appointed 1-Feb-19)	7	-	-	-	-	-	**7**	-
Stephen Puckett (resigned 1-Feb-19)	33	-	-	-	-	-	**33**	40
David Payne (resigned 31-Mar-18)	-	-	-	-	-	-	**-**	55
Total	**646**	**40**	**155**	**4**	**12**	**131**	**988**	**1,063**

* Any share-based payments issued to Chris Jagusz in FY19 lapsed upon his departure, therefore the expense was written back and there was net nil impact to the P&L.

** In addition to the 2018 remuneration as above, share-based payments totalling £335k were issued to the Executive Directors.

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

		Exercise Price (p)	Balance 31 March 2018	Granted	Forfeited / Expired	Exercised	Balance 31 March 2019
Chris Jagusz		nil	**349,800**	**-**	**(349,800)**	**-**	**-**
Peter Brotherton	(a)	nil	161,905	-	-	-	161,905
	(b)	nil	192,481	-	-	-	192,481
	(c)	63p	28,571		-	-	28,571
	(d)	nil	-	298,879			298,879
			382,957	**298,879**	**-**	**-**	**681,836**
Fraser Fisher	(e)	80p	581,968	-	(581,968)	-	-

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

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

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

Directors' remuneration report (audited) continued

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

(d) The options were granted on 26 November 2018 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2021 subject to the achievement of performance conditions related to the growth in earnings per share.

(e) The options were granted under the Group's EMI scheme on 15 November 2013. The latest vesting date for the options was 8 February 2019 and have therefore lapsed as performance conditions were not met.

Directors' interests in shares

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

	Interests in ordinary shares £0.001		Interests in share based incentives
	At 31 March 2019	At 31 March 2018	Options (unvested)
Executive			
Peter Brotherton	**20,000**	20,000	681,836
Chris Jagusz	**-**	7,953	-
Non-Executive			
Chris Cole	**20,000**	20,000	-
Stephen Vaughan	**20,000**	20,000	-
David Payne	**-**	100,626	-
Total	**60,000**	168,579	681,836

Remuneration policy for Executive Directors compared to other employees

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

	2019 £000	2018 £000	**% change**
Chief Executive Officer			
Salary	**300**	342	**(12.3)%**
Benefits	**12**	11	**9.1%***
Annual Bonus	**40**	-	**100.0%**
Average of all employees			
Salary	**33**	37	**(10.8)%**
Benefits	**2**	1	**100.0%**
Annual Bonus	**1**	1	**(0.0)%**

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

Directors' remuneration report (audited) continued

Relative importance of the spend on pay

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

	2019 £000	2018 £000	**% change**
Employee costs	**20,507**	23,292	**(12.0)%**
Dividends to shareholders	**597**	-	**100.0%**
Corporation tax	**604**	(1,004)	**(160.2)%**
Average number of employees	**479**	501	**(4.4)%**
Revenue	**93,260**	99,990	**(6.7)%**
Adjusted EBITDA	**16,714**	18,085	**(7.6)%**

Share price

The market price of the Company's shares on 31 March 2019 was 76p per share. The highest and lowest market prices during the year were 106p and 65p respectively.

Stephen Vaughan
Chairman, Remuneration Committee
On behalf of the Board
25 June 2019

Independent auditor's report to the members of Redcentric plc

1. Our opinion is unmodified

We have audited the financial statements of Redcentric plc ("the Company") for the year ended 30 March 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
Materiality: group financial statements as a whole	£524,000 (2018: £549,000)
	0.56% of group revenue (2018: 0.55% of group revenue)
Coverage	98% (2018: 97%) of total profits and losses that made up group loss before tax

	Key audit matters	vs 2018
New	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going concern	▲
Recurring risks	Provision for credit notes	▼
	Recoverability of parent company investment in subsidiaries	◀▶

Independent auditor’s report to the members of Redcentric plc continued

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to pages 5-7 – Chief Executive's review **Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverability of parent company investment in subsidiaries and related disclosures, and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach the consideration of the uncertainties arising from Brexit in planning and performing our audits. **Our procedures included:** • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources risk for the Group's business and financial resources, compared with our own understanding of the risks. We considered the directors' plans take action to mitigate the risks. • **Sensitivity analysis:** When addressing the recoverability of parent company investment in subsidiaries and other areas that depend on forecasts, we compared the directors' analysis our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures recoverability of parent company investment subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Brexit.

Independent auditor's report to the members of Redcentric plc continued

The risk	Our response
Going concern Refer to page 45 – Accounting Policy **Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group. That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's available financial resources over this period were: • The level of external financing facilities and the ability of the group to renew-these facilities when they fall due for renewal in November 2020. • Meeting management forecasts, including the uncertainty around the impact of Brexit on consumer confidence. There are also less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** • **Funding assessment:** Assessed the committed level of financing available to the Group for at least the next 12 months through consideration of the facility agreement. We challenged the directors' assumptions by considering our own expectations based on our knowledge of the entity and experience of the industry in which it operates. Additionally considered the refinancing risk of the group on cessation of the current financing agreement through inquiry with the relevant banks. • **Historical comparison:** Considered the Group's historical forecast accuracy, by assessing actual performance against previous forecasts, in particular concerning previous accuracy of forecasting revenue. • **Sensitivity analysis:** Considered sensitivities over the level of available financial resources indicated by the Group's financial forecast taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. • **Evaluating directors' intent:** Evaluating the intent of the directors and the achievability of the actions they would take to improve the position should certain risks materialize including looking at the history of similar actions being taken. • **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure by evaluating the reasonableness of risks and uncertainties specified by the disclosure against our findings from our evaluation of management's assessment of going concern.

Independent auditor's report to the members of Redcentric plc continued

The risk	Our response
Provision for credit notes (£1.5m; 2018: £1.0m) Refer to page 47 (Accounting policy) and page 61-62 (Financial disclosures) **Processing error:** The group sells to a large customer base. The group has a history of issuing invoices for the incorrect products or/ and amounts and hence has been issuing material levels of credit notes to correct for these. At the period end, management corrects for the issue of the incorrect invoicing by recording a credit note provision against revenue and trade receivables. The credit note provision is based on the value of credit notes that the Group expects to subsequently issue to correct for the estimated unresolved invoicing issues to date. Management generates the credit note provision by assessing historic level of credit notes raised against the related invoiced amounts, taking into consideration changes in the current period. There is a risk that the credit note provision recorded by management to correct for the inaccurate invoicing may be materially understated, resulting in revenue and trade receivables being misstated. In the prior year, the key audit matter also included provision for impairment of trade receivables. Given the low risk of customer non payment of valid invoices, the key audit matter this year focusses only on the element relating to correction of processing error.	**Our procedures included:** • **Tests of details:** Assessing the basis and calculation of the credit note provision against our knowledge of the business and our understanding and evaluation of the invoicing process; • **Historical comparisons:** Evaluating the historic level of credit notes raised against total revenue to assess the appropriateness of the applied rate of credit notes to total revenues in the year; • **Tests of details:** Assessing the level of post year end credit notes, to determine the extent to which the provision is utilised post year end and the adequacy of the year end; • **Tests of details:** Agreeing a sample of trade receivables at the year end to post year end cash receipts; • **Tests of details:** Agreeing a sample of trade receivables at the year end to confirmations of balances from customers.
Recoverability of parent company investment in subsidiaries (£101.9m; 2018: £101.6m) Refer to page 76 (Financial disclosures). **Subjective estimate:** The carrying amount of the parent company's investments in subsidiaries are significant and at risk of irrecoverability due to weakening demand in certain areas of the business. This estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the forecasts for the subsidiary companies. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use of the company's investment had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty over the carrying amount of investment to be less than that materiality.	**Our procedures included:** • **Benchmarking assumptions:** Challenging the assumptions used in the cash flows included in the forecasts based on our knowledge of the Group and the markets in which the subsidiaries operate; • **Historical comparisons:** Assessing the reasonableness of the forecasts by considering the historical accuracy of the previous forecasts; • **Our sector experience:** Evaluating the current level of trading, including identifying any indication of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; • **Assessing transparency:** Assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiaries.

Independent auditor's report to the members of Redcentric plc continued

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

Materiality for the Group financial statements as a whole was set at £524,000 (2018: £549,000), determined with reference to a benchmark of total revenues of £93.3m (2018: £100.0 million) (of which it represents 0.56% (2018: 0.55%)). We consider total revenues to be the most appropriate benchmark as it provides a more stable measure year on year than group loss before tax.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £26,200 (2018: £27,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Materiality for the parent company financial statements as a whole was set at £523,000 (2018: £548,000), determined with reference to a benchmark of total assets, of which it represents 0.5% (2018: 0.5%).

Of the Group's 3 (2018: 3) reporting components, we subjected 2 (2018: 2) to full scope audits tor Group purposes.

The components within the scope of our work accounted for the percentages is shown in the table below.

For the residual 1 component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The work on all 3 (2018: 3) components was performed by the Group team.

The component materialities were £422,000 to £523,000 (2018 ranged from £215,000 to £548,000), having regard to the mix of size and risk profile of the Group across the components.

	2019 £000	2018 £000
Total revenues	**93,300**	100,000
Group materiality	**524**	549
Whole financial statements materiality	**523**	549
Range of materiality at three components	**422-523**	215-548
Misstatements reported to the audit committee	**26.2**	26.2

	2019 %	2018 %
Group revenue		
Full scope for group audit purposes	**100%**	100%
Specified risk-focused audit procedures	**-**	-
Residual components	**-**	-
Total losses and profits that make up loss before tax		
Full scope for group audit purposes	**98%**	97%
Specific risk-focused audit procedures	**-**	-
Residual components	**2%**	3%
Group total assets		
Full scope for group audit purposes	**99%**	100%
Specified risk-focused audit procedures	**-**	-
Residual components	**1%**	-

Independent auditor's report to the members of Redcentric plc continued

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

We have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 27, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Redcentric plc continued

Auditor's responsibilities

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

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

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

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

John Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street,
Leeds LS1 4DA
25 June 2019

Consolidated Income Statement for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue		**93,260**	99,990
Cost of sales		**(36,895)**	(39,996)
Gross profit		**56,365**	59,994
Operating expenditure		**(56,650)**	(59,054)
Operating (loss) / profit		**(285)**	940
Analysed as:			
Adjusted EBITDA*		**16,714**	18,085
Depreciation	10	**(7,330)**	(7,769)
Amortisation of intangibles	11	**(7,392)**	(7,136)
Exceptional costs	5	**(1,911)**	(1,672)
Share-based payments	22	**(366)**	(568)
		(285)	940
Interest payable	6	**(1,091)**	(1,452)
Interest receivable	6	**13**	19
Loss on ordinary activities before taxation		**(1,363)**	(493)
Tax credit / (charge) on profit on ordinary activities	8	**(604)**	1,004
Profit / (loss) for the year (attributable to owners of the parent)		**(1,967)**	511
Earnings per share			
Basic earnings per share	9	**(1.32)p**	0.34p
Diluted basic earnings per share	9	**(1.32)p**	0.34p

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

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

Consolidated Statement of Comprehensive Income

	2019 **£000**	2018 £000
Profit / (Loss) for the year	**(1,967)**	511
Exchange differences arising on re-translation of foreign subsidiary	**8**	(45)
Total comprehensive income	**(1,959)**	466

Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	**Total equity £000**
At 31 March 2017	149	65,395	(9,454)	20,639	76,729
Profit for the year	-	-	-	511	511
Other comprehensive loss – before tax	-	-	-	(45)	(45)
Total comprehensive income	-	-	-	466	466
Transactions with owners:					
Issue of new shares	-	193	-	-	193
Dividends to shareholders	-	-	-	-	-
IFRS 2 Charge	-	-	-	534	534
Deferred tax on SBP	-	-	-	-	-
At 31 March 2018	149	65,588	(9,454)	21,639	77,922
At 1 April 2018 (reported)	**149**	**65,588**	**(9,454)**	**21,639**	**77,922**
Adjustment on initial application of IFRS 15	**-**	**-**	**-**	**(74)**	**(74)**
At 1 April 2018 (after IFRS adoption)	149	65,588	(9,454)	21,565	77,848
Profit for the year	**-**	**-**	**-**	**(1,967)**	**(1,967)**
Other comprehensive loss – before tax	**-**	**-**	**-**	**8**	**8**
Total comprehensive income	**-**	**-**	**-**	**(1,959)**	**(1,959)**
Transactions with owners:					
Dividends to shareholders	**-**	**-**	**-**	**(597)**	**(597)**
IFRS 2 Charge	**-**	**-**	**-**	**353**	**353**
At 31 March 2019	**149**	**65,588**	**(9,454)**	**19,362**	**75,645**

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position as at 31 March 2019

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Property plant and equipment	10	**18,133**	20,238
Intangible assets	11	**75,802**	82,486
Deferred tax asset	8	**142**	-
		94,077	102,724
Current assets			
Inventories		**357**	666
Trade and other receivables	12	**22,103**	26,120
Cash and short-term deposits	13	**7,206**	6,089
		29,666	32,875
Total assets		**123,743**	135,599
Current liabilities			
Trade creditors and other payables	14	**22,297**	23,460
Borrowings	16	**3,056**	3,125
Provisions	21	**149**	-
Non-current liabilities			
Borrowings	16	**21,715**	30,671
Provisions	21	**881**	376
Deferred tax liability	8	**-**	45
Total liabilities		**48,098**	57,677
Net assets		**75,645**	77,922
Equity and liabilities			
Equity			
Called up share capital	20	**149**	149
Share premium account		**65,588**	65,588
Capital redemption reserve		**(9,454)**	(9,454)
Retained earnings		**19,362**	21,639
Total equity		**75,645**	77,922

The notes on pages 45 to 73 are an integral part of these financial statements. The consolidated financial statements of Redcentric Plc (Registration Number 08397584) on pages 41 to 44 were approved by the Board on 25 June 2019 and are signed on its behalf by:

Peter Brotherton, Director

Consolidated Cash Flow Statement for the year ended 31 March 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Loss before taxation	**(1,363)**	(493)
Net finance expense	**1,078**	1,433
Operating profit	**(285)**	940
Depreciation and amortisation	**14,722**	14,905
Exceptional costs	**1,911**	1,672
Share based payments	**366**	568
Operating cash flow before exceptional costs and movements in working capital	**16,714**	18,085
Loss on sale of fixed asset	**(42)**	-
Exceptional costs and NI on share based payments	**(1,668)**	(3,002)
Operating cash flow before movements in working capital	**15,004**	15,083
Decrease (increase) in inventories	**309**	(432)
Decrease (increase) in trade and other receivables	**5,775**	1,079
(Decrease) increase in trade and other payables	**(1,467)**	3,912
Cash generated from operations	**19,621**	19,642
Corporation tax (paid) / received	**(1,873)**	217
Net cash inflow from operating activities	**17,748**	19,859
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	**665**	-
Purchase of tangible fixed assets	**(4,665)**	(6,778)
Purchase of intangible fixed assets	**(564)**	-
Net cash outflow from investing activities	**(4,564)**	(6,778)
Cash flows from financing activities		
Dividends paid to shareholders	**(597)**	-
Interest paid	**(1,044)**	(1,196)
Bank fees	**-**	(50)
Repayment of borrowings / finance leases	**(1,918)**	(323)
(Repayment) of revolving credit facility	**(8,500)**	(10,000)
Proceeds of issue of shares less costs of issue	**-**	193
Net cash (outflow) / inflow from financing activities	**(12,059)**	(11,376)
Net increase in cash and cash equivalents	**1,125**	1,705
Opening cash and cash equivalents	**6,089**	4,340
Net increase (decrease) in cash and cash equivalents	**1,125**	1,705
Effect of exchange rates	**(8)**	44
Cash and cash equivalents	**7,206**	6,089

In addition to cash purchases, an additional £1.3m of capital expenditure was funded via finance leases creating a non-cash movement. Total gross capital expenditure in year was £6.0m, and total net capex was £5.4m after disposals.

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements year ended 31 March 2019

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.

As at 31 March 2019, the Group had committed revolving credit facilities of £25m (2018: £40m) and an overdraft facility of £2m (2018: £2m), of which £19.5m (2018: £28m) of the revolving credit facility and £nil (2018: £Nil) of the overdraft was drawn. During the year, the continuing strength of operating cash flows enabled the Group to cancel £15m of unutilised facility. As at 31 March 2019, these facilities were due to expire on April 2 2020. Subsequent to the year end the Group cancelled a further £2.5m of unutilised facility, leaving the committed revolving facility of £22.5m. On 14 June 2019 these facilities were extended to 30 November 2020, with all terms and covenants remaining the same until this time.

The Directors have taken note of the guidance issued by the Financial Reporting Council on the Going Concern Basis of Accounting in determining that this is the appropriate basis of preparation of the financial statements and have considered a number of factors.

The Group's business activities and markets in which it operates are set out in the Strategic Report. The sectors in which the Group is particularly well represented are diverse and a high proportion of the Group's revenue is recurring in nature, which provides good visibility and resilience of future revenue and cash-flows.

Taking into account all available information about the future for a period of at least, but not limited to, twelve months from the date of approval of the financial statements, the Directors have reviewed cash forecasts as well as performing reasonable downside sensitivity analysis (which demonstrate that overall facility headroom and covenant headroom both remain strong.

The Group will continue to cancel unutilised tranches of the bank facility underpinned by the continuing strength of forecast cash generation and the Group will undergo a full refinancing process well in advance of the expiration of the current bank facilities in November 2020. The Directors are not aware of any facts or circumstances that would prevent this refinancing process from being successful.

Having undertaken this assessment, the directors consider it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

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

1.2 Basis of consolidation

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

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

Acquisition-related costs are expensed as incurred

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

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

1.3 Intangible assets

Goodwill

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

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

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

Other intangible assets

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

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

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

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

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

Internally generated intangibles

Any internally generated intangibles as a result of research and development are not capitalised as they are not deemed to be material. Any significant internal development costs meeting the recognition criteria in IAS 38, including commercial feasibility, would be capitalised.

1.4 Property, plant and equipment

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

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

Office fixtures and fittings	4-5 years
Leasehold improvements	15 years
Vehicles and computer equipment	3-5 years (or over the contract term if shorter)

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

1.5 Impairment of assets

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

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

The recoverable amount of intangible assets and property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

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

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and is effective for the Company for the year ended 31 March 2019. Applying IFRS 9 has resulted in changes to the measurement and disclosure of financial instruments and introduced a new expected loss impairment model. Regarding impairment, the Company has applied the IFRS 9 approach to measuring expected credit losses which uses a lifetime expected loss allowance for all assets held at amortised cost.

We have revised the methodologies we use to impair financial assets to reflect the forward-looking 'expected credit loss' model introduced by IFRS 9, in contrast to the backward-looking 'incurred credit loss' model used under IAS 39. In order to assess the impact of IFRS 9 the Company reviewed the last 12 months of actual debtor impairment when calculating the impact of the expected credit loss. The Company now recognises a loss allowance for all expected credit losses on initial recognition of trade receivables. Providing for loss allowances on our existing financial assets has not had a material impact on the financial statements.

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

1.10 Cash and cash equivalents

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

1.11 Foreign currencies

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

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

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

1.12 Trade payables

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

1.13 Accruals and deferred income

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

1.14 Provisions

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

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

Dilapidations

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

1.15 Pensions

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

1.16 Share-based payment transactions

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

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

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

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

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

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

1.17 Financial assets

The Group classifies its financial assets as loans and receivables measured at amortised cost.

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.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

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

1.20 Revenue

IFRS 15 'Revenue from contracts with customers' is effective for periods beginning on or after 1st January 2018. The Company has adopted IFRS 15, 'Revenue from Contracts with Customers', for the year ending 31 March 2019. This establishes a comprehensive framework for determining whether, how much and when revenue is recognised. As permitted by the standard, the Company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18. The overall impact on reserves as at the transition date is not significant. Further details relating to IFRS 15 are disclosed in note 28.

The standard requires revenue earned from contracts to be recognised in line with performance obligations based on a five-step model.

On inception of the contract we identify a "performance obligation" for each of the distinct goods or services we have promised to provide to the customer. The following table summarises the performance obligations we have identified for our major revenue lines and provides information on the time of when they are satisfies and the related revenue recognition policy.

Revenue line	Performance obligation	Revenue recognition policy
Recurring revenue	Provision of managed services to the customer. All of the revenue in this category is contracted. and includes a full range of managed support, maintenance, subscription and service agreements. Performance obligations are identified for each distinct service for which the customer has contracted and are considered to be satisfied over the time period that these services are delivered.	Revenue for these types of services is recognised evenly over the period of the agreement as the services are provided.
Product revenue	Provision of third-party hardware (e.g phone handsets, routers) and licences to the customer as a one-off, distinct sale. Performance obligations are satisfied at the point in time that control passes to the customer.	Revenue for product sales are recognised in full in the income statement upon delivery to the customer. Revenue for product sales are recognised in full in the income statement upon delivery to the customer. Amongst other factors the company has pricing and fulfilment risk and as such is considered to be principal in these transactions.
Services revenue	Provision of professional services, consultancy and engineering services in order to setup and install a customer managed service. Installation is typically intrinsically linked to the provision of the managed services (in recurring revenue above) these services do not represent separate performance obligations and are therefore combined with the associated service performance obligation. The Group also provides certain services that are non-complex and distinct from the provision of the underlying managed service contract. The completion of these services is a separate performance obligation.	Services revenue is recognised from the date of installation of a managed service and recognised evenly over the period of the agreement. For distinct separable services revenue is recognised at the point of completion.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

There are no material obligations in respect of returns, refunds or warranties.

The Group recognises revenue based on the stand-alone selling price of each performance obligation. Determining the selling price is typically driven by list prices.

Payments received in advance are recognised as contract liabilities and amounts billed in arrears are contract assets. Revenue expected to be recognised in future periods for performance obligations that are not complete (or partially complete) as at 31 March 2019 is £139m. Of this, £120m relates to revenue for recurring managed services.

Incremental revenues are generated based on usage for calls and data. The entity has a right to consideration from the customer at an amount that corresponds directly with the value to the customer of the entity's performance completed to date, therefore the entity recognises the revenue to the extent to which it has a right to invoice.

1.21 Other income

Finance income

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

1.22 Exceptional costs

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

(a) Professional fees incurred in sourcing and completing acquisitions and disposals including legal expenses

(b) Professional fees incurred in restructuring and refinancing acquisitions.

(c) Integration costs which are incurred by the Group when integrating one trading business into another, including rebranding of acquired businesses.

(d) Redundancy costs, including employment related costs of staff made redundant up to the date of their leaving as a consequence of integration.

(e) Property costs such as lease termination penalties and vacant property provisions and third-party advisor fees.

(f) Non-cash accounting charges relating to aligning accounting policies of acquired businesses with the Group where traditional fair value accounting methods are not appropriate.

(g) Other exceptional costs.

For further detail refer to note 5.

1.23 Holiday pay accrual

It is the Group policy to accrue for holiday pay to the extent of the total amount that would be paid out if all employees of the Group left the business at its reporting date. At 31 March 2019, the holiday pay accrual was £0.2m.

1.24 Segmental reporting

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

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

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

1.25 Critical accounting estimates and assumptions

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

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

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:

Area	Judgement
Recoverability of debtors due to billing inaccuracies	The group has a large customer base and historically a material number of credit notes have been raised by the group due to issues in the accuracy of invoicing to customers. A credit note provision is estimated at the period end to account for revenue which has been recognised in the year, but for which a credit note will subsequently be raised post year end. The provision has been calculated based on empirical analysis of credit notes issued against revenue recognised over a period of two years with adjustments made based on management's knowledge of specific items in the customer base.
Deferred tax	Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves estimates regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.

1.26 IFRS 16 Leases (effective date 1 January 2019)

IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the Consolidated Balance Sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. IFRS 16 is expected to have a material impact on the amounts recognised in the Group's consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases. Within the income statement, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in operating expenses and an increase in finance costs.

Management have reviewed all possible leases that could be affected by IFRS 16 including property, leased cars, leased network contracts, third party tail circuit contracts, etc. It was deemed that for anything related to the network and tail circuits connecting to it, any one company does not have substantially all of the economic benefits resulting from the asset and therefore a "lease", under the IFRS 16 definition, does not exist.

Therefore, applicable leases will include all rented office and data centre space as well as leased company cars.

The Company will adopt IFRS 16 on a modified retrospective basis. Upon transition, a lease liability will be recognised based on future lease payments discounted an at appropriate borrowing rate. Additionally, a right-of-use asset will be recognised equivalent to the lease liability.

The following practical expedients will also be utilised upon transition:

- Low-value leases (under £5,000) will be excluded from IFRS 16 accounting and will continue to be recognised as an operating lease
- Contracts expiring within 12 months of the transition date will continue to be recognised as an operating lease for FY20
- Leases of intangible assets such as licences will continue to be accounted for under IAS 38.

Based on the work done to date of IFRS 16, it is expected that the resulting lease liability and right-of-use asset to be recognised upon transition will be in the region of £25 million to £35 million.

The adoption of this standard is expected to impact alternative performance measures, such as EBITDA, that are used by the Group and the Group's ongoing review of IFRS 16 indicates that the financial impact will result in an increase in EBITDA of between £3 million and £5 million.

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

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

2 Segment reporting

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

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

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

Revenue for the year ended 31 March 2019 was generated wholly from the UK, and all non-current assets are based in the UK:

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Recurring revenue	**80,544**	87,065
Product revenue	**5,810**	7,180
Services revenue	**6,906**	5,745
Total revenue	**93,260**	99,990

3 Operating profit

The following costs are considered to be significant items within operating profit.

	2019 £000	2018 £000
Amortisation of acquired intangible assets	**6,252**	6,252
Amortisation of intangible assets: owned	**1,005**	859
Amortisation of intangible assets: leased	**135**	25
Depreciation – owned assets	**5,066**	5,174
Depreciation – assets held under finance lease	**2,264**	2,595
Share-based payments	**366**	568
Operating lease payments	**3,424**	2,837
Employee benefits expense, excluding share-based compensation	**21,027**	23,860

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

4 Auditors' remuneration

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

	2019 £000	2018 £000
Audit services – KPMG		
Fees payable to Company auditor and its associates for the audit of parent company and consolidated financial statements	**25**	24
The audit and interim review of Company's subsidiaries	**131**	115
Total audit fees	**156**	139
Fees payable to Company auditor and its associates for other services:		
Tax compliance services	**20**	15
Tax advisory services	**20**	-
Total tax fees	**40**	15
Other non-audit services	**16**	-
Total	**202**	154

5 Exceptional costs

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**554**	672
Staff restructuring	**804**	868
Integration costs	**-**	132
Vacant property provisions	**553**	-
Total	**1,911**	1,672

Overall, the level of exceptional items has increased from £1.7m to £1.9m. The key movements are as follows:

- Professional fees associated with the forensic review and FCA investigation – these costs relate to legal advice received in respect of the ongoing FCA investigation. Whilst the Company is still incurring these costs, they are steadily reducing.
- Staff restructuring costs – as part of the overall cost base review and movement of UK roles to India. This restructuring resulted in 20 redundancies.
- Post the integration of City Lifeline, there have been no further costs of this nature. All the group companies are now fully integrated.
- Vacant property provision relates to closure of the Theale office. All staff have been transferred to the data centre in Reading.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

6 Finance costs

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Interest receivable		
Other interest receivable	**(13)**	(19)
Interest payable		
Interest payable on bank loans and overdrafts	**947**	1,241
Interest payable on finance leases	**93**	143
Amortisation of loan arrangement fees	**51**	68
	1,091	1,452
Net financing costs	**1,078**	1,433

7 Employee benefits expense

	2019 £000	2018 £000
Staff costs for the year, including Executive Directors, amounted to:		
Wages and salaries	**18,173**	20,655
Social security costs	**1,907**	2,240
Share options granted to Directors and employees	**366**	568
Pension costs	**581**	397
Total	**21,027**	23,860

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

	2019	2018
Operations	**310**	367
Selling and distribution	**103**	81
Administration	**66**	53
	479	501

During the year 39 heads transferred from operations to selling and distribution.

These numbers as split as follows:

	2019	2018
UK	**329**	362
India	**150**	139
	479	501

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Employee benefits expense (continued)

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

	Basic salary, allowances and fees £000	Bonus £000	Payment in lieu of notice £000	Holiday £000	Pension £000	Share based payments* £000	**2019 Total £000**	2018 Total** £000
Executive								
Peter Brotherton	236	40	-	-	12	131	**419**	254
Chris Jagusz (resigned 21-Nov-18)	224	-	155	4	-	-	**383**	154
Fraser Fisher (resigned 20-Oct-17)	-	-	-	-	-	-	**-**	427
Non-Executive								
Chris Cole	70	-	-	-	-	-	**70**	70
Stephen Vaughan	40	-	-	-	-	-	**40**	28
Jon Kempster	36	-	-	-	-	-	**36**	35
Chris Rigg (appointed 1-Feb-19)	7	-	-	-	-	-	**7**	-
Stephen Puckett (resigned 1-Feb-19)	33	-	-	-	-	-	**33**	40
David Payne (resigned 31-Mar-18)	-	-	-	-	-	-	**-**	55
Total	**646**	**40**	**155**	**4**	**12**	**131**	**988**	**1,063**

* Any share-based payments issued to Chris Jagusz in FY19 lapsed upon his departure, therefore the expense was written back and there was net nil impact to the P&L.

** In addition to the 2018 remuneration as above, share-based payments totalling £335k were issued to the Executive Directors.

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

		Exercise Price (p)	Balance 31 Mar 2018	Granted	Forfeited / Expired	Exercised	Balance 31 Mar 2019
Chris Jagusz		nil	**349,800**	**-**	**(349,800)**	**-**	**-**
Peter Brotherton	(a)	nil	161,905	-	-	-	161,905
	(b)	nil	192,481	-	-	-	192,481
	(c)	63p	28,571	-	-	-	28,571
	(d)	nil	-	298,879	-	-	-
			382,957	**298,879**	**-**	**-**	**681,836**
Fraser Fisher	(e)	80p	581,968	-	(581,968)	-	**-**

Further information regarding the options above is set out below.

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

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

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

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

(d) The options were granted on 26 November 2018 under the Company's Long-Term Incentive Plan ("LTIP"). The options will vest post the release of the Company's results for the year ended 31 March 2021 subject to the achievement of performance conditions related to the growth in earnings per share. (g) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014 under which employees contribute a monthly amount the Company's results for the year ended 31 March 2018 subject to the achievement of performance conditions related to the growth in earnings per share. Fraser Fisher's options lapsed on him leaving the Company.

(e) The options were granted under the Group's EMI scheme on 15 November 2013. The latest vesting date for the options was 8 February 2019 and have therefore lapsed as performance conditions were not met.

Share price

The market price of the Company's shares on 31 March 2019 was 76p per share. The highest and lowest market prices during the year were 106p and 65p respectively.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, controlling and directing the activities of the entity either directly, or indirectly. As the remuneration of the Executive Directors and Non-Executive Directors are disclosed above, the following table details the compensation of other key management personnel, being senior managers and functional directors that sit on the Operating Board of the Company.

	2019 **£000**
Basic salary, allowances and fees	**765**
Bonus and other benefits	**121**
Share related charges	**85**
Pension costs	**29**
	1,000

8 Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

	2019 **£000**	2018 £000
Current income tax:		
Current income tax	**602**	331
Adjustment in relation to prior year	**90**	696
Overseas tax	**98**	53
Deferred tax:		
Origination and reversal of timing differences – Deferred tax asset/(liability): prior year adjustment	**568**	(1,014)
Origination and reversal of timing differences – Deferred tax liability: current year	**(754)**	(1,070)
Total income tax (credit) reported in the income statement	**604**	(1,004)

The tax charge for the year was £0.6m (FY18: credit of £1.0m) which was made up of a corporation tax charge of £0.8m (FY18: charge of £1.1m) and a deferred tax credit of £0.2m (FY18: credit of £2.1m).

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Tax on profit on ordinary activities (continued)

The corporation tax charge comprises a current year corporation tax charge of £0.6m, a prior year corporation tax charge of £0.1m and an overseas tax charge of £0.1m.

(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:

	2019 £000	2018 £000
Loss before taxation	(1,363)	(493)
Profit multiplied by the UK standard rate of corporation tax of 19%	(259)	(94)
Expenses not deductible for tax purposes	94	53
Share scheme deduction under Part 12 CTA 2009	(10)	(12)
Movement in unprovided tax losses	-	(1,000)
Adjustment in relation to prior year	658	92
Effect of tax rate change	87	28
Impact of overseas tax rates	34	8
Fixed asset timing difference	-	(79)
Total income tax (credit) reported in the income statement	**604**	(1,004)

(c) Deferred tax

	2019 £000	2018 £000
Deferred tax liability	(5,134)	(6,197)
Deferred tax assets	5,276	6,152
Net deferred tax asset / (liability) at 31 March	**142**	(45)

(d) Deferred tax liability

	2019 £000	2018 £000
Opening balance	6,197	7,267
Recognised in the income statement	(1,063)	(1,070)
At 31 March	**5,134**	6,197

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

(e) Deferred tax assets

	India – deferred tax asset £000	Share based Payments temporary differences £000	Tax losses £000	Property, plant and equipment temporary differences £000	Other timing differences £000	Total £000
At 31 March 2018	11	57	3,206	2,867	11	6,152
Recognised in income statement	5	9	(223)	(100)	1	**(308)**
Adjustment in relation to prior year	28	(30)	(203)	(363)	-	**(568)**
At 31 March 2019	**44**	**36**	**2,780**	**2,404**	**12**	**5,276**

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

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

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

The adjustment in relation to prior year relates to the resubmission of the FY15 and FY16 tax computations. The group is made up several historical acquisitions some of which have tax losses brought forward. The reassessment of the level of losses carried forward that are deemed to be recoverable against future profits has resulted in a prior year corporation tax adjustment. Additionally, during the year, work was undertaken to review the tax treatment of fixed assets and finance leases resulting in a reassessment to the estimate calculated for deferred tax on fixed assets.

9 Earnings per share

Basic earnings per share has been calculated using loss after tax for the year of £2.0m (2018: profit after tax £0.5m) and a weighted average number of shares of 149,135,316 (2018: 148,890,948). The dilutive effect of share options at 31 March 2019 increased the weighted average number of shares to 151,410,501 (2018: 149,871,477).

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:

	2019 £000	2018 £000
Statutory earnings	**(1,967)**	511
Tax charge / (credit)	**604**	(1,004)
Amortisation of acquired intangibles	**6,252**	6,252
Share based payments	**366**	568
Exceptional costs	**1,911**	1,672
Adjusted earnings before tax	**7,166**	7,999
Notional tax charge at standard rate of 19%	**(1,362)**	(1,520)
Adjusted earnings	**5,804**	6,479
Weighted average number of shares in issue	**149,135,316**	148,890,948
Weighted dilutive effect of options and warrants in issue	**1,140,709**	980,529
Diluted weighted average number of shares in issue	**150,276,025**	149,871,477
Statutory basic earnings per shares	**(1.32)p**	0.34p
Statutory diluted earnings per shares	**(1.32)p**	0.34p
Adjusted basic earnings per share	**3.89p**	4.35p
Adjusted diluted earnings per share	**3.86p**	4.32p
Amortisation charge per P&L	**7,392**	7,136
Amortisation of software	**(1,140)**	(884)
Customer contracts and related relationships	**6,252**	6,252

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

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

10 Property, plant and equipment

	Leasehold improvements £000	Office fixtures and fittings £000	Vehicles & computer equipment £000	**Total £000**
Cost				
At 31 March 2018	13,896	1,372	29,837	45,105
Reclassification	(274)	-	274	-
Additions	112	159	5,723	5,994
Disposals	-	(37)	(1,849)	(1,886)
Exchange differences	-	-	2	2
At 31 March 2019	**13,734**	**1,494**	**33,987**	**49,215**
Accumulated depreciation				
At 31 March 2018	9,526	1,002	14,339	24,867
Reclassification	(272)	-	272	-
Charge for the year ended 31 March 2019	869	115	6,346	7,330
Disposals	-	(22)	(1,092)	(1,114)
Exchange differences	-	-	1	1
At 31 March 2019	**10,123**	**1,095**	**19,864**	**31,082**
Net book amount				
At 31 March 2019	**3,611**	**399**	**14,123**	**18,133**
At 31 March 2018	4,370	370	15,498	20,238

Included in vehicle and computer equipment are assets held under finance leases with a carrying value of £3.7m at 31 March 2019 (2018: £4.9m). Of the £6.0m fixed assets acquired in the year, £1.3m were funded using finance leases (2018: £3.0m).

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

11 Intangible assets

	Goodwill £000	Customer contracts and related relationships £000	Trademarks £000	Software and licences £000	**Total £000**
Cost					
At 31 March 2017	43,269	62,300	275	4,700	110,544
Additions	-	-	-	913	913
FOREX difference on carrying value	-	(16)	-	-	(16)
At 31 March 2018	43,269	62,284	275	5,613	111,441
Additions	-	-	-	717	717
Exchange differences	-	-	-	1	1
At 31 March 2019	**43,269**	**62,284**	**275**	**6,331**	**112,159**
Accumulated amortisation and impairment					
At 31 March 2017	-	19,596	240	1,983	21,819
Amortisation charge for the year ended 31 March 2018	-	6,217	35	884	7,136
Impairment	-	-	-	-	-
At 31 March 2018	-	25,813	275	2,867	28,955
Amortisation charge for the year ended 31 March 2019	-	6,252	-	1,141	7,393
Exchange differences				(1)	(1)
Write-off	-	-	-	10	10
At 31 March 2019	-	**32,065**	**275**	**4,017**	**36,357**
Carrying amount at 31 March 2018	43,269	36,471	-	2,746	82,486
Carrying amount at 31 March 2019	**43,269**	**30,219**	**-**	**2,314**	**75,802**

Included in software and licences are intangibles assets held under finance leases with a carrying value of £0.4m at 31 March 2019 (2018: £0.4m). Of the £0.7m intangible assets acquired in the year, £0.2m were funded using finance leases (2018: £0.4m).

The Company has assessed that the trading operations of the business only constitute one cash generating unit.

Customer contracts have a weighted average remaining amortisation period of 5 years and 11 months (2018: 6 years and 11 months).

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

The recoverable amount was based on the value in use calculation using forecast cash flow projections to the period of 31 March 2022 and extrapolated for a further two years by growth rates applicable. A terminal value based on a perpetuity calculation using a 2.5% real growth was then added. Discount rates were then applied to these projections reflecting management's expected risk profile.

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

- Gross margin percentage of c.61% reducing to c.54%;
- Pre-tax discount rate of 8.7% (post tax 8.7%); and
- Terminal growth rate percentage of 2.5%.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Intangible assets (continued)

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

A pre-tax discount rate of 8.7% (post-tax 8.7%) was applied which reflects management's risk-adjusted estimate of the weighted average cost of capital. There is a significant element of recurring revenue through maintenance contracts and this reduces the risk inherent in the business.

Over the five-year period, revenues are projected to grow at an average of 5.8%. The first three years were derived from management's forecast based on management's past experience and the detailed analysis of market trends.

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

12 Trade and other receivables

	2019 **£000**	2018 £000
Trade receivables	**13,112**	16,779
Less: credit note provision	**(1,521)**	(981)
Trade receivables – net	**11,591**	15,798
Other receivables	**194**	265
Prepayments	**6,133**	7,211
Commission contract asset	**2,040**	-
Accrued income	**1,949**	2,846
Corporation Tax	**196**	-
	22,103	26,120

As at 31 March 2019, trade receivables of £1.5m (2018: £1.0m) 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 2019, net trade receivables of £4.5m (2018: £4.5m) were past due. In the table below, these comprise the receivables over 30 days, which relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of trade receivables is as follows:

The commission contract asset has arisen as part of the adoption of IFRS 15. For the year ending 31 March 2019 the impairment for this contract asset was nil.

	Year ended **31 March 2019** **£'000**	Year ended 31 March 2018 £'000
Current	**9,074**	11,323
1 to 30 days overdue	**2,628**	1,951
31 to 60 days overdue	**505**	1,417
61 to 90 days overdue	**99**	550
91 to 180 days overdue	**390**	945
> 180 days overdue	**416**	593
Gross trade debtors	**13,112**	16,779
Credit note provision	**(1,521)**	(981)
Net trade debtors	**11,591**	15,798

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Trade and other receivables (continued)

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 credit note provision against trade receivables as at 31 March 2019 are as follows:

	£000
At 31 March 2018	**981**
Top up of provision in relation to FY18	**574**
Utilisation of credit note provision in relation to FY18	**(1,337)**
Remaining provision relating to FY18	**218**
Creation of credit note provision in FY19	**2,513**
Utilisation of credit note provision in relation to FY19	**(1,465)**
Other provisions created in FY19	**255**
Remaining provision relating to FY19	**1,303**
At 31 March 2019	**1,521**

No impairment has been posted to accrued income in the year ended 31 March 2019.

13 Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank	**7,206**	6,089

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

	2019 £000	2018 £000
Current		
Trade payables	**6,603**	9,005
Other payables	**275**	27
Taxation and social security	**3,249**	2,490
Accruals	**3,028**	2,705
Deferred income	**9,142**	8,343
Corporation Tax	-	890
	22,297	23,460

Of the deferred income balance on £8.3m at 31 March 2019, £7.9m has been recognised as revenue in the FY19 accounts.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

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:

	2019 £000	2018 £000
Not later than 1 year	**2,982**	2,881
After 1 year but not more than 5 years	**11,169**	11,095
After 5 years	**18,514**	20,942
	32,665	34,918

The Group's operating leases relate to property, motor vehicles and office equipment, and have remaining terms of between 2 and 22 years. The amount recognised as an expense in the year is £2.4m (2018: £2.8m).

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

(b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 March 2019 (2018: £nil).

16 Borrowings

	2019 £000	2018 £000
Non-current		
Bank loan	**19,500**	28,000
Finance leases	**2,214**	2,807
Term loans	**69**	-
Unamortised loan arrangement fee	**(68)**	(136)
Total non-current	**21,715**	30,671
Current		
Finance leases	**2,762**	3,125
Term Loans	**294**	-
Total current	**3,056**	3,125

At 31 March 2019, the Group was party to £53.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a Revolving Credit Facility ("RCF") of £25.0m (£19.5m utilised at 31 March 2019) with a £20.0m accordion (£nil utilised at 31 March 2019), a £2.0m Overdraft Facility (£nil utilised at 31 March 2019) and a £6.0m Asset Financing Facility.

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

Post the year-end the Banks have agreed to extend the current facilities by 8 months to 30 November 2020, with all terms and covenants remaining the same until this time. The Company will undergo a full refinancing process at the start of FY21.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Borrowings (continued)

Reconciliation of net debt:

Instrument	As at 31 March 2018 £000	Net cash flow £000	Net non-cash flow £000	**As at 31 March 2019 £000**
Cash	6,089	1,125	(8)	**7,206**
RCF	(27,864)	8,500	(68)	**(19,432)**
Term loan	-	(66)	(297)	**(363)**
Finance lease	(5,932)	(885)	(2,291)	**(4,976)**
Total	(27,707)	8,674	(2,664)	**(17,565)**

Fair value of non-current borrowings

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

Non-current	**Carrying value 2019 £000**	**Fair value 2019 £000**	Carrying value 2018 £000	Fair value 2018 £000
Bank loan	**19,432**	**18,793**	27,864	26,001

Fair values are based on discounted cash flows, using an effective interest rate based on the borrowing rates at 31 March 2019 of 3.4% (2018: 3.4%).

Finance leases

	Present value 2019 £000	**Finance charges 2019 £000**	**Future lease payments 2019 £000**	Present value 2018 £000	Finance charges 2018 £000	Future lease payments 2018 £000
Not later than 1 year	**2,762**	**61**	**2,823**	3,125	68	3,193
After 1 year but not more than 5 years	**2,214**	**77**	**2,291**	2,807	21	2,828
	4,976	**138**	**5,114**	5,932	89	6,021

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.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Financial instruments by category (continued)

	Carrying value 2019 £000	Fair value 2019 £000	Carrying value 2018 £000	Fair value 2018 £000
Assets				
Trade receivables	11,591	11,591	15,798	15,798
Other receivables	194	194	265	265
Cash and cash equivalents	7,206	7,206	6,089	6,089
Total	18,991	18,991	22,152	22,152
Liabilities				
Trade payables	6,603	6,603	9,005	9,005
Other payables	274	274	27	27
Borrowings	24,771	24,771	33,796	33,796
Total	31,648	31,648	42,828	42,828

18 Financial risk management

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

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

(ii) Cash flow risk
The Group receives interest on cash and cash equivalents and pays interest on its borrowings.

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 March 2019 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.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Financial risk management (continued)

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

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

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

	Within 1 year £000	1-5 years £000	Total £000
At 31 March 2019			
Borrowings	**-**	**19,500**	**19,500**
Finance leases	**2,762**	**2,214**	**4,976**
Term loans	**294**	**69**	**363**
Trade and other payables	**6,602**	**-**	**6,602**
At 31 March 2018			
Borrowings	-	28,000	28,000
Finance leases	2,828	3,104	5,932
Trade and other payables	8,752	-	8,752

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, exceptional costs and share-based payments. The Group's strategy is to maintain the ongoing ratio at below 2.5x, although the bank facilities can accommodate a higher ratio. The ratio was comfortably below this level throughout the year, and at 31 March 2019 was 1.1x (2018 – 1.5x).

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 headroom 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.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

20 Called up share capital

	Allotted and fully paid Number	£000
At 31 March 2017	148,859,173	149
New shares issued	276,143	-
At 31 March 2018	149,135,316	149
New shares issued	-	-
At 31 March 2019	**149,135,316**	149

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

Share issues

During the year the following shares were issued:

	2019 Number	2018 Number
Issued on the exercise of share options	-	276,143
	-	276,143

21 Provisions

	Dilapidations provision £000	**Vacant property provision £000**	**Total provision £000**
At 31 March 2018	376	-	376
Additional provisions created during the year	120	538	658
Utilised during the year	-	(4)	(4)
At 31 March 2019	**496**	**534**	**1,030**

Current and non-current analysis of provisions:

	2019 current £000	**2019 Non-current £000**	**2019 Total provision £000**	2018 Current £000	2018 Non-current £000	2018 Total provision £000
Dilapidations	**-**	**496**	**496**	-	376	376
Vacant Property	**149**	**385**	**534**	-	-	-
Total	**149**	**881**	**1,030**	-	376	376

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Contingent liabilities

In March 2017 the FCA notified the Company that it had commenced an investigation following the historic overstatement of net assets and profits as described in the Company's announcements on 7 November 2016, 13 and 23 December 2016 and following the completion of an independent forensic review commissioned by the Board of Redcentric.

The FCA investigation is still ongoing and has not yet reached its conclusion. At this time, the FCA has not communicated how it intends to proceed and what, if any, action it might bring against the Company. Until such stage as the FCA's intentions becomes clear, the Directors are not able to judge whether a fine will be likely and therefore whether we would need to make a relevant provision in the accounts. We continue to cooperate as fully as we can with the investigation and whilst the overall timing is out of our control, we are seeking to expedite it as soon as practicably possible.

22 Share-based payment plans

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

	2019 £000	2018 £000
Equity-settled share-based charge arising from share options*	**354**	534
National insurance and other charges arising on share options	**12**	34
Total	**366**	568

* 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	**2019 Number of options**	**2019 WAEP**	2018 Number of options	2018 WAEP
Outstanding at the start of the year	**9,923,121**	**72.2**	10,037,417	80.4
Issued in the year	**914,209**	**0.1**	2,752,820	28.0
Exercised in the year	**-**	**-**	(276,143)	70.0
Cancelled in the year	**(100,483)**	**70.4**		
Lapsed/forfeit in the year	**(8,486,727)**	**76.3**	(2,590,973)	57.1
Outstanding at the end of the year	**2,250,120**	**27.7**	9,923,121	72.2

The weighted average fair value of the options granted in the year ended 31 March 2019 was 0.1p (2018: 28.0p) per option. During the year ended 31 March 2019 there were new grants of 914,209 options (2018: 2,752,820 options) which were issued under the Company's Long-Term Incentive Plan ("LTIP").

The weighted average remaining contractual life for the share options outstanding at 31 March 2019 is 5 years and 10 months (2018: 5 years and 2 months). The range of exercise prices for options outstanding at the end of the year was 0p to 154p. Share options outstanding at the end of the year with approximate remaining average life are as follows:

Range of prices	**Number 31 March 2019**	**Life at 31 March 2019**	Number 31 March 2018	Life at 31 March 2018
0p	**1,275,600**	8 years, 10 months	845,621	9 years, 2 months
63p	**949,398**	1 years, 11 months	1,167,678	2 years, 11 months
80p	**-**	-	7,581,968	5 years, 3 months
107p	**-**	-	294,669	0 years, 6 months
154p	**25,122**	0 years, 6 months	33,185	1 years, 6 months
	2,250,120	5 years, 10 months	9,923,121	5 years, 2 months

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Share-based payment plans (continued)

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

Options	2019 Number of options	2019 WAEP	2018 Number of options	2018 WAEP
Performance conditions satisfied	**0**	**0p**	0	0p
Subject to performance conditions	**1,275,600**	**0p**	8,427,589	69p
Save-As-You-Earn	**974,520**	**65p**	1,495,532	74p
Outstanding at the end of the year	**2,250,120**	**28p**	9,923,121	72p

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.

	2019 £000	2018 £000
SAYE schemes	**133**	224
Director and senior manager schemes	**221**	162
MXC options	**-**	148
Employers NI	**12**	34
	366	568

At 31 March 2019, the Group had the following share-based payment arrangements:

i. **Long-Term Incentive Plan (LTIP)**
The Group operates a Long-Term Incentive Plan (LTIP) under which the Executive directors and key management personnel are awarded nil cost options that will vest subject to the achievement of performance conditions relating to the growth in earnings per share.

ii. **Save As You Earn (SAYE)**
The Group operates a HMRC approved SAYE scheme which offers its UK based employees the opportunity to participate in a share purchase plan. To participate in the plan, the employees are required to save an amount of their gross monthly salary, up to a maximum of £500 per month, for a period of 36 months. Under the terms of the plan, at the end of the three-year period the employees are entitled to purchase shares using funds saved at a price 20% below the market price at grant date. Only employees who remain in service and save the required amount of their gross monthly salary for 36 consecutive months will become entitled to purchase the shares. Employees who cease their employment, do not save the required amount of their gross monthly salary in any month before the 36-month period expires, or elect not to exercise their options to purchase shares will be refunded their saved amounts.

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Share-based payment plans (continued)

	EMI	LTIP	SAYE	MXC	Total
Balance at 31 March 2017	1,308,111	919,048	810,258	7,000,000	10,037,417
Issued in the year	-	1,529,430	1,223,390	-	2,752,820
Forfeited in the year	-	(1,602,857)	-	-	(1,602,857)
Cancelled in the year	-	-	(538,116)	-	(538,116)
Exercised in the year	(276,143)	-	-	-	(276,143)
Lapsed in the year	(450,000)	-	-	-	(450,000)
Balance at 30 March 2018	581,968	845,621	1,495,532	7,000,000	9,923,121
Issued in the period	-	**914,209**	**-**	-	**914,209**
Forfeited in the period	-	-	**(130,905)**	-	**(130,905)**
Cancelled in the period	-	-	**(100,483)**	-	**(100,483)**
Exercised in the year	-	-	-	-	**-**
Lapsed in the year	**(581,968)**	**(484,230)**	**(289,624)**	**(7,000,000)**	**(8,355,822)**
Balance at 30 March 2019	**-**	**1,275,600**	**974,520**	**-**	**2,250,120**

As at 31 March 2019 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. Redcentric Plc was created when Redstone Plc demerged its network-based management services business.

23 Pensions

The Group operates a defined contribution pension scheme for eligible employees. The charge for the year ended 31 March 2019 was £0.5m (2018: £0.4m). At the year-end there was a pension's creditor of £0.1m (2018: £0.1m).

24 Subsidiaries

As at 31 March 2019, the Group had the following subsidiary undertakings:

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

All of the Company's subsidiaries have been consolidated in the Group financial statements. All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate HG3 1UG, except Redcentric Solutions Private Limited which has a registered office at 606-611, 6th Floor, Manjeera Trinity Corporate, JNTU – Hitech City Road, Kukatpally, Hyderabad – 72 and Redcentric US Limited which has a registered office at 874 Walker Road, Suite C, Dover, Kent, USA 19904.

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

** Dissolved 11/07/2017

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

25 Related parties

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

Directors' emoluments are disclosed in the Remuneration Report.

Compensation of key management personnel is disclosed in note 7.

There were no other transactions with related parties in the year to 31 March 2019.

26 Dividends

	2019 £000	2018 £000
Amounts recognised as distributions to Shareholders in year:		
Interim dividend for year ended 31 March 2019 of 0.4p (2018: nil) per share	597	Nil
	597	Nil

The Company paid an interim dividend in respect of the year to 31 March 2019 of 0.4p per ordinary share, with a total payment value of £0.6m.

27 Subsequent events

Post the year-end the Banks have agreed to extend the current facilities by 8 months to 30 November 2020, with all terms and covenants remaining the same until this time. The Company will undergo a full refinancing process at the start of FY21.

28 IFRS 15 (revenue from contracts with customers) restatement

There were two main changes to the Company accounts when prepared under IFRS 15. The first was in relation to recognition of revenue for Customer Premises Equipment (i.e routers) and the second was in relation to commission payments made to members of the Sales department. The Company has chosen to adopt the modified retrospective method of transition which allows for the recognition of the cumulative effect of applying the standard through opening retained earnings.

Customer Premises Equipment (CPE)

Prior to IFRS 15 adoption, CPE set up and activation revenue was recognised up front upon installation. Under IFRS 15 this has now been amended so that all revenue received in relation to CPE set up and activation is now recognised over the life of the relevant customer contract. The impact of this has been a reduction in reported revenue and an equivalent increase in deferred income.

Sales Commission Payments

Prior to IFRS 15 adoption, the policy was to recognise the commission expense in the income statement in the period in which it was paid via payroll. Under IFRS 15 sales commission costs are now recognised across the life of the contract to which the commission relates. This restatement has had a positive earnings impact alongside an impact on the statement of financial position to reflect a contract asset for commission costs to be recognised over the term of the contract. The Company is also now recognising the liability for future commission payments due as a result of commission already earned (for example through multi-year payments).

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

IFRS 15 (revenue from contracts with customers) restatement (continued)

The following tables show, for the year ended 31 March 2019, the impact on the financial statements had IFRS 15 not been adopted. There was no net impact on the key cash flow headings i.e net cash flow from operating activities, investing activities or financing activities.

Income statement for the year ended 31 March 2019 prepared under IFRS 15 and IAS 18

	2019 (reported) £000	Adjustments under IFRS 15 £000	**2019 (under IAS 18)** £000
Revenue	**93,260**	(207)	93,053
Cost of sales	**(36,895)**	-	(36,895)
Gross profit	**56,365**	(207)	56,158
Operating expenditure	**(56,650)**	(336)	(56,986)
Operating loss	**(285)**	(543)	(828)
Analysed as:			
Adjusted EBITDA	**16,714**	(543)	16,171
Depreciation	**(7,330)**	-	(7,330)
Amortisation of intangibles	**(7,392)**	-	(7,392)
Exceptional costs	**(1,911)**	-	(1,911)
Share-based payments	**(366)**	-	(366)
	(285)	(543)	(828)
Interest payable	**(1,091)**	-	(1,091)
Interest receivable	**13**	-	13
Loss on ordinary activities before taxation	**(1,363)**	(543)	(1,906)

Notes to the Consolidated Financial Statements year ended 31 March 2019 – continued

Statement of financial position at 31 March 2019 prepared under IFRS 15 and IAS 18

	As at 31 March 2019 (reported) £000	Adjustments under IFRS 15 £000	As at 31 March 2019 (under IAS 18) £000
Assets			
Non-current assets			
Property plant and equipment	**18,133**	-	18,133
Intangible assets	**75,802**	-	75,802
Deferred tax asset	**142**	-	142
	94,077	-	94,077
Current assets			
Inventories	**357**	-	357
Trade and other receivables	**22,103**	(1,875)	20,228
Cash and short-term deposits	**7,206**	-	7,206
	29,666	(1,875)	27,791
Total assets	**123,743**	(1,875)	121,868
Current liabilities			
Trade creditors and other payables	**22,297**	(1,407)	20,889
Borrowings	**3,056**	-	3,057
Provisions	**149**	-	149
Non-current liabilities			
Borrowings	**21,715**	-	21,715
Provisions	**881**	-	881
Deferred tax liability	**-**	-	-
Total liabilities	**48,098**	(1,407)	46,691
Net assets	**75,645**	(468)	75,177
Equity and liabilities			
Equity			
Called up share capital	**149**	-	149
Share premium account	**65,588**	-	65,588
Capital redemption reserve	**(9,454)**	-	(9,454)
IFRS 15 revaluation reserve	**(75)**	75	-
Retained earnings	**19,437**	(543)	18,894
Total equity	**75,645**	(468)	75,177

Company Balance Sheet as at 31 March 2019

	Note	2019 £000	2018 £000
Fixed assets			
Investments	2	**101,918**	101,565
Current liabilities			
Creditors – amounts falling due within one year	3	**(12,271)**	(11,680)
Net current liabilities		**(12,271)**	(11,680)
Net assets		**89,647**	89,885
Capital and reserves			
Called up share capital	4	**149**	149
Share premium account		**65,588**	65,588
Share option reserve		**5,856**	5,503
Retained earnings		**18,054**	18,645
Total shareholders' funds		**89,647**	89,885

The notes on pages 45 to 78 are an integral part of these financial statements. The financial statements on pages 41 to 44 were approved by the Board on 25 June 2019 and are signed on its behalf by:

Peter Brotherton, Director

Company Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Share option reserve £000	Reserves £000	**Total equity £000**
At 31 March 2017	149	65,395	4,969	18,645	89,158
Transactions with owners:					
Issue of new shares	-	193	-	-	193
Share Based Payments (SBP)	-	-	534	-	534
At 31 March 2018	149	65,588	5,503	18,645	89,885
Transactions with owners:					
Write off	-	-	-	6	6
Dividends to shareholders	-	-	-	(597)	(597)
Share Based Payments (SBP)	-	-	353		353
At 31 March 2019	**149**	**65,588**	**5,856**	**18,054**	**89,647**

Notes to the Company Financial Statements

1 Accounting policies (FRS 101)

The Company has elected to prepare the financial statements under FRS 101.

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

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

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

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

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

2 Investments

	2019 **£000**	2018 £000
Investments in subsidiaries	**96,062**	96,062
Capital contribution related to share-based payments for subsidiaries	**5,856**	5,503
	101,918	101,565

The investment in the underlying subsidiaries has been considered by management to assess possible impairment at the year end. The investment recoverable amount was based on the value in use calculation using forecast cash flow projections to the period of 31 March 2022 and extrapolated for a further two years by growth rates applicable. A terminal value based on a perpetuity calculation using a 2.5% real growth was then added. Discount rates were then applied to these projections reflecting management's expected risk profile.

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

- Gross margin percentage of c.61% reducing to c.54%;
- Pre-tax discount rate of 8.7% (post tax 8.7%); and
- Terminal growth rate percentage of 2.5%

Notes to the Company Financial Statements continued

Investments (continued)

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

A pre-tax discount rate of 8.7% (post-tax 8.7%) was applied which reflects management's risk-adjusted estimate of the weighted average cost of capital. There is a significant element of recurring revenue through maintenance contracts and this reduces the risk inherent in the business.

Over the five-year period, revenues are projected to grow at an average of 5.8%. The first three years were derived from management's forecast based on management's past experience and the detailed analysis of market trends.

A reasonably possible adverse movement in any of the above key assumptions made would not give rise to an impairment of the investment value at the year end.

At 31 March 2019, the Company had the following subsidiary undertakings:

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

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

** Dissolved 11 July 2017.

All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate HG3 1UG, except Redcentric Solutions Private Limited which has a registered office of 606-611, 6th Floor, Manjeera Trinity Corporate, JNTU – Hitech City Road, Kukatpally, Hyderabad – 72 and Redcentric US Limited which has a registered office at 874 Walker Road, Suite C, Dover, Kent, USA 19904.

The Company does not have any associate operations.

3 Creditors – amounts falling due within one year

	2019 £000	2018 £000
Amounts owed to subsidiaries	**12,271**	11,680

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

Notes to the Company Financial Statements continued

4 Called up share capital

	Allotted and fully paid Number	£000
At 31 March 2017	148,859,173	149
New shares issued	276,143	-
At 31 March 2018	149,135,316	149
New shares issued	-	-
At 31 March 2019	**149,135,316**	**149**

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

Share issues

During the year the following shares were issued:

	2019 Number	2018 Number
Issued on the exercise of share options	-	276,143
	-	276,143

As at 31 March 2019 the Company had a total of 350,000 warrants in issue with an exercise price of 36p. The warrants were issued to Barclays Bank PLC on demerger in April 2013 in exchange for warrants previously held in Redstone Plc, and can be converted to shares at any time before the sale of the entire share capital of the Company.

5 Auditors' remuneration

The Company audit fee is £25,000 (2018: £24,000). 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.

There were no other transactions with related parties in the year to 31 March 2019.

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Harn Jagpal

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ISO 9001 Quality Management FS 603185
ISO 14001 Environmental Management EMS 673062
ISO/IEC 20000-1 Information Technology Service Management ITMS 668453
ISO 22301 Business Continuity Management BCMS 603194
ISO/IEC 27001 Information Security Management IS 603187