REPORT & ACCOUNTS
2022

redcentric

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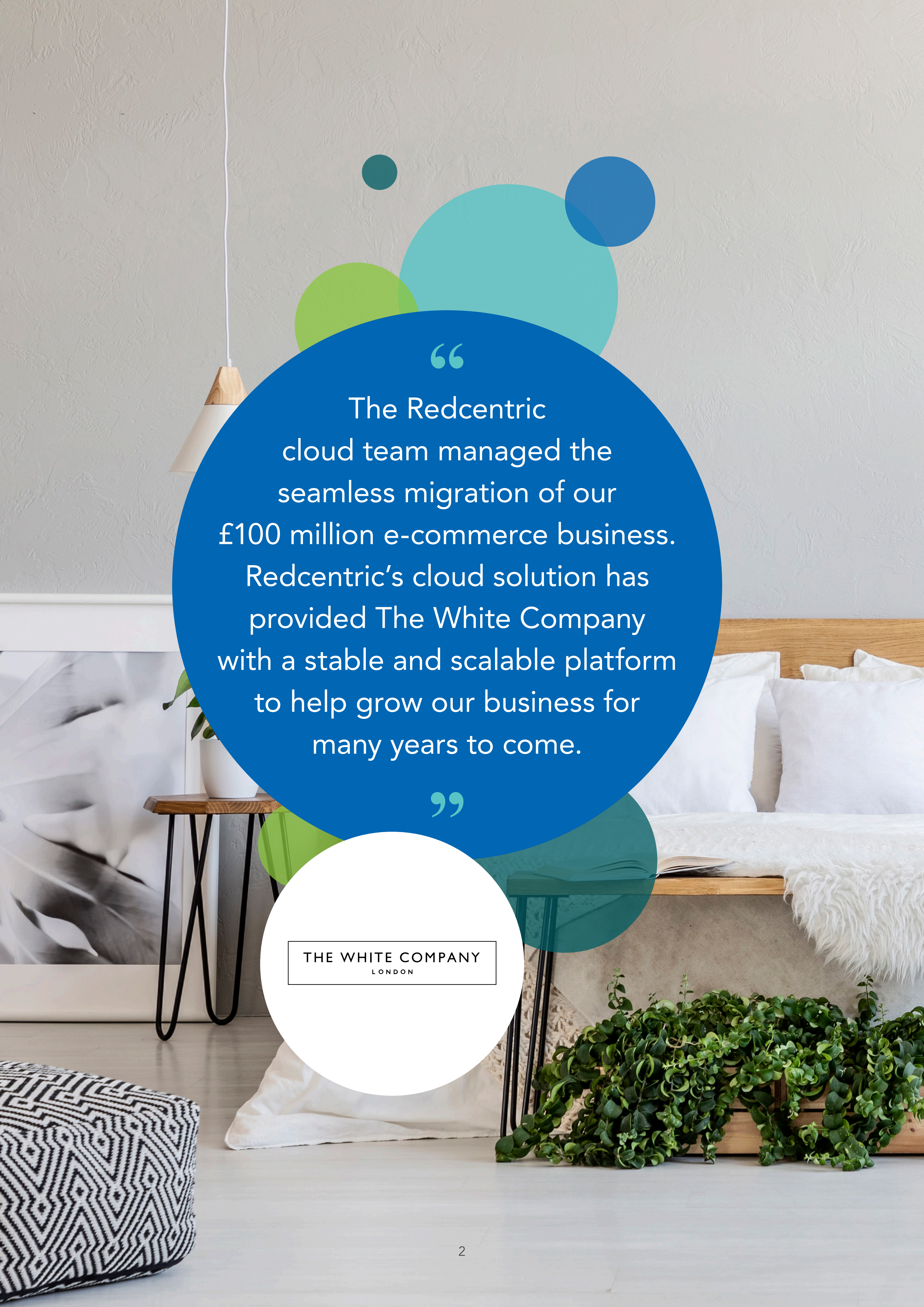
Year ended 31 March 2022 | Redcentric plc
Company Number 08397584



“The Redcentric cloud team managed the seamless migration of our £100 million e-commerce business. Redcentric’s cloud solution has provided The White Company with a stable and scalable platform to help grow our business for many years to come.”

THE WHITE COMPANY
LONDON

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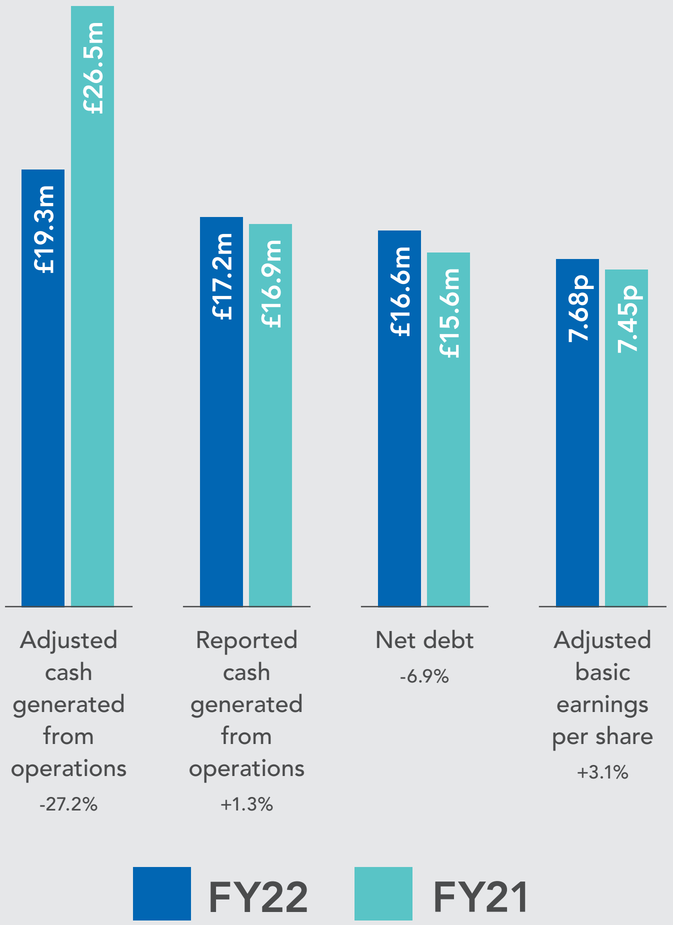
FINANCIAL HIGHLIGHTS

Year ended 31 March 2022 (FY22)		Year ended 31 March 2021 (restated[1]) (FY21)
£93.3m	Total revenue +2.1%	£91.4m
£83.0m	Recurring revenue +1.3%	£81.9m
£23.7m	Adjusted EBITDA -3.5%	£24.6m
£15.9m	Adjusted operating profit +2.2%	£15.6m



Highlights

Financial performance measures

	Year ended 31 March 2022 ("FY22")	Year ended 31 March 2021 (restated[1]) ("FY21")	Change
Total revenue	**£93.3m**	£91.4m	2.1%
Recurring revenue[2]	**£83.0m**	£81.9m	1.3%
Recurring revenue percentage[2]	**88.9%**	89.6%	(0.7%)
Adjusted EBITDA[2]	**£23.7m**	£24.6m	(3.5%)
Adjusted operating profit[2]	**£15.9m**	£15.6m	2.2%
Reported operating profit	**£6.6m**	£12.8m	(48.3%)
Adjusted cash generated from operations[2]	**£19.3m**	£26.5m	(27.2%)
Reported cash generated from operations	**£17.2m**	£16.9m	1.3%
Net debt[2]	**(£16.6m)**	(£15.6m)	(6.9%)
Adjusted net (debt)/cash[2]	**(£1.5m)**	£1.0m	(257.7%)
Adjusted basic earnings per share[2]	**7.68p**	7.45p	3.1%
Reported basic earnings per share	**4.43p**	5.87p	(24.5%)

Percentage change calculated on absolute values

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement following the adoption by the Redcentric plc group of companies (the "Group") of the IFRS Interpretations Committee ("IFRIC") agenda decision on cloud computing implementation, configuration and customisation costs.

[2] This annual report and accounts ("Report") contains certain financial measures that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures from other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

For an explanation of the alternative performance measures used in this report and reconciliations to their most directly related GAAP measure, please refer to pages 22 to 25.

Chairman's statement

I am very pleased to introduce the annual report and accounts ("Report") for the Redcentric plc ("Redcentric" or "Company") group of companies (the "Group") for the financial year ended 31 March 2022 ("FY22").

Overview and financial results

These results demonstrate the robust nature of the business. Despite considerable headwinds associated with the COVID-19 pandemic, materially higher electricity prices, and substantially increased lead times on equipment orders, trading for the year was broadly equivalent with the prior year and remained ahead of the pre COVID-19 period (the financial year ended 31 March 2020 ("FY20")).

With the conclusion of the investigation by the Financial Conduct Authority ("FCA Investigation"), historical acquisitions fully integrated and efficiency programmes delivered, the focus of the management team during the year has been on the long-term growth of the business. During FY22, two capability acquisitions were completed and following the year end a further capability acquisition was completed along with two scale acquisitions. The Piksel Industry Solutions Limited ("Piksel"), 7 Elements Limited ("7 Elements") and Sungard consultancy business ("Sungard Consulting") capability acquisitions have significantly enhanced our hyper-cloud, security, and consultancy product offerings. The capability acquisitions all operate within the highest growth areas of the market and will be a significant driver of future growth for the Group. The Sungard data centre assets ("Sungard DCs") and 4D Data Centres Limited ("4D") scale acquisitions are highly accretive to the Group, reflecting the operational leverage of the business whilst also adding c.520 customers into which we can cross-sell our broad range of products and solutions.

At the start of the financial year ending 31 March 2023 ("FY23"), a new divisional structure was implemented, significantly strengthening the management team, positioning the Company for growth, and recognising the very significant increase in both scale and capability as a result of the acquisitions undertaken.

Having completed five acquisitions in the last nine months, the near focus of the board of directors of the Company (the "Board") is to ensure that the most recent acquisitions are fully integrated, and synergies maximised. At the date of approval of this Report, the Company had drawn £35.5m of its £80m committed bank facility, and this, along with the significant cash generation of the business, means the Group has significant firepower for future acquisitions.

Dividend and share buyback

A final dividend of 2.4p per share is recommended by the Board and will result in a total dividend for FY22 of 3.6p per share (financial year ended 31 March 2021 "FY21": 3.6p per share). Subject to approval by shareholders at the Company's annual general meeting ("AGM"), this will be paid on 16 September 2022 to shareholders on the register at the close of business on 29 July 2022 with shares going ex-dividend on 28 July 2022. The last day for Dividend Reinvestment Plan elections is 19 August 2022.

During the year, the FY21 final dividend payment of £3.7m was paid along with the FY22 interim dividend payment of £1.9m. In addition, a further £3.0m was returned to shareholders through share and warrant buybacks. Returns to shareholders during the year therefore totalled £8.6m, reflecting continued strong cash generation from the Group.

The Board intends to continue with the same level of dividends and selective share buybacks but will review these policies in light of any large-scale acquisitions.

Board changes and people

On 17 November 2021, I joined the business, replacing Ian Johnson as Independent Non-Executive Chair of the Board, Chair of the Nomination Committee and member of the Remuneration Committee. I am a chartered management accountant and have been both chair and non-executive director for a portfolio of companies across the data, communications, software and financial services sectors and, between 2014 and 2020, sat on the board of directors for Nasstar plc.

On the 7 July 2021, Helena Feltham was appointed as an Independent Non-Executive Director, taking the responsibilities of Chair of the Remuneration Committee and becoming a member of the Audit and Nomination Committees, roles previously held by Stephen Vaughan. With the publication of this Report, Jon Kempster steps down from the Board as Chair of the Audit Committee and Non-Executive Director and the Board is delighted to welcome Alan Aubrey as a new Non-Executive Director and Chair of the Audit Committee. Alan brings with him considerable market knowledge and breadth and depth of skills and experience. Our thanks and best wishes go to Jon for his service to the Company.

Chairman's statement (continued)

I would also like to thank the Board for their support in my first seven months, and special thanks to our management and employees for their hard work and dedication to progress the Company's performance. I would like to welcome all our new employees that have joined our Redcentric family through our recent acquisitions.

Outlook

The five acquisitions undertaken in the last nine months add increased capability and an enlarged customer base into the Group. As we fully integrate our acquired operations, I look forward to building strong relationships with all our customers, new and old, and I am confident that we can surpass their expectations through the delivery of our enhanced range of services.

With the considerable progress made in the year, the Board is optimistic for the future of the business.

Nick Bate
Chairman
21 July 2022

OUR VISION

To be the most trusted provider of IT managed services to commercial and public sector organisations.

OUR MISSION

We deliver **agile, available** and **assured** solutions that help organisations succeed.

OUR VALUES

Our values support our strategic objectives and sit at the heart of our business and our culture. We work hard to integrate our values into everything we do.

Chief Executive Officer’s review

Overview

Providing focus and structure for growth

FY22 has been a very significant and productive year for Redcentric. After many years of positioning the business for growth, we completed two capability acquisitions within FY22, both of which are trading well and have been quickly integrated into the business, delivering higher than anticipated synergy savings. Following the year end, we have completed a further capability acquisition and two scale acquisitions. As a result, we have completed five acquisitions in the last nine months and totally transformed the Company, adding over six hundred customers to our existing base and increasing run rate revenues by approximately 60%.

The acquisitions of Piksel, 7 Elements and Sungard Consulting have significantly increased our capabilities and revenues in hyper-cloud, security and consultancy services, complementing our already significant network revenues, whilst the scale acquisitions of 4D and Sungard DCs provide operational leverage and an enlarged customer base for us to cross-sell our products and services into.

With these acquisitions we believe that we now have the most comprehensive IT and telecommunications product and solutions offering in the market.

To ensure that each product category receives dedicated focus on growth, efficiency and innovation, we have created a structure that enables us to deploy and manage the tailored technical skills and expertise required to innovate across different technologies. A new divisional structure implemented after the year end has resulted in several new senior appointments within the organisation representing a significant step change in the way the business operates. The dedicated focus that each division receives enables colleagues to gain improved knowledge of the products and services within their area, resulting in better quality customer conversations and improved bid quality.

A new banking facility was agreed on 26 April 2022 which provides us with significant additional firepower at very competitive rates of interest to support and accelerate our acquisition strategy. Under this new four bank syndicate facility, we have £80m of committed funds available, with a further £20m accordion facility accessible if required. This has been well utilised and at 30 June 2022, £34m of the facility has been drawn to fund acquisitions, leaving sufficient capacity for further scale and capability opportunities.

As we move into a phase of delivering growth through M&A, the Board has changed to reflect this, and I am pleased to welcome Nick Bate and Helena Feltham to the Board, both of whom bring a wealth of experience relevant to the Company’s growth strategy, including corporate M&A transactions.

Business performance

Revenues for the year increased by 2.1% on last year with recurring revenues accounting for 88.9% of total revenues marginally down by (0.7)ppts on FY21.

The sale of the business and assets relating to the Company’s contract with EDF (the “EDF Contract”), which was not core to the Redcentric business, on 31 March 2021, for a consideration of £5.75m, had the impact of reducing revenues for FY22 by £1.0m, whereas the acquisition of Piksel on 30 September 2021 and the acquisition of 7 Elements on 14 March 2022 contributed £6.0m to Group revenues.

Underlying organic revenues contracted slightly in FY22 reflecting a market that was still recovering from the COVID-19 pandemic but follows a year of solid growth in FY21. Over the two-year period of the COVID-19 pandemic, the business has grown underlying revenues by 1%, a strong performance given the significant market and economic headwinds, with the additional 5.7% of revenue growth generated by the acquisitions of Piksel and 7 Elements.

As the country started to emerge from the COVID-19 pandemic and the various lockdowns and measures eased, the business experienced a number of market trends and evolving customer behaviours:

- Re-engagement on previously deferred large-scale IT projects;
- Digital transformation continuing to be a key focus for customers as they plan for life after COVID-19;
- Cost bases being closely scrutinised resulting in additional cancellations of non-critical services;
- Customers adapting to changes in workforce by appraising office space utilisation; and
- A shortage of electrical components affecting both recurring and non-recurring revenues.

The behaviours described above have led to a subdued market for most of FY22, with new order intake being approximately half the pre-COVID-19 levels for the first three quarters of FY22, and cancellations remaining at pre-COVID-19 levels. The final quarter of FY22 was

Chief Executive Officer's review (continued)

more positive, with several larger scale projects being signed, resulting in the order intake levels increasing to approximately 80% of pre-COVID-19 volumes.

The well documented shortage of hardware technology has not only meant that we have been unable to satisfy and, in some cases, accept product orders, but it has also delayed larger project rollouts that require end user hardware. Whilst this continues to be a challenge, we are managing this by working closely with our suppliers to avoid delays to customer projects.

The outlook following the COVID-19 pandemic continues to be positive, with an encouraging pipeline including several discussions at an advanced stage. The additional capabilities from Piksel, 7 Elements, Sungard Consulting and Sungard DCs have opened new markets and the recent acquisitions have brought with them skills that improve the way we are able to identify customers' needs and articulate appropriate solutions.

We are pleased to announce that trading for FY22 was in line with the expectations of the Board:

- Revenues of £93.3m (FY21: £91.4m);
- Adjusted EBITDA[2] of £23.7m (FY21 restated[1]: £24.6m);
- Adjusted operating profit[2] of £15.9m (FY21 restated[1]: £15.6m);
- Adjusted net debt of £1.5m (31 March 2021: net cash of £1.0m); and
- Reported operating profit of £6.6m (FY21 restated[1]: £12.8m).

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs please see note 34.

[2] For an explanation of the alternative performance measures used in this report, please refer to pages 22 to 25.

The net debt position is after dividend payments of £5.6m; the disposal of assets relating to the EDF Contract for £5.8m; share and warrant buybacks of £3.0m; the acquisitions of Piksel and 7 Elements for a combined cash cost of £10.4m (net of cash acquired); and a c.£2m working capital catch up in respect of Piksel to align supplier payment practices.

Operational highlights

- During FY22, Redcentric completed two capability acquisitions, both of which are trading well and have been quickly integrated into the business with higher than anticipated synergy savings already delivered;
- A new divisional operating structure has been introduced subsequent to the balance sheet date, to drive focus and growth across all divisions;
- New sales orders during the second half of the year improved significantly on the first half and we are now nearing the levels seen prior to the outbreak of the COVID-19 pandemic, including the resumption of large-scale projects;
- Retention rates have been broadly consistent with prior years;
- Electricity price increases have added £0.5m to costs and equipment supply chain issues have resulted in delays to both recurring and non-recurring revenues;
- The Board is cognisant of the continued volatility in electricity prices and of the sector-wide employment, retention and salary inflation challenges.

Integration of FY22 acquisitions

Piksel is now fully integrated into the Redcentric business. Excellent progress has been made in realising synergies from this acquisition, with c.£1.5m of annualised costs already eliminated, surpassing the £1.1m of synergies identified at the time of the acquisition. A further £0.5m of synergies are anticipated to be realised in FY23.

Good progress has also been made with the 7 Elements acquisition. For operational independence reasons, we will maintain 7 Elements as a standalone business but most of the back-office functions (e.g. finance and human resources) have already been integrated.

Divisional focus

As highlighted in previous announcements, the preceding three years have been spent focussing primarily on delivering integration, optimisation, and efficiency programmes to ensure that there is a solid and scalable foundation for future growth. As the business now switches focus to growth, the organisational structure also needs to adapt to one that can deliver sustainable and profitable growth. To that end, the last six months have been spent designing and implementing an organisational structure that can deliver the Company's ambitious growth strategy, by providing the level of focus required across the key revenue streams of Cloud, Networks and Collaboration products.

In addition to the appointments directly relating to the divisions, some central support functions have been augmented to provide support for the increased divisional demand.

Chief Executive Officer's review (continued)

This investment is one which sets the Company up for the future. It recognises the need for dedicated product expertise and addresses the broadening of our customer base. With the delivery of this structure, the Company can not only exploit the significant cross-sell opportunities that the enlarged customer base brings, but it can also confidently compete and succeed across all areas of the market.

Cloud Services

Following the acquisitions of Piksel, Sungard and 4D, the Company's cloud services offering has further expanded its range of cloud hosting solutions, ranging from colocation through to hybrid and public cloud services. IT modernisation, digital transformation and dev-ops skills have also been added, which complete the business' portfolio of cloud offerings.

The acquisition of Piksel also gave us increased security capability and this was further strengthened by the acquisition of 7 Elements, which adds security and penetration testing to our portfolio of security services.

Network Services

Network integration and data connectivity solutions are another of Redcentric's core strengths, accounting for one-third of our recurring revenues. Most of the Company's customers take some sort of connectivity service, increasing their stickiness and reducing potential churn.

After the pause of several large potential network projects in the pipeline during the COVID-19 pandemic period, the Company is now starting to see a return of such opportunities. In the second half of the year, notable successes were a large network cross-sell into the Piksel customer base and two large public sector network wins.

Collaboration Services

Despite a strong range of collaboration product offerings and the high number of customers already taking connectivity from the Company, collaboration services remain a relatively small proportion of the Group's recurring revenue (c.8%). Over the last 12 months Redcentric has actively looked to strengthen both the product offering and scale of this area of the business but, to date, no suitable acquisitions have been found. Whilst the search for such acquisitions will continue, we have formed a new Collaboration Services Division to better exploit the opportunities in this area. A new and experienced management team is in the process of being set up with a new managing director and sales director due to join the business at the end of July 2022.

Support Services

New positions of Chief Technical Officer ("CTO") and Customer Services Director have been created to support the Company's growth plans.

The CTO's role will be to drive product innovation and increase the automation and efficiency of operational systems and processes.

The Customer Service Division has been created to bring customers to the forefront of everything Redcentric does. By combining the Service Operations, Service Delivery and Assurance teams from across Redcentric and Piksel into one division that supports the newly formed business units, we are able to ensure our customers remain our focus and that they receive a consistently high level of service across all group services.

Outlook

The five acquisitions that have been completed within the last nine months have totally transformed the business. We have significantly increased our capabilities in the highest growing areas of the market by acquiring Piksel, 7 Elements and Sungard Consulting, whilst increasing our customer base by over six hundred, including through the addition of Sungard and 4D data centres. The additional customer base brings with it a wealth of cross-sell opportunities as the Redcentric product offering is much wider than both Sungard and 4D.

During the next six to nine months our focus will be on fully integrating the acquired businesses and exploiting the meaningful cross-sell opportunities and synergies that these acquisitions bring to Redcentric. The new divisional structure will bring a renewed focus to the organisation and will ensure that each of the service offerings are fully aligned and can capitalise on the undoubted market opportunity.

Whilst our focus will be on the successful integration of the recent acquisitions, we will continue to monitor potential targets and should a suitable opportunity arise, our strong balance sheet and access to £66m of undrawn bank facilities will enable us to react swiftly.

We look forward to capitalising on the very significant opportunities that come with the recent acquisitions and to an exciting future.

Peter Brotherton
Chief Executive Officer
21 July 2022

Financial review

Financial performance measures

	Year ended 31 March 2022 (FY22)	Year ended 31 March 2021 (FY21) Restated[1]	Change	Year ended 31 March 2021 (FY21)[3]	Change[3]
Total revenue	**£93.3m**	£91.4m	2.1%	£90.4m	3.2%
Recurring revenue[2]	**£83.0m**	£81.9m	1.3%	£80.9m	2.6%
Recurring revenue percentage[2]	**88.9%**	89.6%	(0.7%)	89.5%	(0.7%)
Adjusted EBITDA[2]	**£23.7m**	£24.6m	(3.5%)	£23.9m	(0.6%)
Adjusted operating profit[2]	**£15.9m**	£15.6m	2.2%	n/a	n/a
Reported operating profit	**£6.6m**	£12.8m	(48.3%)	n/a	n/a
Adjusted cash generated from operations[2]	**£19.3m**	£26.5m	(27.2%)	n/a	n/a
Reported cash generated from operations	**£17.2m**	£16.9m	1.3%	n/a	n/a
Net debt[2]	**(£16.6m)**	(£15.6m)	(6.9%)	n/a	n/a
Adjusted net (debt)/cash[2]	**(£1.5m)**	£1.0m	(257.7%)	n/a	n/a
Adjusted basic earnings per share[2]	**7.68p**	7.45p	3.1%	n/a	n/a
Reported basic earnings per share	**4.43p**	5.87p	(24.5%)	n/a	n/a

Percentage change calculated on absolute values

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

[2] For an explanation of the alternative performance measures used in this report, please refer to pages 22 to 25.

[3] Excluding EDF Contribution following the sale of business and assets associated with the EDF Contract completed on 31 March 2021.

Overview

The business has delivered another set of strong results, showing resilience against challenging market conditions, with the Group continuing to perform ahead of pre-COVID levels of FY20. The stability in the underlying business has positioned the Group to begin to implement its acquisition strategy as the Company seeks to capitalise on the market consolidation opportunity. This year's accounts include the impact and contributions made by the Piksel and 7 Elements acquisitions completed in the financial year as well as the disposal of the business and assets related to the EDF Contract completed at the end of the last financial year. Key considerations in the financial statements include:

1. The acquisition of the entire issued share capital of Piksel by the Company's trading subsidiary, Redcentric Solutions Limited ("RSL"), completed on 30 September 2021 for initial cash consideration of US$13.0m (c.£9.5m) of which US$12.0m (c£8.9m) was payable immediately with US$0.75m (c.£0.55m) being held in escrow for a period of 12 months and $0.25m (£0.18m) being deferred to offset future costs as part of a transitional services agreement. This acquisition significantly enhances the Group's cloud services proposition. The business and assets of Piksel were hived up into RSL on 28 February 2022 and the statutory entity itself now ceases to trade.

2. On 15 March 2022, the acquisition of 7 Elements was completed for £2.4m initial consideration, and contingent consideration dependent on business performance over the next 12 months with a maximum value of £450k.
   7 Elements provides security services across a range of industries and sectors and brings additional capability to the Group. 7 Elements will continue to operate as a standalone business.

Financial review (continued)

3. Subsequent to the year-end, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. The new debt facilities consist of an £80m revolving credit facility ("RCF") and a £20m accordion facility and are provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland, and Silicon Valley Bank (the "New Facility"). The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years. The borrowing cost of the RCF is determined by the level of the Company leverage and has a borrowing cost of 175 basis points over SONIA at the Company's current leverage levels. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy.

4. The sale of the business and assets relating to the EDF Contract was completed on 31 March 2021 for a fixed consideration of £5.75m, payable in two instalments: £3.5m on 30 April 2021 and £2.25m on 30 September 2021. Under the terms of the EDF Contract, the Company provided maintenance services to four EDF nuclear power stations and in FY21, the EDF Contract contributed £1m to revenue and £0.72m to EBITDA and generated £0.68m of operating cash flow ("EDF Contribution"). FY21 comparatives[3] exclude the EDF Contribution to allow for more meaningful comparatives.

5. In April 2021, IFRIC published an agenda decision to clarify the accounting treatment in relation to the implementation, configuration and customisation costs incurred in implementing software-as-a-service ("SaaS") cloud computing arrangements. Due to the nature of the decision and the level of investment made by the Group on its enterprise resource planning system ("Dynamics 365"), the Group's accounting policy in relation to such implementation, customisation and configuration costs has been reviewed and changed to align to the IFRIC guidance issued. The restatement represents a non-cash adjustment. The revision to the accounting policy has been accounted for retrospectively resulting in a prior year restatement and prior-year comparatives have been restated where necessary. See note 34 for further details.

The key financial highlights are as follows:

- Total revenue growth of 3.2% to £93.3m (FY21: £90.4m excluding EDF Contribution[3]).
- Recurring revenue[2] grew by 2.6% to £83.0m, with recurring revenue representing 88.9% of the total revenue (FY21: £80.9m / 89.5% excluding EDF contribution[3]).
- Adjusted EBITDA[2] of £23.7m is marginally behind (0.6%) FY21 (excluding EDF Contribution[3]) reflecting the challenges caused by increased electricity prices.
- Adjusted operating profit[2] increased by £0.3m to £15.9m (2.2%).
- Net debt at 31 March 2022 was £16.6m, including £14.1m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17 and £1.0m of supplier loans.
- Reported operating profit reduced by £6.2m to £6.6m which includes (i) the sale of the business and assets relating to the EDF Contract in FY21 which resulted in a profit on disposal of £4.5m and (ii) the release of the provision relating to the restitution scheme agreed with the FCA in FY21 for £2.2m.

Financial review (continued)

Revenue

Revenue for FY22 was generated wholly from the UK and is analysed as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	Year ended 31 March 2021[3] £000	Change[3] £000	Change[3] %
Recurring revenue[2]	**82,965**	81,897	80,897	2,068	2.6%
Product sales	**6,187**	5,072	5,072	1,115	22.0%
Services revenue	**4,176**	4,430	4,430	(254)	(5.7%)
Total revenue	**93,328**	91,399	90,399	2,929	3.2%

[2] For an explanation of the alternative performance measures used in this report, please refer to pages 22 to 25.

[3] Excluding EDF Contribution, as defined on page 13.

Total revenue increased by £1.9m compared to FY21, impacted by: the loss of c£1.0m contribution from EDF[3] following the disposal of the EDF contract, and incremental revenue in FY22 generated by the acquisitions of Piksel and 7 Elements which added £6.0m to Group revenues. As outlined above, underlying organic revenues contracted slightly in FY22 reflecting a market that was still recovering from the COVID-19 pandemic. However, we are seeing signs of a return to a more normalised environment.

Revenue is analysed into the following categories:

- Recurring revenue has increased 2.6% to £83.0m (FY21: £80.9m excluding EDF contribution[3]).
- Non-recurring product revenue has increased £1.1m to £6.2m (FY21: £5.1m) following a strong FY22 second half ("H2") performance as hardware orders signed up during FY21 and first half ("H1") FY22 which were previously delayed due to the worldwide shortage in microchips have now been delivered. We still have a high level of product revenue in work in progress ("WIP") as we continue to see impacts of the microchip shortage.
- Non-recurring services revenue was lower at £4.2m (FY21: £4.4m), reflecting the continuing lower level of activity on new projects.

Gross profit

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	Year ended 31 March 2021[3] £000	Change[3] £000	Change[3] %
Gross Profit	**59,550**	57,939	56,939	2,611	4.6%
Gross Margin	**63.8%**	63.4%	63.0%	n/a	0.8%

[3] Excluding EDF Contribution, as defined on page 13.

Gross profit increased by 4.6% (£2.6m) (excluding EDF contribution[3]) reflecting the Group's increased revenue and an improvement in gross margin to 63.8% (FY21: 63.0% excluding EDF contribution[3]) due to contribution from higher margin Piksel & 7 Elements acquisitions.

Financial review (continued)

Adjusted operating costs[2]

The Group's adjusted operating costs (operating expenditure excluding depreciation, amortisation, exceptional items, other operating income and share-based payments) are set out in the table below:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	Year ended 31 March 2021[3] £000	Change[3] £000	Change[3] %
UK employee costs	**21,369**	19,700	19,468	1,901	9.8%
Office and data centre costs	**4,411**	3,789	3,752	659	17.6%
Network and equipment costs	**7,299**	6,941	6,933	366	5.3%
Other sales, general and administration costs	**1,553**	1,428	1,428	125	8.8%
Offshore costs	**1,205**	1,502	1,502	(297)	(19.8%)
Total adjusted operating costs	**35,837**	33,360	33,083	2,754	8.3%

[2] For an explanation of the alternative performance measures used in this report, please refer to pages 22 to 25.
[3] Excluding EDF Contribution, as defined on page 13.

Total adjusted operating costs for FY22 were 8.3% (£2.8m) higher than prior year (excluding EDF Contribution[3]), reflecting:

- employee costs increased £1.9m (9.8%) due to additional employees following the Piksel and 7 Elements acquisitions;
- office and data centre costs increased by £0.7m, primarily due to the impact of increased electricity costs as several electricity supply contracts fell due during the UK energy crisis;
- network and equipment costs increased by £0.4m, of which £0.5m is attributable to Piksel;
- other sales, general and administration costs are up £0.1m, with £0.2m relating to Piksel, offset by reduced legal costs; and offshore costs reduced by £0.3m due to reduction in employee costs with the average number of employees reducing from 126 to 100 following more roles being moved onshore.

Employees

	Year ended 31 March 2022 (Number)	Year ended 31 March 2021 (Number)	Variance (Number)
Year-end headcount			
UK	**376**	295	81
India	**91**	100	(9)
Total employees	**467**	395	72

Financial review (continued)

	Year ended 31 March 2022 (Number)	Year ended 31 March 2021 (Number)	Variance (Number)
Average headcount			
UK	**386**	294	92
India	**100**	126	(26)
Total employees	**486**	420	66

Adjusted EBITDA[2]

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 9), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated[1]) £000
Reported operating profit	**6,607**	12,782
Amortisation of intangible assets arising on business combinations	**6,498**	6,252
Amortisation of other intangible assets	**475**	670
Depreciation on tangible assets	**2,745**	3,408
Depreciation on ROU assets	**4,578**	4,932
EBITDA	**20,903**	28,044
Exceptional items	**1,629**	(4,152)
Share-based payments and associated National Insurance	**1,181**	687
Adjusted EBITDA[2]	**23,713**	24,579
EDF Contribution[3]	**-**	(725)
Adjusted EBITDA (excluding EDF Contribution)[3]	**23,713**	23,854

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

[2] For an explanation of the alternative performance measures used in this report, please refer to pages 22 to 25.

[3] Excluding EDF Contribution, as defined on page 13.

Adjusted EBITDA decreased by 3.5% to £23.7m, £0.9m lower than prior year. Excluding the EDF Contribution[3], adjusted EBITDA for FY22 was marginally lower than the prior year (0.6%). FY22 EBITDA includes six months of contribution from the acquisition of Piksel and one month of contribution from the acquisition of 7 Elements, worth £0.8m in total, which has been offset by increased electricity costs.

Financial review (continued)

Taxation, interest and dividend

The tax charge for the year was a credit of £1.4m (FY21: a charge of £2.3m), comprising an income tax charge of £0.4m (FY21: £1.2m), and a deferred tax credit of £1.8m (FY21: a charge of £1.1m).

Net finance costs for the year were £1.1m (FY21: £1.5m), including £1.0m (FY21: £1.2m) of interest payable on leases of which £0.8m (FY21: £1.0m) related to leases previously recognised as operating leases under IAS17.

During the year, the Group paid an interim dividend for FY22 of 1.2p per share, totalling £1.9m as detailed in note 14.

A final dividend payment of 2.4p per share will be paid on 16 September 2022, subject to approval at the Company's AGM, to shareholders on the register at the close of business on 29 July 2022 with shares going ex-dividend on 28 July 2022. The last day for Dividend Reinvestment Plan elections is 19 August 2022.

Financial review (continued)

Net debt

During the year, net debt increased by £1.1m to £16.6m as at 31 March 2022, with the movements shown in the tables below:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
Operating profit	**6,607**	12,782
Depreciation and amortisation	**14,296**	15,262
Exceptional items	**1,629**	(4,152)
Share based payments	**1,181**	687
Adjusted EBITDA[2]	**23,713**	24,579
Working capital movements	**(4,017)**	1,881
Transfer from intangible assets to cost of sales	**140**	-
Non-cash provision movements	**(577)**	-
Adjusted cash generated from operations	**19,259**	26,460
Cash conversion	**81.2%**	*107.7%*
Capital expenditure – cash purchases	**(2,765)**	(2,307)
Capital expenditure – finance lease purchases	**(438)**	(2,235)
Proceeds from sale and lease back of assets	**-**	1,036
Net capital expenditure	**(3,203)**	(3,506)
Corporation tax receipt / (paid)	**246**	(149)
Interest paid	**(51)**	(398)
Loan arrangement fees / fee amortisation	**-**	(17)
Finance lease / term loan interest	**(885)**	(1,017)
Effect of exchange rates	**27**	(26)
Other movements in net debt	**(663)**	(1,607)
Normalised net debt movement[2]	**15,393**	21,347
Cash cost of exceptional items	**(2,091)**	(9,514)
Share buyback	**(2,666)**	-
Non-capitalised finance leases purchases	**(145)**	-
Acquisition of subsidiaries (net of cash acquired)	**(10,422)**	-
Cash received on disposal of non-core business unit	**5,750**	-
IFRS 16 lease additions	**(2,094)**	-
IFRS 16 lease disposals	**813**	-
Remeasurement relating to lease modification	**-**	3,917
Supplier loans	**-**	(1,207)
Dividends	**(5,627)**	(1,868)
Disposal of treasury shares on exercise of share options	**-**	494
Cash received on exercise of share options	**12**	36
Share issues	**1**	5,775
	(16,469)	(2,367)
(Increase) / Decrease in net debt	**(1,076)**	18,980
Net debt at the beginning of the period	**(15,569)**	(34,549)
Net debt at the end of the period	**(16,645)**	(15,569)

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

[2] For an explanation of the alternative performance measures used in this report, please refer to pages 22 to 25.

Financial review (continued)

	As at 31 March 2020 £000	Net cash £000	Net non-cash flow £000	As at 31 March 2021 £000	**Net cash flow £000**	**Net non-cash flow £000**	**As at 31 March 2022 £000**
Cash	3,710	1,567	(27)	5,250	**(3,473)**	**27**	**1,804**
RCF	(12,483)	12,500	(17)	-	**-**	**-**	**-**
Term Loan	(151)	212	(1,552)	(1,491)	**532**	**(45)**	**(1,004)**
Lease Liabilities	(25,625)	4,527	1,770	(19,328)	**3,701**	**(1,818)**	**(17,445)**
	(34,549)	18,806	174	(15,569)	**760**	**(1,836)**	**(16,645)**

Included in lease liabilities at 31 March 2022 are £14.1m (FY21: £15.1m) of IFRS 16 lease liabilities that were previously classified as operating leases under IAS17 and £1.0m (FY21: £1.5m) of term loans. Other movements reflect acquisition of subsidiaries of £10.4m, capital expenditure of £3.2m, £5.6m on dividends, and £2.7m on share buybacks. £2.1m outflow from exceptional items includes £0.8m acquisition and integration costs.

Following completion of the Sungard DCs and 4D acquisitions, as at 7 July 2022 net debt was £33.1m excluding IFRS16 lease liabilities and £0.6m of supplier loans.

Trade receivables

In the year, focus remained on maintaining a strong ageing profile with a low level of aged debt. At the year-end, 97% of debt was current or less than 30 days overdue (FY21: 97%).

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current	**8,736**	9,343
1 to 30 days overdue	**1,997**	600
31 to 60 days overdue	**452**	282
61 to 90 days overdue	**80**	21
91 to 180 days overdue	**19**	21
> 180 days overdue	**(172)**	1
Gross trade debtors	**11,112**	10,268
Provisions	**(884)**	(1,104)
Net trade debtors	**10,228**	9,164

Trade debtor days were 36 at 31 March 2022 compared to 34 at 31 March 2021. Trade debtor days are calculated as trade debtors divided by revenue (incl. VAT) multiplied by 365.

Trade creditor days were 37 at 31 March 2022 compared to 37 as at 31 March 2021. Trade creditor days are calculated as trade creditors divided by total purchases (cost of sales and operating expenditure) multiplied by 365.

Financial review (continued)

Financing

	31 March 2022			31 March 2021		
	Available £000	**Drawn £000**	**Undrawn £000**	Available £000	Drawn £000	Undrawn £000
Committed						
- Revolving credit facility	**5,000**	**-**	**5,000**	5,000	-	5,000
- Term loans	**1,004**	**1,004**	**-**	1,491	1,491	-
- Leases	**17,445**	**17,445**	**-**	19,328	19,328	-
	23,449	**18,449**	**5,000**	25,819	20,819	5,000
Uncommitted						
- Bank overdraft	**-**	**-**	**-**	-	-	-
- Accordion facility	**20,000**	**-**	**20,000**	20,000	-	20,000
- Asset financing facility	**7,000**	**1,100**	**5,900**	5,190	-	5,190
	27,000	**1,100**	**25,900**	25,190	-	25,190
Total borrowing facilities	**50,449**	**19,549**	**30,900**	51,009	20,819	30,190

Uncommitted facilities represent facilities available to the Group, but which can be withdrawn by the lender and hence are not within the Group's control. When the asset financing facility is utilised, a lease is created and hence there is no committed asset financing facility.

As at 31 March 2022, the Group was party to £32m of banking facilities, comprising an RCF of £5m (£nil utilised at 31 March 2022) with a £20.0m accordion (£nil utilised at 31 March 2022) and a £7.0m Asset Financing Facility (£1.1m utilised at 31 March 2022). As at 31 March 2022, these facilities were due to expire on 30 June 2022.

Subsequent to the year-end, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. The New Facility consists of an £80m RCF and an uncommitted £20m accordion facility and are provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland and Silicon Valley Bank. The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years.

The borrowing cost of the RCF is determined by the Group's leverage and has a borrowing cost of 175 basis points over SONIA at the Group's current leverage levels, which is a significant improvement to the previous facility. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy.

At the date of approval, the Group had drawn £35.5m of the RCF to fund acquisitions after the balance sheet date as detailed in the business overview of this review.

David Senior
Chief Financial Officer
21 July 2022

> "This was an easy one, as Redcentric has acted with a competent, proactive approach, exhibiting a 'can do' attitude throughout the engagement. It's always a pleasure to do business with a professional engineering team."

Heathrow

Alternative performance measures

This Annual Report and Accounts contains certain financial measures that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

Recurring revenue

Recurring revenue is the revenue that annually repeats either under contractual arrangement or by predictable customer habit. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business. It is a measure that is well understood by the Group's investor and analyst community and is used for internal performance reporting.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Reported revenue	**93,328**	91,399
Non-recurring revenue	**(10,363)**	(9,502)
Recurring revenue	**82,965**	81,897

Recurring revenue percentage is the percentage of recurring revenue as a proportion of total revenue.
Recurring revenue makes up 88.9% of total revenue in FY22, a decrease of 0.7ppts from prior year (89.6%).

Maintenance capital expenditure

Maintenance capital expenditure is the capital expenditure that is incurred in support of the Group's underlying infrastructure rather than in support of specific customer contracts. This metric shows the level of internal investment the Group is making through capital expenditure. As the measure explains and analyses routine capital expenditure, land and buildings (including any associated assets relating to dilapidation provisions) and sale and lease back additions are excluded due to the infrequency that this expenditure occurs. Customer capital expenditure relates to assets utilised by the Group in delivering managed services to our customers.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
- Property plant and equipment additions – excluding additions on acquisition (note 16)	**2,264**	1,786
- Intangible additions – excluding additions on acquisition (note 15)	**502**	1,047
- Right of use asset additions – excluding land and buildings and sale and leaseback transaction (note 17)	**460**	1,056
Reported capital expenditure incurred	**3,226**	3,889
Customer capital expenditure incurred (notes 15 & 16)	**(1,076)**	(1,927)
Maintenance capital expenditure incurred	**2,150**	**1,962**

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

Alternative performance measures (continued)

Capital expenditure of £3.2m has reduced by £0.7m (FY21: £3.9m) driven by a decrease in customer capital expenditure (down £0.9m to £1.1m) reflecting the delay in large scale IT projects. Maintenance capital expenditure has increased by £0.2m to £2.2m up from £2.0m. We will continue to monitor the Group's capital requirements and invest in the business when appropriate. Of the £3.2m capital expenditure incurred, £2.8m was paid in cash during the year.

EBITDA and Adjusted EBITDA

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 9), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size.

The Board considers that this metric provides a useful measure of assessing trading performance of the Group as it excludes items which impact financial performance such as exceptional costs and the amortisation of acquired intangibles arising from business combinations which varies year on year dependent on the timing and size of any acquisitions.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
Reported operating profit	**6,607**	12,782
Amortisation of intangible assets arising on business combinations	**6,498**	6,252
Amortisation of other intangible assets	**475**	670
Depreciation on tangible assets	**2,745**	3,408
Depreciation on ROU assets	**4,578**	4,932
EBITDA	**20,903**	28,044
Exceptional items	**1,629**	(4,152)
Share-based payments and associated National Insurance	**1,181**	687
Adjusted EBITDA	**23,713**	24,579
EDF Contribution[3]	**-**	(725)
Adjusted EBITDA (excluding EDF contribution)[3]	**23,713**	23,854

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

[3] Excluding EDF Contribution, as defined on page 13.

Adjusted EBITDA decreased to £23.7m, £0.9m lower than prior year, with adjusted EBITDA margin of 25% (down from 27%). Excluding the EDF Contribution[3], adjusted EBITDA for FY22 was marginally down (0.6%) compared to prior year adjusted EBITDA of £23.9m. EBITDA includes £0.6m delivered from the Piksel acquisition, offset by increased electricity costs in H2.

Alternative performance measures (continued)

Adjusted operating profit

Adjusted operating profit is operating profit excluding amortisation on acquired intangibles, exceptional items and share-based payments. The same adjustments are also made in determining the adjusted operating profit margin and in determining adjusted earnings per share ("EPS").

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
Reported operating profit	**6,607**	12,782
Amortisation of intangible assets arising on business combinations	**6,498**	6,252
Exceptional items	**1,629**	(4,152)
Share-based payments	**1,181**	687
Adjusted operating profit	**15,915**	15,569

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

The EPS calculation further adjusts for the tax impact of the operating profit adjustments, presented in note 13. This metric is used within the Group's dividend policy and is therefore relevant for our shareholders.

Adjusted operating costs

Adjusted operating costs are operating costs less depreciation, amortisation, exceptional items, share-based payments and foreign exchange. This metric shows the trading operating expenditure of the Group, excluding non-trading and non-recurring items which impact financial performance. These are controllable operating costs which provide investors with useful information about how the Group is managing its expenditure.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
Reported operating expenditure	**53,046**	49,664
Depreciation of ROU assets	**(4,578)**	(4,932)
Depreciation of tangible assets	**(2,745)**	(3,408)
Amortisation of intangibles arising on business combinations	**(6,498)**	(6,252)
Amortisation of other intangible assets	**(475)**	(670)
Exceptional items	**(1,629)**	4,152
Other operating income	**(103)**	(4,507)
Share-based payments	**(1,181)**	(687)
Adjusted operating expenditure	**35,837**	33,360

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

Alternative performance measures (continued)

Adjusted cash generated from operations

Adjusted cash generated from operations is reported cash generated from operations plus the cash cost of exceptional items. As the Group has been involved in acquisitions and has had other significant, non-repeatable cash impacting items, this measure allows investors to see the cash generated from operations excluding these items which are one-off by nature therefore will not repeat in future years.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
Reported cash generated from operations	**17,168**	16,946
Cash costs of exceptional items	**2,091**	9,514
Adjusted cash generated from operations	**19,259**	26,460

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

Adjusted net (debt)/cash

Adjusted net cash/debt is reported net debt (borrowings net of cash) less supplier loans and less lease liabilities that would have been classified as operating leases under IAS17 and is a measure reviewed by the Group's banking syndicate as part of covenant compliance as detailed in note 24.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Reported net debt	**(16,645)**	(15,569)
Supplier loans	**1,004**	1,491
Lease liabilities that would have been classified as operating leases under IAS 17	**14,096**	15,058
Adjusted net (debt)/cash	**(1,545)**	980

Normalised net debt movement

The normalised net debt movement, as summarised in the net debt table on page 18, details the movement in net debt before one-off (exceptional) amounts and is therefore a useful indicator to the potential movement in net debt in FY23.

David Senior
Chief Financial Officer
21 July 2022

"We are looking forward to continuing our successful partnership with Redcentric. The team have shown that they are a supplier who can provide high standards of service, and work with us constructively."

NHS Digital

Strategy and business model

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-premises solutions and mobile access to secure services.

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

Redcentric seeks to differentiate itself in three distinct ways:

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

Through these differentiators, Redcentric aims to attract new customers and to deepen and broaden its relationships with existing customers.

The Board's strategy for growth comprises:

- identify acquisition opportunities for both scale and capability;
- 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.

Section 172 statement – our stakeholders

The Board recognises its duty to consider the needs and concerns of the Group's key stakeholders during its discussions and decision-making. The Board has had regard to the importance of fostering relationships with its stakeholders as set out below and also detailed in the strategic report and corporate governance report of this report. More information on how the Directors have discharged their duties under section 172 of the Companies Act 2006 is also available in the strategic report on pages 5 to 39 and corporate governance report on pages 41 to 65.

Colleagues

- Colleague briefings – monthly colleague briefing sessions are held with the operating board of the Company ("Operating Board") to enable colleagues to ask questions and raise issues and for colleagues to be provided with updates on the business. Since the return to office working post-COVID-19, we have also held a number of face-to-face town halls.
- Performance updates – key performance information such as trading updates and financial results are always promptly communicated to colleagues by group wide internal emails and follow up all employee calls.
- Newscentric – Company information and new product launches are communicated to colleagues through a number of means, including via Newscentric, our colleague newsletter, which is issued quarterly.
- We have continued to progress the action plan following the most recent colleague survey.
- Learning management – we have further enhanced our online learning management system over the last twelve months, introducing additional learning content.
- We have rolled out a new HR system – Peoplecentric, providing increased functionality, colleague self-serve and a one stop shop for all people information with increased accessibility.
- Colleague recognition – we continue to recognise the Company's core values through our recognition scheme – the Extra Mile Awards.
- We have continued to focus on colleague well-being and have run a number of initiatives to ensure our colleagues are kept engaged, supported and connected to the business.
- Share schemes – the Company has in place an HMRC approved Save-As-You-Earn option plan ("SAYE") to enable colleagues to become personally invested as shareholders of the Group. The Company invited participation at two intervals in the last year.
- Hybrid working – after receiving feedback from our colleagues ahead of the return to office we agreed and implemented a hybrid working model, improving work life balance for our colleagues.
- Further information is included in the corporate responsibility section of this report on page 33 and in the corporate governance report on pages 41 to 65.

Customers

- Monthly newsletter – an electronic newsletter is sent out in the final week of every month to the primary and technical contacts within the customer database to communicate and signpost to important updates, new solutions and capabilities that customers need to be aware of.
- Customer surveys – a quarterly net promoter score (NPS) survey is carried out to gain customer feedback and test customers' opinions on service experience. During the course of the year, the survey has been adapted and shortened to reduce the time and burden imposed on customers by completing the surveys whilst still ensuring valuable feedback could be obtained. The results of the surveys are discussed at Operating Board level and also within a dedicated forum where actions to be taken as a result of feedback are logged and monitored.
- Monthly and quarterly service reviews – regular service reviews with customers are led by Service Delivery Managers and Account Managers, focussed on service experience and opportunity identification.
- Daily social media updates – the Group's social media presence and activity has increased and improved during the year. At least daily updates are provided through the Company's corporate social media channels (LinkedIn, Twitter and Facebook) and contain key updates and customer case studies. These are shared by customer facing employees to ensure as wide a reach as possible to keep customers appraised of the Company's news and offering.
- Customer scoring – within the Group's support systems the Group reaches out to customers to score the support service they have received, with follow up actions taken by the support team based on each customer's score and requirements.

Section 172 statement – our stakeholders (continued)

- Customer service management solution – during the year, the Group launched a new service management solution for customers, called SMAX, which replaced HP service manager. SMAX focusses on providing an enhanced user experience for customers, with automated processes, workflows and tasks all designed with ITIL (Information Technology Infrastructure Library) industry standards and efficiency in mind. The new solution has enabled the Group to improve how customers are supported and provides better visibility of available services to customers via a customer facing portal. Phase 1 of the SMAX launch was completed during the year and further enhancements are planned for a Phase 2 launch later in 2022.
- Targeted customer marketing and communications – during the year, the Group's marketing team has enhanced its customer communications and the way in which campaigns, product launches and solution migrations are communicated. Targeted and personalised communications are agreed between the Group's marketing team and customers' account and service delivery managers, to ensure that the right customers are informed and guided through any changes which may affect them.

Suppliers

- The Board is committed to fostering and developing effective partnerships with the Group's suppliers, based on forward planning, collaboration and trust. These supplier partnerships are crucial in delivering many of our services and in developing them further. The supplier partnerships help the Group deliver value and quality to its customers and help its partners to develop and grow.
- The Group has in place an annual programme of regular engagement and communication with all suppliers. There is a particular emphasis on key strategic partners, each of which has an annual review and other regular check-ins which involve all relevant departments across the Company.
- The Company has given additional focus to the suppliers taken on following the acquisition of Piksel and those whose business has grown as a result of the acquisition, notably carriers and AWS.
- The Company has also given additional focus to suppliers in the faster growing sectors of our market, such as cloud, security and managed services, driven by customer requirements.
- The Company continues to work with its supplier base in reviewing contractual terms including terms and conditions of trading, modern slavery processes, anti-bribery compliance and ISO requirements.
- Some of the Group's strategic partnerships are listed below:
  - Microsoft – Application Development, Application Integration, Cloud Platform, Cloud Productivity, DevOps (all GOLD); Content and Collaboration, Data Platform, Datacentre, Security (all SILVER);
  - Cisco – GOLD;
  - Hewlett Packard Enterprise (HPE) – SILVER PRSP (Partner Ready Service Provider);
  - Citrix – CSPP (Citrix Solutions Provider Programme);
  - VM Ware;
  - Fortinet;
  - British Telecom and;
  - Virgin Media Business.

Shareholders

- Analysts and investor meetings – the Chief Executive Officer and Chief Financial Officer hold analyst and investor roadshow meetings throughout the year, particularly following the release of the Company's interim and full year results and feedback from those meetings is shared with the Board. In FY22, a full schedule of roadshows took place once again, albeit remotely.
- The Company's AGM is a key opportunity for engagement between the Board and shareholders, particularly private shareholders. In FY22, Redcentric was pleased to once again be able to hold a face-to-face AGM but shareholders were also once again given the opportunity to submit questions for the Board ahead of the AGM in the event they were unable or unwilling to attend in person.
- Annual Report and Accounts – the Group's annual report and accounts is made available to all shareholders both online and in hard copy where requested.
- Group website – all presentations and announcements and other key shareholder information is available on the investor section of the Group's website.
- Further information is included in the corporate governance report on pages 41 to 65.

Section 172 statement – our stakeholders (continued)

Environment

- The Company has maintained its ISO 14001:2015 environmental management accreditation, through which it enhances environmental performance, fulfils its compliance obligations, and achieves its environmental objectives.
- In FY22, the Group achieved its environmental objectives under ISO 14001:2015, surpassing the targeted annual reduction in the significant environmental aspects of office space energy usage, company car mileage, and paper and consumables.
- Following the proven success of homeworking throughout the pandemic, a hybrid working policy was permanently introduced across the Group, which has continued to positively impact environmental performance through reduced office space energy usage and travel.
- During the year, Redcentric launched an electric car salary sacrifice scheme, open to all colleagues, as part of its commitment to reduce the Group's carbon footprint.
- In FY22, Redcentric created the new position of Head of Corporate Development, which is a role dedicated to environmental, social and governance ("ESG") issues and the Group's acquisition strategy. An initial assessment of the Group's position on ESG issues was undertaken and a roadmap with clear milestones for setting and delivering an updated ESG strategy has been developed.
- Redcentric has, further to its initial ESG assessment, engaged a third-party specialist to support the Group in calculating Scope 3 emissions, developing a net zero strategy, and working towards producing its first voluntary Task Force for Climate-Related Financial Disclosures ("TCFD") report. This is a significant step in Redcentric's commitment to the environment and in support of the Government's UK-wide target to reach net zero by 2050.
- Further information is included in the sustainability section of the Report on page 37.

Risk management

Redcentric continues to take a consistent approach to the identification, monitoring and management of risk across everything that we do, underpinning company values and allowing our strategies to succeed.

We have continued to evolve our risk management framework, maintaining confidence levels across our leadership team. Providing the capability to seamlessly continue to focus on our customers alongside delivering strategies for product enhancement and business growth.

How do we manage our risks?

Risks are managed on a tiered hierarchy, with each functional tower of the business owning and managing risk to their direct areas, measured scientifically and consistently throughout. High value risks are cascaded upwards to Operating Board level and then beyond that to Group level alongside principal risks. This allows the right level of visibility, ownership, and management in the right places with complete consistency and transparency.

All Redcentric employees are encouraged to identify, record, monitor and manage risks at local level, empowered to take ownership whilst management oversight is maintained throughout with continued regular review at all levels.

Our principal risks

Market and economic conditions

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. The Board considers the Group is relatively protected against significant customer risk due to the Group's diverse customer base, however loss of a major contract remains a principal risk, as discussed below. At the date of approval of these financial statements the macro-economic conditions remain unpredictable and as such is seen as an increasing risk to the business which the Board continue to closely review.

Technology and cyber-security

The market for the Group'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 an ever-increasing risk of cyber-attack. Alongside maintaining constant, pro-active vigilance against such risks, Redcentric maintains membership of some of the highest levels of security accreditation as part of the service it offers its customers. We have a continued focus and a strategy of increasing security capability both internally and offered to our customers.

Business transformation through growth

With a strategy for growth, we ensure that acquisitions are handled appropriately from the outset. Acquiring differing businesses with differing technologies, people, competencies and processes creates risk to both customers and services being acquired, and the Group's existing operating model. Given the Group's strategy and appetite for acquisitions, as demonstrated through activity in FY22, this is considered an increasing risk. The Group considers this risk split into three main areas with the following mitigations in place:

- Acquisition target risk – the risk that the Group is unable to identify suitable acquisition targets. This risk is managed by a combination of internal resource dedicated to identifying targets complemented by strong relationships with external advisors.
- Acquisition integration risk – the risk that completed acquisitions are not integrated into the underlying business in an efficient or effective way leading to potential loss of customers and employees from the acquired business. The risk is managed by detailed planning, including active participation from the vendors to ensure acquisitions are integrated effectively.
- Post-acquisition performance risk – the risk that the acquired business may not perform as well as expected or synergies may not be delivered as planned. This has the potential to adversely impact both cashflow and profits post acquisition. Due diligence and integration planning help manage this risk including the use of experts throughout the acquisition process.

Following acquisitions, growth management provides an ongoing risk that, given recent acquisitions is also considered to be increasing. The Group manages this risk by regular reviews of the operational structure and resource required to deliver to customers without degrading service. Going forward this will be reviewed annually as part of the budgeting process and also subsequent to any acquisition.

Competition and market pressures

Redcentric operates in a highly competitive marketplace and, while the Board believes that the Group enjoys significant strengths and advantages in competing for business, some of its competitors are much larger with considerable scale

Risk management (continued)

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. Capability and scale acquisitions are both expected to further strengthen the Group's positioning within the marketplace through competitive pricing (scale) and additional services (capability).

Business continuity

The Board believes 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 a variety of risks to business continuity through infrastructure failure, loss of physical site, logical access failures and impact to its people. A critical element of the Group's operating methodologies and procedures is to mitigate such risks through the careful construction, maintenance and management of all elements of business continuity, adhering to industry standard methodology. Operating regular externally audited exercises, maintaining continuity plans across all areas alongside our fully resilient technical landscape with regular testing of back-up and recovery plans.

Loss of major contract

Failure to successfully manage our large, significant and complex clients could lead to a loss of significant revenue and possible reputational damage. To address this risk, Redcentric pro-actively maintains sales management plans, holds regular customer meetings by account teams and aligns service delivery to sales in order to support both ours and our customers strategies. The Group also operates a meaningful and accurate customer satisfaction methodology with feedback loop.

Environmental impact

The physical impacts of climate change and the actions taken by governments and society to try and limit global warming may impact our ability to conduct business and secure assets therefore the Group considers this an emerging risk. As our customers seek to reduce their own emissions, demand for our propositions and services may also change, the Board recognises the importance of our corporate responsibilities to do everything possible to reduce the impact Redcentric has on the environment.

The Group is managed to a recognised environment management standard and maintains an annual set of environmental objectives to measure and maximise power efficiency across sites, reduce business travel, reduce use of paper and physical peripheries, reduce waste and proactively offset our carbon emissions.

As discussed in the sustainability reporting section of this report (page 37), the Group are proactively monitoring this emerging risk and taking steps to ensure it's well placed to manage the potential impacts.

Workforce

As a service provider the Group is dependent on the skill and experience of its established workforce. The Group could be adversely impacted if employee levels are not maintained. The Group aims to recruit suitably skilled and experienced employees by offering a challenging and rewarding work environment with appropriate remuneration packages relative to their skills and experience. The Group has offices in multiple locations which helps to access talent pools in various locations across the country.

Corporate responsibility

Our colleagues

Throughout FY22, colleagues have continued with their outstanding response to the COVID-19 pandemic and challenges this has brought. Ongoing service and support to our customers has remained at the excellent pre-pandemic levels and we have continued to work in partnership with all our customers to ensure they have been given the individual support they needed according to their varying challenges and needs.

Our teams have really stepped up to the ongoing demands placed on them over the last 12 months and have continued to develop new and innovative solutions to support our customers with the emerging challenges facing them post COVID-19. We have continued to ensure we focus on investing in our existing people and the support provided to them and at the same time are delighted to welcome a number of new colleagues to the Group as a result of the exciting acquisitions of Piksel and 7 Elements that took place in FY22. Our focus is now on ensuring that our new colleagues are integrated into our wider business.

In FY22 and partly as a result of the acquisition of Piksel we made the decision to fundamentally re-shape the operating structure of our business to ensure we are set up to meet our future growth plans and further enhance the service we give to our customers. This structure is to be implemented in FY23. We have moved to a divisional structure which puts our customers and delivery for our customers at the heart of our business creating three business divisions – Cloud, Collaboration and Connectivity. In addition, we have taken the opportunity to create a dedicated and standalone Customer Services function focussed on meeting our customer needs and invested in new CTO capability which will allow us to continue the transformation of our business both internally for colleagues and externally for customers.

We have continued to focus on our employment proposition and we have invested heavily in a new end to end HR system enabling employees to take control of their working experiences at Redcentric. We have also moved to a hybrid working model which has been positively received by all our colleagues and had enabled us to expand our talent pool more widely.

I would like to send my personal thanks to each and every colleague, old and new for their continued support over the last 12 months. Our colleagues are Redcentric, and your fantastic efforts over the last 12 months supporting both our customers and our colleagues are very much appreciated.

Listening to our colleagues

In FY20 we launched our first all colleague opinion survey to ensure our colleagues had the opportunity to have their say on their working experiences at Redcentric and in FY21 we updated that survey. We will be running a further survey early in FY23 to ensure we get an updated view on how our colleagues are feeling in the post-COVID-19 workplace.

We listened to colleague feedback and have been progressing a number of initiatives over the last 12 months as part of our ongoing response.

As a direct result we have launched/continued to embed the following initiatives:

Our new Group-wide vision, mission and values which have now been embedded in our performance and recognition schemes and rolled out to our new colleagues.

A new online learning management system with additional content to support our colleague's development and continued investment in supporting our colleagues in achieving industry recognised accreditations that are critical to our business.

Transition of our previous online performance and development and recognition systems to form part of Peoplecentric, our new HR system, enabling colleagues with easy one-stop access to their objective and development actions, as well as the ability to quickly recognise colleagues more easily.

Transition to a hybrid working model over the last few months, giving colleagues additional flexibility to work where they will best achieve their daily activities.

Continuation of our internal communications strategy aiming to keep colleagues connected to our business, a new internal communications strategy with monthly all colleague calls, our colleague newsletter 'Newscentric', weekly colleague shout outs to recognise the great achievements of our colleagues and the introduction of a colleague communication forum.

Over the last 12 months we have also recognised 48 colleagues through our "Extra Mile" recognition scheme.

Our employee engagement index remains at 71% (from FY21) and we will shortly be running a further engagement survey to understand the progress made over the last six months and agree the critical actions and focus areas for the year ahead. Our commitment is to continue listening to our colleagues and working with them to make Redcentric a great place to work.

Corporate responsibility (continued)

Wellbeing

Focusing on the wellbeing of our colleagues continued to be top of our agenda as we transitioned back into the workplace. We have maintained a programme of on-going activity supported by our mental health first aiders which provides access to support for all colleagues in a number of different ways, including our time to talk service, access to our Employee Assistance scheme and on-going mailshots promoting key well-being events and activities.

We have continued to run a number of campaigns for colleagues including:

- Monthly quiz
- Volunteering events
- Charity support
- Health and wellbeing calendar
- Mental health webinars
- Mindfulness programme

We meet with our mental health first aiders on a monthly basis and will maintain this approach moving forwards.

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 is disadvantaged on any of the above grounds. Every possible step is 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.

Gender diversity

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

	Male	Female	**Total**
Executive Directors	2	0	**2**
Ops Board	4	2	**6**
Senior managers	12	5	**17**
Other employees	364	97	**461**
Total average headcount	**382**	**104**	**486**

Gender pay report

Our gender pay report at the snapshot date of 5 April 2021 showed that the overall difference between men and women's earnings at Redcentric was 21% (mean) (FY20 – 24% mean) which is a significant improvement on the previous year's report.

Like most organisations in our industry, our gender pay gap is driven by a continued imbalance of male and female colleagues at different levels across the organisation. The majority of females in our business sit within the two lowest pay quartiles of the business which has negatively impacted our gender pay gap.

We have continued to focus on initiatives to increase the diversity of our business over the last year and are pleased that this has had a positive impact. We have appointed a number of females into senior roles across the business. We are confident that we will make further progress in addressing our gender pay gap as we continue to focus on development and progression opportunities for the future.

Corporate responsibility (continued)

Apprenticeship programme

Over the last 12 months we have also continued investment in apprenticeship programmes across differing areas of our business for both new joiners into our business and existing colleagues. These programmes have focussed on building a pipeline of talent into our business to support a number of our functions, including customer services, finance, procurement, project management and engineering and we have nine apprenticeship programmes currently underway with an additional number successfully completed within the financial year. We are working more closely than ever with local schools and apprentice providers to increase visibility of these opportunities and have undertaken a number of work experience placements and attended virtual school events to ensure we are promoting opportunities locally. This is an area we are committed to maintaining and growing given the benefits to our local communities and our business.

We plan to launch a graduate scheme across the business in FY23, partnering with local universities, with a view to promoting the Company's profile and attracting fresh talent.

Share scheme

The Group is a strong believer that having an effective employee share ownership programme helps to align colleagues' interests with shareholders, and continues to provide an effective tool in attracting, retaining and motivating employees. In November 2014 the Group launched its SAYE option plan where colleagues contribute a monthly amount which is saved over 3 years to buy shares in the Company at a pre-determined price.

The most recent grants were made on 27 August 2021 and 23 December 2021, with the Company granting options over a total of 881,622 ordinary shares. These options are available for exercise from 1 October 2024 and 1 February 2025, with an exercise price of 108.33p and 99.87p respectively.

As at 31 March 2022, the following options were outstanding under the plan:

Grant date	Exercise price (p)	Opening options	Options granted	Options exercised	Options lapsed / cancelled	Options remaining
21 August 2019	63.1p	434,145	-	(2,377)	(62,375)	369,393
02 September 2020	119.60p	460,077	-	(2,842)	(215,924)	241,311
27 August 2021	108.33p	-	255,060	-	(86,062)	168,998
23 December 2021	99.87p	-	626,562	-	(11,533)	615,029
Total	**n/a**	**894,222**	**881,622**	**(5,219)**	**(375,894)**	**1,394,731**

COVID-19

Our transition to working remotely has been incredibly successful and we have ensured our colleagues have the tools, technology and support to operate effectively from home. We have, through the launch of our new communications strategy, ensured that we have kept connected to all our colleagues over the last 24 months both in the UK and India.

Given the success of remote working and how well our colleagues responded to this, where we can we have changed our work approach and have moved to a hybrid working model which is operating successfully across both the UK and India.

We have invested in new office space in both the UK and India to deliver a workplace of the future, creating modern and collaborative workspaces for our colleagues.

Charitable activity

Despite the lockdown restrictions, which have been in place at various points, we have continued to support a number of both virtual and face to face volunteering challenges and fundraising events.

These include litter picking support in conjunction with Harrogate Council, maintenance of our Trees for Life partnership and encouragement of our colleagues to get involved in supporting the Mission Christmas volunteering campaign.

Corporate responsibility (continued)

From a charity perspective we have maintained our support and commitment to a number of key charities through colleague fundraising initiatives including:

- Red Nose Day & Children in Need
- Press up challenge (sales team)
- Easter egg appeal
- Mission Christmas – presents for children
- Action for India
- Macmillan coffee morning

We also continue to support local volunteering activity and fundraising by encouraging all colleagues to use their day's paid volunteering albeit this has proved more challenging locally given the COVID-19 pandemic.

We are continuing to evolve our national corporate social responsibility ("CSR") strategy to support our key customers in their local areas.

Health & Safety

Redcentric is committed to maintaining high standards of health and safety. New starters receive health and safety training through our online learning management system during their induction period and refresher training is provided to all colleagues every twelve months. No RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accidents were reported during the year.

Our approach to the COVID-19 pandemic has ensured the ongoing safety of all our colleagues throughout the period of the pandemic and we have followed all government guidelines.

We continue to adopt a cautious approach with increased cleaning in place across all sites and asking colleagues to remain away from the workplace in the event they or a close contact has COVID-19.

Our approach has been appreciated by our colleagues with 95% advocacy in our approach to the management of the pandemic.

Sustainability reporting

Sustainability reporting

We are committed to being a socially, economically, and environmentally responsible business. This is reflected in our actions and our corporate policies. During the year, an initial assessment of the Group's position on environmental, social, and governance issues was undertaken and a roadmap with clear milestones for setting and delivering an updated ESG strategy has been developed. We have engaged a third-party specialist who will be supporting us in calculating our scope 3 emissions, creating a net zero strategy, and working towards producing our first voluntary task force on climate-related disclosures report.

Voluntary TCFD report

To demonstrate our commitment to taking climate change seriously, we are working towards producing our first Task Force on Climate-Related Financial Disclosures ("TCFD") for FY23, one year ahead of mandatory regulation for our Company. The TCFD guidelines provide a framework for companies to use when reporting on the risks and opportunities presented to their business by climate change. The recommendations are split into four sections: Governance, Strategy, Risk Management and Metrics and Targets. These will guide us in developing our internal management of climate-related risks and opportunities.

Planning for net zero

The UK Government has set a target of net zero for the UK by 2050. This means at least a 100% reduction in greenhouse gas emissions compared to 1990 levels. This target aims to limit global warming to below 2°C, ideally as near to 1.5°C as possible.

We want to do our part in ensuring this target is met. In FY23, we will be putting in place our net zero strategy. Our carbon reduction plan will include both short and long-term carbon reduction targets, and our progress will be reported annually.

Scope 3 carbon footprint

The first step on our path to net zero is calculating our scope 3 carbon footprint. This covers all emissions resulting from sources we do not directly own. The Greenhouse Gas ("GHG") Protocol splits them into fifteen categories, including purchased goods and services, employee commuting and waste generated in operations. We already calculate scope 3 grey fleet emissions as part of our streamlined energy and carbon reporting ("SECR"). It is important to calculate our scope 3 emissions as this is generally the largest portion of a company's carbon emissions. Once we understand the full extent of our carbon emissions, we can then make plans for reducing them.

Environmental management

Redcentric has maintained its ISO 14001:2015 certification in the period and continues to drive the objectives of its environmental management system to improve environmental performance. As part of the focus on improving environmental performance, Redcentric reports on the annual movement in the Group's significant environmental aspects of office space energy usage, company car mileage, and the use of paper and consumables. In FY22, Redcentric set targets to reduce office space energy usage by 3%, and company car mileage and the use of paper and consumables by 5%.

Furthermore, baseline data has been captured in FY22 measuring power efficiency of the data centres and the level of WEEE (Waste Electrical and Electronic Equipment). These measures will be added to the significant environmental aspects ISO 14001:2015 reporting in FY23.

Sustainability reporting (continued)

Scope of ISO 14001:2015 Performance reporting

Office space energy usage and paper and consumables are currently measured for Redcentric's Harrogate head office only. Company car mileage currently excludes the activity of newly acquired colleagues in relation to Piksel and 7 Elements.

The intensity ratio for office space energy use has been updated to kWh per m² in the period to provide a consistent approach with the SECR reporting measures.

For comparative purposes, the annual reduction reported for the year ended 31 March 2022 compares the figures for the period to pre COVID-19 levels (the twelve months to 31 March 2020). Whilst neither of the respective periods were entirely free from disruption, the twelve months to 31 March 2020 is deemed the most appropriate benchmark given that there was minimal activity in terms of office occupancy, travel and the use of paper and consumables in the twelve months to 31 March 2021.

	Annual reductions	
	Year ended 31 March 2022	Year ended 31 March 2020
Office space energy usage (Avg kWh per m^2)	**44%**	47%
Company car mileage (Avg miles per person)	**55%**	69%
Paper and consumables (units)	**79%**	79%

Carbon footprint

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, we report on GHG emissions as part of the strategic report.

The method used to calculate emissions is based on the government's Environmental Reporting Guidelines (2019), including streamlined energy and carbon reporting guidance, and used the government GHG Conversion Factors for Company Reporting (Full Set 2019 version 1.0). The reported emission sources include those which we are responsible for, as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, with the exception of the following which were excluded from this report:

- liquefied petroleum gas consumed by mechanical handling (small forklift truck) due to immateriality; and
- voluntary scope 3 emissions

The emissions for FY22 and FY21 have been externally verified by Inspired Energy plc.

		Year ended 31 March 2022	Year ended 31 March 2021
Scope 1	tonnes of CO_2e	**23**	52
Scope 2 (market-based emissions)	tonnes of CO_2e	**-**	-
Scope 2 (location-based emissions)	tonnes of CO_2e	**4,017**	4,639
Scope 3	tonnes of CO_2e	**51**	26
Total market-based emissions	tonnes of CO_2e	**74**	78
Total location-based emissions	tonnes of CO_2e	**4,091**	4,717
Total energy consumption in the UK	MWh	**19,225**	20,204

Sustainability reporting (continued)

The most appropriate intensity metric for calculating the ratio is considered to be the floor area of the occupied office buildings and spaces.

Floor area weighted values					
Year ended 31 March 2022			Year ended 31 March 2021		
m^2	**kWh/m^2**	**tCO_2e/m^2**	m^2	kWh/m^2	tCO_2e/m^2
8,853	**2,172**	**0.46**	8,856	2,281	0.53

The Strategic Report on pages 5 to 20 is signed on behalf of the Board by

Peter Brotherton
Chief Executive Officer
21 July 2022

PROACTIVE

We think and act quickly

INSPIRED

We create excitement through innovation

TRUSTED

We do what we say we will

COLLABORATIVE

We work together to deliver a common goal

TRANSPARENT

We are open, honest and fair

Introduction to governance

The Board recognises the importance of high standards of corporate governance and integrity. It is committed to effective corporate governance as the basis for delivering long-term value growth and for meeting shareholder expectations for proper oversight and leadership of the business. I am responsible, as Chair of the Board, for corporate governance within Redcentric and the Board is committed to maintaining a strong governance and ethical structure that supports and sustains its decision making. We believe that having good corporate governance is fundamental to pursue success for the Group and its stakeholders. As such, the Company has adopted the Quoted Companies Alliance Code for Small & Mid-sized Quoted Companies 2018 (the "Code") as its benchmark for governance matter. At the date of this Report we believe that we are fully in compliance with the Code.

This section of the Report sets out how the Group has applied and complies with the principles of the Code. We will continue to review and update our approach and will update our corporate governance statement in the AIM Rule 26 section of the Group's website.

Nick Bate
Chairman
21 July 2022

Corporate governance

Governance Principle	Application
Principle 1 Establish a strategy and business model which promotes long-term value for shareholders	The Group's business model and strategy is discussed within the Chief Executive Officer's review on pages 9 to 11 and also on page 27. Details of the key risks and challenges facing the Group and the high-level management of such are outlined on pages 31 to 33. Following the assignment of a new senior owner to manage the Group's risk register in FY21, the Group's risk management framework has evolved somewhat in FY22. There is now a tiered management of risk, with functional towers owning and managing their direct risks, and a consistent and scientific measurement of risks across all functions in order that the highest risks can be escalated to the Operating Board and fed through to the Group's corporate risk register. The corporate risk register is shared and refined with the Audit Committee and Board at key intervals in the year.
Principle 2 Seek to understand and meet shareholder needs and expectation	The Group continues to be committed to engaging with its shareholders to ensure that the strategy and business model and key events of the Company are clearly shared and understood. The Board believes that the disclosures of this Report provide information necessary for shareholders to assess the Group's performance, business model and strategy. Hard copies of the Report are issued to all shareholders that have requested them and copies are also available on the Group's website. The Group's half year report is also available on the Group's website and the Group makes full use of the website to provide information to the shareholders and other interested parties. The Company uses regulatory announcement through RNS to ensure that important news is shared with all shareholder and potential shareholders in a clear and uniform way and often issues announcements beyond those it is obliged to make. The Executive Directors are also in regular contact with the Company's shareholders and brief the Board on feedback and any shareholder issues. In FY22, investor briefings and roadshows were held at regular intervals, including following announcement of the preliminary and interim results, and other ad-hoc one-to-one meetings with key investors and potential investors were also held through the year to discuss the Group's strategy and shareholder expectations, amongst other things. There is also regular dialogue with shareholders through the Company's corporate broker, finnCap Limited ("finnCap"), who keep the Board abreast of shareholder expectations and reactions and assist in setting up meetings with potential investors. Any reports from analysts that refer to the Company or cover the sector are circulated to the Board to support their understanding of the views of the investment community. finnCap, as broker, provides feedback directly to the Board from shareholder meetings and events such as the investor day. An update on key shareholding changes and any relevant investor sentiment is also provided in each Board report and Board meeting. There is an increasingly well-utilised dedicated investor relations contact email address by which shareholders or investors may contact the Company (investorrelations@redcentricplc.com) and the Company Secretary also deals with a number of written queries throughout the year along with the Company's registrar, Link Asset Services. The Chair and other Non-Executive Directors will always make themselves available to shareholders. The AGM is a key opportunity for this, with shareholders being given the opportunity to raise questions during the AGM and the Board being available both prior to and after the meeting for further discussion with shareholders.

Corporate governance (continued)

Governance Principle	Application
	We are pleased to once again be able to welcome shareholders in person to our AGM this year, particularly following the constraints faced in recent years due to the COVID-19 pandemic. In any event, once again, to ensure that shareholders who are unable or would rather not attend the AGM have the ability to ask questions of the Board, the Board shall accept any questions relating to the business being dealt with at the AGM which are submitted by shareholders in advance to the Company. Any such questions should be sent to investorrelations@redcentricplc.com so as to be received by no later than 5 p.m. on Friday 2 September 2022 and the Company will publish questions and responses on the Group's website in advance of the AGM. The voting record at the Company's general meetings is monitored and we are pleased that all resolutions were passed by shareholders at the 2021 AGM.
Principle 3 Take into account wider stakeholder and social responsibilities and their implications for long-term success	The Board recognises that the long-term success of the business relies on a number of key stakeholders, as described on pages 28 to 30, including colleagues and customers, and that engagement with these key stakeholders is fundamental to helping the Board make the best business decisions. **Colleagues** The dedication and skill of colleagues is fundamental to the Group's operation and success and, as such, we are committed to colleague engagement and listening to and acting on feedback from colleagues. This year, having continued to step up to demands post-pandemic, and with the addition of new colleagues through the acquisitions of Piksel and 7 Elements, this has been especially important. The Group has continued to work on its employment proposition during the year and implemented an end to end HR system, Peoplecentric, which allows colleagues to take control of their working experience. We have also continued to listen carefully to colleague voices and as a result implemented a permanent hybrid working pattern, which has increased flexibility for colleagues and also enabled the Group to expand its talent pool. Recognising the need, however, for modern, attractive and collaborative environments for colleagues where they are office based and to attract the highest calibre candidates, investments have been made in new offices in both the UK and India. The Group's vision, mission and values, which were launched in FY21, have been embedded and the hard work on colleague wellbeing has been continued, supported by the Group's qualified Mental Health First Aiders. There has been a continued focus on the Group's apprenticeship programme in the year across a number of areas of the business and strong partnerships have been formed with local schools and apprentice providers. As detailed on page 35 the Group also has in place an SAYE option plan to enable colleagues to become personally invested as shareholders of the Company. In FY22, the Group invited colleagues to join the plan at two intervals, to ensure that colleagues joining by acquisition had the opportunity to invest, and as a result the Company granted options over a total of 881,622 ordinary shares under this scheme.

Corporate governance (continued)

Governance Principle	Application
	Customers The Group's extensive customer services, which are detailed on the Group's website at www.redcentricplc.com/services , are core to the Group's customer proposition and the Group is in regular dialogue with its existing and potential customers in order that it may understand and respond to their ongoing and future requirements. The Group also keeps abreast of customer needs and communicates it proposition to customers through monthly newsletters, regular customer surveys, monthly and quarterly service reviews and through its social media channels. In FY22 the Group has worked hard to make its communications with customers more meaningful and targeted and the launch of phase one of its new customer service management solution has been a key step in enhancing customers' experiences with the Group. The Board also considers its shareholders, suppliers and the environment to be key stakeholders and details of how the Group fosters relationships with these stakeholders and considers their needs are set out in the Section 172 statement on page 28 of this report.
Principle 4 Embed effective risk management, considering both opportunities and threats, throughout the organisation	As set out in the Audit Committee report on page 52, the Board is committed to ensuring that risk management forms part of the way the Group works and is embedded in the business. Following the assignment of a new senior owner to manage the Group's risk register in FY21, the Group's risk management framework has evolved somewhat in FY22. There is now a tiered management of risk, with functional towers owning and managing their direct risks, and a consistent and scientific measurement of risks across all functions in order that the highest risks can be escalated to the Operating Board and fed through to the Group's corporate risk register. The corporate risk register is shared and refined with the Audit Committee and Board at key intervals in the year, coordinated by the Chief Financial Officer, and with reporting on mitigating actions as well as the risks. 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 Operating Board. However, the internal control system is designed to manage rather than eliminate risk and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. Further enhancements have been made to Dynamics 365, the finance and operations module, which was implemented in FY21, which is expected to strengthen the control environment. The Board acknowledges that there is a requirement for continuous improvement to the control environment, particularly as the Group continues on its acquisition strategy, and improvement plans are being developed, documenting short and longer term plans to address risks and control weaknesses. The principal elements of the Group's internal control system cover financial, operational and compliance controls and include: 1. close management of the day-to-day activities of the Group by the Executive Directors; 2. an established budgetary system with the preparation and approval of an annual budget by the Board and regular monitoring and review of performance against budget, forecasts and prior year; 3. detailed monthly reporting to the Board, both at Group and, in FY23, at divisional level (including financial information, performance against budget and key performance and risk indicators), whereby the Executive Directors report on significant changes to the business and external marketplace to the extent they represent significant risk;

Corporate governance (continued)

Governance Principle	Application
	4. an organisational structure that has clear reporting lines and delegated authorities, particularly with the new divisional structure that was put in place at the start of FY23; 5. management and monitoring of risk and performance at multiple levels throughout the Group; and 6. continually improving finance, legal and assurance and compliance functions that maintain processes and systems to enhance the control environment, including the control of expenditure, authorisation limits, purchase ordering, sales order intake, contract review and approval. The Group also works hard to maintain a number of ISO accreditations it has achieved over a number of years, detailed at www.redcentricplc.com/about-us/accreditations-frameworks , and has a number of policies and procedures in place in order to fulfil the requirements of and maintain these accreditations.
Principle 5 Maintain the board as a well-functioning, balanced team led by the chair	The composition of the Board is detailed on pages 50 and 51. The Board delegates specific responsibilities to the Board committees. The composition of the committees can be found on page 50. Part of the role of the Board's Nomination Committee is to keep the composition of the Board under review as the Group's business evolves. Following Ian Johnson's resignation, Nick Bate joined the Board as the Company's Non-Executive Chair, Chair of the Nomination Committee and member of the Renumeration Committee. With the publication of this Report, Jon Kempster steps down from the Board as Chair of the Audit Committee and Non-Executive Director and the Board is delighted to welcome Alan Aubrey as a new Non-Executive Director and Chair of the Audit Committee. Alan brings with him considerable market knowledge and breadth and depth of skills and experience. The Board is satisfied that it has an appropriate balance between independence and knowledge of the Group to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged and expected to use their independent judgement and to challenge matters where required, both strategic and operational. The Executive Directors of the Company are employed on a full-time basis. Non-Executive Directors are required to devote such time to the Group's affairs as necessary to discharge their duties and this may change from time to time. In addition to scheduled Board meetings, members are required to attend other ad hoc Board meetings, committee meetings, the AGM 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. Non-Executive Directors are required to obtain the agreement of the Chair before accepting additional commitments that may affect the time that they are able to devote to their role as a non-executive director. Further details of external appointments of the Board are included in their biographies on pages 50 and 51. Details of the number of regular scheduled meetings of the Board and committees, together with the attendance record for each Board member, are set out on page 49. The Board recently concluded an external assessment of its performance, and more detail is provided below against Principle 7.

Corporate governance (continued)

Governance Principle	Application
Principle 6 Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Directors' details and biographies are on pages 50 and 51. The Board considers that it has sufficient skills and experience to enable it to execute its duties and responsibilities effectively given the nature and size of the Group. As mentioned above, the appointment of Nick Bate has extended the breadth of experience on the Board and the appointment of Alan Aubrey further enhances its capabilities and complements the skills and experience of the current Directors. Directors are responsible for ensuring their continuing professional development to maintain their effective skills and knowledge. As part of the Board performance assessment recently concluded, details of which are set out below, each Board member provided information on their individual skills and experience in areas relevant to the Group. This exercise indicated a high level of capability in most areas but highlighted some skill sets which could form part of the specification for any future Board appointments, some of which are already enhanced by the appointment of Alan Aubrey. The Board receives monthly reports on the Group's operational and financial performance as mentioned above, and formal agendas and reports are also circulated to the Board in advance of meetings. The Board has access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed, and applicable rules and regulations are adhered to. Directors are able to obtain further advice or seek clarity on issues raised in reports or at meetings from within the Group or from external sources. The Board also has a procedure whereby any director may seek, through the Company Secretary, independent professional advice in furtherance of their duties, if necessary, at the Group's expense. Jon Kempster was the Company's Senior Independent Director during FY22 and provided a sounding board for the Chairman and also served as an intermediary for the other directors where required. Alan Aubrey will take over the role of Senior Independent Director. External advisers or consultants have been engaged by the Board in respect of a review of its remuneration policies, in relation to implementation of the Company's acquisition strategy and in relation to the appointment of both Nick Bate and Alan Aubrey to the Board, all being significant matters. On appointment to the Board, new directors receive a tailored induction pack and introductions to relevant personnel within the Group.
Principle 7 Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The Board recently carried out its first externally facilitated evaluation in a number of years. The assessment was conducted by EquityCulture Ltd and comprised the following elements: - completion of a questionnaire specifically drafted for the Company based on discussions with the Chair and Company Secretary. The questionnaire covered areas including investor relations, Board meetings and administration, Board composition, structure and relationships, corporate strategy, operation of Board committees, risk and succession planning; - completion of a skills matrix by each Board member, as referred to under Principle 6 above, to identify areas of expertise on the Board and additional areas that the Board could consider in relation to future appointments; - production of a report by EquityCulture Ltd, summarising the key outputs from the evaluation and suggesting a number of action points for the Board to consider; - a Board discussion facilitated by the Chair on the outputs of the questionnaire and skills matrix and potential resulting actions for the coming year.

Corporate governance (continued)

Governance Principle	Application
	A number of specific actions were agreed by the Board, which the Board believes will assist in improving Board performance and these will be implemented during the year. The actions relate to the following areas: - timings, location and format of Board meetings and reports; - review of Board composition; - ongoing review of the Group's strategy; - review and update of the Company's investor relations and communications policy; - ongoing review of the Group's risk register, risk appetite and effectiveness of controls; - detailed review of succession planning.
Principle 8 Promote a corporate culture that is based on ethical values and behaviours	The Board aims to lead 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 ongoing disclosure of interests, are all examples of processes which require high standards of behaviour from the Board. Employment policies adopted by the Group assist in embedding a culture of ethical behaviour and the values set out in its corporate social responsibility statement. During the year, a refreshed compliance and anti-bribery policy was launched across the Group and also a new Modern Slavery Act policy to sit alongside the Group's Modern Slavery statement – the continued work on such policies also reinforces the culture of ethical values and behaviours. The Group is pleased that in FY22, despite COVID-19-related restrictions continuing to be imposed at several points, it has been able to support a number of virtual and face to face volunteering and fundraising events, including litter picking in conjunction with Harrogate Council, maintenance of its Trees for Life partnership and the Mission Christmas volunteering campaign. Several local and national charities have been supported through the year by colleague fundraising, including Macmillan Cancer Support, Action for India, Red Nose Day and Children in Need. All colleagues are granted a day's paid volunteering and the Group encourages colleagues to use this day to take part in local volunteering activity. Further details of the Group's charitable activity is set out on pages 35 and 36.
Principle 9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	The business and management of the Group are the collective responsibility of the Board. The Board meets at least eight times a year in accordance with its scheduled meeting calendar and this schedule is supplemented with additional meetings as and when required and monthly Board reports circulated in respect of the previous month. The attendance by each Board member at meetings held in the year is shown in the table on page 49. At each scheduled meeting, the Board considers and reviews the trading performance of the Group for the previous month. The Board and its Committees receive appropriate and timely information prior to each meeting in accordance with a reporting timetable agreed with the Board and Operating Board. A formal agenda is agreed with the Chair for each meeting and papers are distributed several days ahead of meetings taking place.

Corporate governance (continued)

Governance Principle	Application
	The Board has a formal written schedule of matters reserved for its review and approval including approval of the annual budget, major capital expenditure and interim and annual results. All specific actions arising are documented following each Board and Committee meeting, followed up by the Executive Directors and Company Secretary and then reviewed at the next meeting. **Board committees** The Board is supported by the Audit, Nomination and Remuneration Committees. A report on the composition, responsibilities and key activities of the Audit Committee are set out in the Audit Committee Report and in the Directors' Remuneration Report for the Remuneration Committee. The Nomination Committee consists of Nick Bate (Chair) (having replaced Ian Johnson during the year), Jon Kempster (to be replaced by Alan Aubrey) and Helena Feltham. The Committee meets at least once a year and further as required, particularly as and when necessary to identify and nominate for approval by the Board, candidates for Board appointments. The Committee engages external consultants when appropriate to assist in the search for and selection of new Board members. During the year, the Nomination Committee was involved in the appointment of Nick Bate as Non-Executive Chair as detailed above and also in the appointment of Alan Aubrey as Non-Executive Director and Chair of the Audit Committee which was announced following the year end. The Committee has terms of reference in place which have been formally approved by the Board and once a year it reviews the structure, size and composition (including diversity) of the Board, considers succession planning and reviews the leadership needs of the organisation. **Operating board** Authority for execution of approved policies, business plan and daily running of the business is delegated to the Executive Directors together with the Operating Board, which manages and monitors operational performance across the business and ensures effective decision-making. The Operating Board meets on a weekly basis and provides written reports to the Executive Directors on a monthly basis shortly before each Board meeting to ensure that the Board has the most up to date information possible.
Principle 10 Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Board communicates with its shareholders in a range of ways including through the Annual Report and Accounts, interim and full-year results announcements, further trading updates where required and appropriate, the AGM, investor roadshows and one-to-one meetings with major existing shareholders or potential new shareholders. The Group's website (www.redcentricplc.com), particularly the investor section of the site, also provides a range of corporate information for shareholders, investors and the public, including all Company announcements and presentations. Group performance information is communicated to colleagues, within the limitations imposed by the Company's public company disclosure obligations, in a number of ways, including regular colleague-wide email communications from the Executive Directors and Operating Board, monthly colleague briefing sessions and the Peoplecentric newsletter, all as referred to above.

Corporate governance (continued)

The following table details the attendance of the Board members at regular scheduled Board meetings and at all committee meetings held during FY22 which they were eligible to attend.

		Board		Audit Committee		Remuneration Committee		Nomination Committee	
Name	Position (at 31 March 2021)	Total	Attended	Total	Attended	Total	Attended	Total	Attended
Ian Johnson	(Outgoing Chair)	5	5	-	-	2	1	3	3
Jon Kempster	Non-Executive Director	8	8	6	6	4	4	5	4
Peter Brotherton	Chief Executive Officer	8	8	-	-	-	-	-	-
David Senior	Chief Financial Officer	8	8	-	-	-	-	-	-
Helena Feltham	Non-Executive Director	7	7	6	6	4	4	3	3
Nick Bate	Chair	3	3	-	-	2	2	2	2

Non-Executive Directors

Non-Executive Directors

Nick Bate
Independent Non-Executive Chair of the Board

Appointment date:
17 November 2021

Committee membership:
Chair of the Nomination Committee and member of the Remuneration Committee

Experience and external appointments: Nick is an experienced chair and non-executive director of a portfolio of companies across the data, communications, software and financial services sectors, and most recently sat on the board of directors for Nasstar plc for over 6 years. Nick has a proven track record in delivering successful growth through the application of his financial, commercial and operational skills and strong experience in corporate M&A transactions. Nick is a chartered management accountant.

Jon Kempster
Independent Non-Executive Director and Senior Independent Director

Appointment date:
10 January 2017

Committee membership:
Chair of the Audit Committee & a member of the Remuneration and Nomination Committees

Experience and external appointments: Jon is an ACA qualified chartered accountant and was previously the Chief Financial Officer at Frasers Group plc, Utilitywise plc, Wincanton plc, Low and Bonar plc, Linden Group plc and Fii Group plc. He is also currently an Independent Non-Executive Director of Ted Baker plc, the global lifestyle brand, Bonhill Group plc, the digital media and events company, FireAngel Safety Technology Group plc, supplier of home fire safety products and Serinus Energy plc, international oil company.

Helena Feltham
Independent Non-Executive Director

Appointment date:
7 July 2021

Committee membership:
Chair of the Remuneration Committee and a member of the Audit and Nomination Committees

Experience and external appointments: Helena has previously held executive roles at B&Q plc and was People Director at Jack Wills, Woolworths South Africa and Marks and Spencer. She also spent time in executive search with Odgers Berndtson, covering senior appointments across both public and private sectors. She has served as a non-executive director in the NHS, as an independent director of the Assembly of Wales and as a Justice of the Peace. Helena currently holds non-executive roles with Ted Baker plc, where she is independent non-executive chair; Dogwoof, a film and distribution company; and The Retail Trust.

Executive Directors

Executive Directors

Peter Brotherton
Chief Executive Officer
Appointment date: 28 November 2016. Peter served as Chief Financial Officer of the Company from 28 November 2016 to 21 November 2018 and then as Interim Chief Executive Officer from 22 November 2018 to 28 May 2019, when he was appointed as Chief Executive Officer.

Experience and external appointments: Peter has 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. Peter holds no external appointments.

David Senior
Chief Financial Officer
Appointment date: 3 April 2020

Experience and external appointments: David served in the role of Finance Director of the Group since 2017, prior to his appointment as Chief Financial Officer. During his time with the Group to date, David has been instrumental in building a strong finance team and made a significant contribution to the commercial successes of the Group over the last 3 years. David is a chartered certified accountant with 20 years of experience in finance, including in several senior positions with Wolseley plc. David holds no external appointments.

Audit Committee report

The Audit Committee Report which describes the work of the Committee in the last year.

Governance

During the year the Audit Committee consisted of Jon Kempster, as Chair of the Committee, and Non-Executive Director, Helena Feltham (who replaced Stephen Vaughan in this role in July 2021).

The Committee meets 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. The Executive Directors are not members of the Committee but attend Committee meetings by invitation, as necessary, to facilitate its business. The Committee also meets the external auditor at least once a year without management present, to discuss their remit and any issues arising from the previous audit.

During the year, the Committee met six times. Attendance details for the meetings are provided during FY22 on page 49.

Key responsibilities

The Committee's terms of reference are available on the Investor section of the Group's website. In accordance with the terms, the Committee's responsibilities include:

- monitoring the integrity of the financial statements of the Group, including all formal announcements relating to financial performance;
- reviewing and reporting to the Board on significant financial reporting issues and judgements contained in any announcements of financial performance;
- reviewing the effectiveness of internal financial controls and internal control and risk management systems and the need for an internal audit function;
- reviewing the adequacy of arrangements for the raising of concerns about possible wrongdoing, procedures for detecting fraud and systems and controls for the prevention of bribery;
- the recommendation of, appointment, re-appointment, and removal of the external Auditor;
- reviewing the scope and results of the external annual audit by the Auditor, their effectiveness, independence and objectivity;
- reviewing the nature and extent of any non-audit services provided by the external Auditor.

The Committee reports on all such matters to the Board.

Internal control and risk management

The Audit Committee supports the Board in reviewing the risk management methodology and the effectiveness of internal control. The Audit Committee acknowledges that there is a requirement for continuous improvement to the control environment particularly as the Group continues on its acquisition strategy, improvement plans are being developed documenting short and longer term plans to address risks and control weaknesses. Following the assignment of a new senior owner to manage the Group's risk register in FY21, the Group's risk management framework has evolved somewhat in FY22. There is now a tiered management of risk, with functional towers owning and managing their direct risks, and a consistent and scientific measurement of risks across all functions in order that the highest risks can be escalated to the Operating Board, coordinated by the Chief Financial Officer and fed through to the Group's corporate risk register. The corporate risk register is shared and refined with the Committee at key intervals in the year with reporting on key risks and mitigating actions.

External audit

The Audit Committee approved the appointment and remuneration of the external auditor and the Chief Financial Officer monitors the level and nature of non-audit services and specific assignments are flagged for approval by the Audit Committee as appropriate. The Audit Committee reviews non-audit fees and considers implications for the objectivity and independence of the relationship with the external Auditor. The Committee maintains regular dialogue with the external auditor on ways to improve the efficiency and effectiveness of the external audit process.

The responsibilities of the Board and external auditor in connection with the Group's financial statements are set out in the Statement of Director's Responsibilities and Auditor's Report respectively and details of the services provided by and fees payable to the auditor are included in note 8 to the Consolidated Financial Statements.

KPMG LLP were appointed as the Group's Auditor on 15 May 2017. During the year, Christopher Vaulks has taken on the audit engagement leader role from Johnathan Pass. Johnathan had been the engagement lead since 2017 and has therefore rotated off the audit after five years, in line with KPMG's rotation policies. There is an active, ongoing dialogue between the Committee and the external auditor to ensure there is a clear roadmap of actions to improve the effectiveness and efficiency of the external audit process.

Audit Committee report (continued)

Significant reporting issues and judgements

The significant estimates and judgements made in preparing these financial statements relate to the accounting treatment of cloud customisation and configuration costs. Management have considered the IFRIC agenda decision made in April 2021 and have accordingly made a restatement to the prior year results as detailed in note 34. In addition estimates have been made in valuation of intangible assets and fair value adjustments resulting from the acquisitions completed in the year. Further information is included in note 2.

Jon Kempster
Chair of the Audit Committee
21 July 2022

Directors' remuneration report – annual statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for FY22. As the Company is listed on the Alternative Investment Market ("AIM"), we are required to comply with AIM Rule 19 in respect of remuneration disclosures. However, following a recent review, we have decided to provide additional disclosures to those required by AIM Rule 19 on a voluntary basis, in line with AIM best practice, to enable shareholders to better understand and consider our remuneration arrangements.

This report is divided into three sections, these being:

- This *Annual Statement*, which summarises the Committee and its work, remuneration outcomes in respect of the year just ended and how the Remuneration Policy will be operated for the forthcoming financial year;
- The *Remuneration Policy Report*, which summarises the Company's Remuneration Policy; and
- The *Annual Report on Remuneration*, which discloses how the Remuneration Policy was implemented in FY22 in detail and how the Policy will operate for FY23.

Committee members

The Remuneration Committee is chaired by Helena Feltham as independent Non-Executive Director and also consists of Jon Kempster (to be replaced by Alan Aubery) and Nick Bate. The Committee meets at least twice a year and at other times during the year as agreed between the members of the Committee. The attendance record for the meetings held in the year is included on page 49. Steve Vaughan was chair of the Remuneration Committee until he stepped down on 27 April 2021. Following this, Jon Kempster was interim chair of the Remuneration Committee until Helena Feltham's appointment to the Board and as chair of the Remuneration Committee on 7 July 2021.

Committee responsibilities

The Group is committed to maximising shareholder value over time. Each year the Remuneration Committee reviews the incentive and reward packages for the Chair, Executive Directors and senior executives to ensure that they are aligned with the Group's strategic objectives and financial performance, and are appropriate to attract, retain and motivate management behaviour in support of the Company's culture and beliefs and the creation of shareholder value. The Committee has formal terms of reference which can be found in the investor section of the Group's website. The Board (excluding the Non-Executive Directors) sets the annual base fees payable to the Non-Executive Directors and they do not receive any additional benefits, nor are they eligible to participate in any pension, bonus or share-based incentive arrangements.

Advisors to the Committee

FIT Remuneration Consultants LLP was appointed to provide independent advice to the Remuneration Committee as and when required in respect of remuneration quantum and structure and developments in governance and best practice more generally. FIT is a member and signatory of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK, details of which can be found at www.remunerationconsultantsgroup.com

Implementation of the Remuneration Policy for the year ended 31 March 2022

- Salaries for the CEO and CFO were increased to £355,000 and £200,000 respectively from 1 October 2021. These increases reflect the strong performance by Peter Brotherton and David Senior in their roles and ensures we are paying our strong leadership team competitively;
- Executive Directors received a workforce aligned pension at 5% of salary;
- As a result of missing the financial targets, no annual bonus was payable to the CEO or CFO for the year ended 31 March 2022; and
- Long Term Incentive Plan ("LTIP") awards were granted to the CEO and CFO in November 2021 over shares with a value equal to 200% of salary with the first 100% of salary based on absolute Total Shareholder Return ("TSR") between 5% and 10% p.a. and the additional 100% of salary based on stretch absolute TSR targets of 10% to 15% p.a.

Implementation of the Remuneration Policy for the year ending 31 March 2023

- The CEO and CFO will continue to receive base salaries of £355,000 and £200,000 respectively;
- Pension provision will continue at 5% of salary in line with the workforce provision;
- Annual bonus potential will continue to be capped at 100% of salary for FY23. 80% of the bonus will be payable against financial targets (based on sliding scale revenue, profit and cash targets) and 20% will be based on personal/strategic targets; and
- 2022 LTIP awards will be granted to Executive Directors in line with the annual grant policy. Details of the awards, and performance targets will be detailed in the RNS issued immediately following the grant date.

Directors' remuneration report annual – statement (continued)

As a Committee, we recognise the need to foster good relations with our shareholders and encourage open dialogue. The Chair of the Remuneration Committee is available for discussion with institutional investors concerning the Company's approach to remuneration at any time. We trust you will find the new format of this Report to be informative and look forward to receiving your support at our forthcoming AGM.

Helena Feltham
Chair of the Remuneration Committee
21 July 2022

Directors' remuneration policy

This section sets out the Directors' Remuneration Policy ("Policy"). In order to deliver the Group's strategy, the primary objectives of our Policy are:

- to operate a transparent, simple and effective remuneration structure which encourages the delivery of Group targets in accordance with our business plan and strategy;
- to attract, motivate and retain the best people of the highest calibre by providing competitive and appropriate short- and long-term variable pay which is dependent upon challenging performance conditions; and
- to promote the Company's culture and beliefs and promote the long-term success of the Group and ensure that our policy is aligned with the interests of, and feedback from, our shareholders.

Summary of Directors' Remuneration Policy

Component	Purpose and link to strategy	Operation	Maximum	Performance
Base salary	To provide a competitive base salary to attract, motivate and retain directors with the experience and capabilities to achieve the strategic aims.	Normally reviewed annually after considering pay levels at comparably sized listed companies and sector peers, the performance, role and responsibility of each Director, market conditions and the Company's performance and the level of pay across the Group as a whole.	n/a	n/a
Benefits	To provide market-competitive benefits package.	Life assurance cover of four times salary, private medical insurance for themselves, their spouse and their children.	n/a	n/a
Pension	To provide an appropriate level of retirement benefit.	Workforce aligned pension which may be paid as a pension and/or cash allowance if annual or lifetime limits are met.	Currently 5% of salary.	n/a
Annual bonus	To reward performance against annual targets which support the strategic direction of Group.	Awards are based on annual performance measured against targets for revenue growth, profitability and cash generation. Any bonus over 50% of salary normally deferred into shares for two years.	100% of salary maximum opportunity.	Sliding scale financial and/ or personal/ strategic targets
LTIP	To drive and reward the achievement of longer-term objectives and align management with shareholders.	Conditional shares and/or nil cost or nominal cost share options. Vesting is normally subject to the achievement of challenging performance conditions based around total shareholder return, normally over a period of three years. Dividend equivalents may be awarded to the extent awards vest. Awards may be subject to malus/clawback provisions at the discretion of the Committee.	Up to 200% of salary	Performance metrics will be linked to financial and/or share price and/ or strategic performance
All-employee share awards	To align management with employees and shareholders.	Awards will be consistent with prevailing HMRC tax favoured all-employee share plans.	Prevailing HMRC limits	n/a

Directors' remuneration policy (continued)

Non-Executive Directors	The Committee determines the Chair's fee. Fees for the Non-Executive Directors are agreed by the Chair and Chief Executive Officer.	Fees are reviewed annually taking into account the level of responsibility, relevant experience. Fees may include a basic fee and additional fees for further responsibilities. Fees are normally paid in cash. Travel and other reasonable expenses incurred in the course of performing their duties may be reimbursed.	n/a	n/a

Service contracts and non-executive letters of appointment

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

	Date of appointment	Contractual notice period (months)	Length of service at 31 March 2022
Executive Directors			
Peter Brotherton	28 November 2016	6	5 years 4 months
David Senior	3 April 2020	6	1 years 11 months
Non-Executive Directors			
Nick Bate	17 November 2021	3	4 months
Jon Kempster	10 January 2017	3	5 years 2 months
Helena Feltham	7 July 2021	3	8 months

The service contracts and letters of appointment continue in force until notice in writing is given by either the Company or the Director.

Annual report on remuneration

Single total figure of remuneration for Directors

The remuneration of the Directors in respect of FY22 was as follows:

	Year	Basic salary, allowances, and fees £000	Annual bonus £000	Pension £000	Share-based payments £000	**Total £000**
Executive						
Peter Brotherton[4]	**FY22**	**328**	**-**	**15**	**520**	**863**
	FY21	300	150	10	212	672
David Senior[5]	**FY22**	**180**	**-**	**8**	**105**	**293**
	FY21	146	80	7	32	265
Non-Executive Directors						
Nick Bate	**FY22**	**31**	**-**	**-**	**-**	**31**
(appointed 17 November 2021)	FY21	-	-	-	-	-
Helena Feltham	**FY22**	**37**	**-**	**-**	**-**	**37**
(appointed 7 July 2021)	FY21	-	-	-	-	-
Jon Kempster	**FY22**	**49**	**-**	**-**	**-**	**49**
	FY21	45	-	-	-	45
Former Directors						
Ian Johnson	**FY22**	**54**	**-**	**-**	**-**	**54**
(resigned 17 November 2021)	FY21	85	-	-	-	85
Dean Barber	**FY22**	**-**	**-**	**-**	**-**	**-**
(appointed 2 September 2019, resigned 3 April 2020)	FY21	4	-	-	-	4
Stephen Vaughan	**FY22**	**11**	**-**	**-**	**-**	**11**
(resigned 17 April 2021)	FY21	45	-	-	-	45
Total	**FY22**	**690**	**-**	**23**	**625**	**1,338**
	FY21	625	230	17	244	1,116

[4] On 23 November 2021 Peter Brotherton exercised options over 298,879 ordinary shares of 0.1p each at a price of £1.24 resulting in a gain of £370,493. The share-based payments charge for the year includes £149,996 in relation to an allotment of shares to Peter Brotherton. The allotment was made for over achievement against bonus targets in the financial year ended 31 March 2021 and the allotted shares cannot be sold for a period of 2 years from issue.

[5] On 23 November 2021 David Senior exercised options over 20,000 ordinary shares of 0.1p each at a price of £1.24 resulting in a gain of £24,792. The share-based payments charge for the year includes £79,950 in relation to an allotment of shares to David Senior. The allotment was made for over achievement against bonus targets in the financial year ended 31 March 2021 and the allotted shares cannot be sold for a period of 2 years from issue.

Annual report on remuneration (continued)

Executive Director's share options in the Company

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

		Exercise price (p)	Balance at 31 March 2021 (number of shares)	Granted (number of shares)	Forfeited / expired (number of shares)	Exercised (number of shares)	Balance at 31 March 2022 (number of shares)
Peter Brotherton	(a)	0.1	298,879	-	-	(298,879)	-
	(b)	0.1	379,267	-	-	-	379,267
	(d)	0.1	242,915	-	-	-	242,915
	(c)	0.1	-	554,326	-	-	554,326
	(f)	99.9	-	18,023	-	-	18,023
			921,061	572,349	-	(298,879)	1,194,531
David Senior	(c)	0.1	20,000	-	-	(20,000)	-
	(b)	0.1	100,000	-	-	-	100,000
	(d)	0.1	129,555	-	-	-	129,555
	(e)	0.1	-	312,296	-	-	312,296
			249,555	312,296	-	(20,000)	541,851

(a) The options were granted on 26 November 2018 under the Company's LTIP. The options vested post the release of the Group's results for FY21 subject to the achievement of performance conditions related to the growth in earnings per share and were exercised on 23 November 2021.

(b) The options were granted on 28 June 2019 under the Company's LTIP. The options will vest post the release of the Group's results for FY22 subject to the achievement of performance conditions related to the growth in share price.

(c) The options were granted on 27 June 2018 under the Company's LTIP. The options vested post the release of the Group's results for FY21 subject to the achievement of performance conditions related to the growth in earnings per share and were exercised on 23 November 2021.

(d) The options were granted on 8 December 2020 under the Company's LTIP. The options will vest post the release of the Group's results for FY23 subject to the achievement of performance conditions related to the growth in share price.

(e) The options were granted on 18 November 2021 under the Company's LTIP. The options will vest three years from grant subject to absolute TSR targets. For awards up to 100% of salary, 25% will vest for TSR of 5% p.a. increasing pro-rata to 100% vesting for TSR of 10% p.a. For awards between 100% and 200% of salary, 0% will vest for TSR of 10% p.a. increasing pro-rata to 100% vesting for TSR of 15% p.a.

(f) The options were granted on 23 December 2021 under the SAYE option plan under which employees contribute a monthly amount which is saved over three years to buy shares. The options are exercisable from 1 February 2025. There are no performance conditions.

Annual report on remuneration (continued)

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 at 31 March 2022	Interests in ordinary shares at 31 March 2021	**Interests in share-based incentive options at 31 March 2022**	Interests in share-based incentive options at 31 March 2021
Executive				
Peter Brotherton	**438,571**	228,571	**1,194,531**	921,061
David Senior	**56,550**	14,550	**541,851**	249,555
Non-Executive				
Nick Bate	-	-	-	-
Helena Feltham	-	-	-	-
Jon Kempster	**10,249**	-	-	-

Relative importance of spend on pay

The table below shows the Group's expenditure on shareholder distributions (including dividends) and total employee pay expenditure. Additional information on the number of employees, total revenue and underlying profit has been provided for context.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	Change %
Employee expenditure	**22,851**	21,210	7.7%
Distributions to shareholders	**5,627**	1,868	201.2%
Average number of employees	**486**	420	15.7%
Revenue	**93,328**	91,399	2.1%
Adjusted EBITDA (restated[1])	**23,713**	24,579	(3.5%)

[1]For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 34.

Share price

The market price of the Company's shares on 31 March 2022 was 113.25p per share. The highest and lowest market prices during the year were 147p and 108.75p respectively.

Helena Feltham
Chair of the Remuneration Committee
21 July 2022

Directors' report

The Directors present their annual report together with the audited financial statements for FY22.

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 4-39 contains a review of the business, future developments and the principal risks and uncertainties.

Dividends

An interim dividend of 1.2p per ordinary share was paid in January 2022. Following good trading performance and strong cash generation, the Board has decided to maintain its dividend policy. The Directors will therefore be recommending the payment of a final dividend of 2.4p per share in respect of FY22 to shareholders which, if approved at the AGM, will be paid on 16 September 2022 to shareholders on the register at the close of business on 29 July 2022. With the shares going ex-dividend on 28 July 2022. The last day for Dividend Reinvestment Plan elections is 19 August 2022.

Substantial shareholders

As at 31 March 2022 and 30 June 2022 (being the latest practicable date before the publication of this report) the Company had been notified of the following significant interests in 3% or more in its ordinary shares:

	31 March 2022 Number	31 March 2022 %	30 June 2022 Number	31 June 2022 %
Kestrel Investment Partners	28,641,651	18.50%	29,106,076	18.80%
ND Capital Investments Ltd	24,840,868	16.04%	24,840,868	16.04%
Lombard Odier Asset Management	23,108,945	14.93%	23,214,575	14.99%
Slater Investments	18,587,657	12.01%	18,587,657	12.00%
Harwood Capital	16,996,500	10.98%	17,084,000	11.03%
Chelverton Asset Management	9,000,000	5.81%	8,845,000	5.71%
Artemis Investment Management	4,838,447	3.13%	4,838,447	3.12%

As of 30 June 2022, the Company's issued share capital is 154,838,973 ordinary shares.

Directors and their interests

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

- Ian Johnson (resigned 17 November 2021)
- Nick Bate (appointed 17 November 2021)
- Peter Brotherton
- David Senior
- Jon Kempster
- Stephen Vaughan (resigned 27 April 2021)
- Helena Feltham (appointed 7 July 2021)

Directors' report (continued)

Details of Directors' remuneration, service agreements and interests in the share capital of the Company are provided in the Directors' Remuneration Report on pages 54-60. Details of the Directors' contracts, remuneration and share options granted are also set out in the Annual report on remuneration, on pages 54-60.

Relevant Directors will retire in accordance with the terms of the Articles of Association of the Company and, being eligible, will offer themselves for re-election at the forthcoming AGM.

Directors' indemnities and liability insurance

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.

Employees

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 colleagues with information on matters of concern to them (including through Group-wide announcements and all employee calls), consulting them or their representatives regularly (including through colleague forums, roadshows, the Company's newsletter and the colleague survey), so that their views can be considered when making decisions that are likely to affect their interests. Colleague involvement in the Group's performance is encouraged (including through employee share schemes such as the SAYE), as achieving a common awareness on the part of all colleagues of the financial and economic factors affecting the Group plays a major role in maintaining its relationship with its employees.

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all colleagues, 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.

For further information on our colleagues see pages 33 to 36 of our Corporate Responsibility statement.

Going concern

The Group's activities and an outline of the developments taking place in relation to its services and marketplace are considered in the strategic report on pages 4 to 39. A commentary on the revenue, trading results and cash flows is provided in the financial review on pages 12 to 20.

Note 3 to the financial statements sets out the Group's financial risks. The Group is forecast to be profitable and is cash generative with high and continuing levels of recurring revenue and high levels of cash conversion expected for the foreseeable future.

The consolidated financial statements have been prepared and approved by the Directors in accordance with applicable law and UK-adopted international accounting standards.

The financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of twelve months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides on the operations and its financial resources, the Group and the Company will have sufficient funds to meet its liabilities as they fall due for that period, and will comply with its debt covenants over that period.

The Directors' forecasts have been built from the detailed Board approved budget for the year ending 31 March 2023, and draft budget for 31 March 2024. The forecasts include a number of assumptions in relation to order intake, renewal and churn rates, EBITDA margin improvements and the impact of post year end acquisitions.

Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. These risks include, but are not limited to, achieving forecast levels of order intake, the impact on customer confidence as a result of general economic conditions, inflationary pressures and the achievability of actions the Directors consider they would take should further risks materialise. In making their going concern assessment in light of these risks, the Directors have also modelled a severe but plausible downside scenario when preparing the forecasts.

The downside scenario assumes significant economic downturn over FY23, impacting new order intake alongside cost inflation, supply chain delays and loss of a key customer. In this scenario, recurring monthly order intake is forecast to reduce by 25% compared to base case budget and product

Directors' report (continued)

and services revenues reduce by 19% compared to base case budget incorporating both potential supply chain issues and reduced investment from our customer base. Under the downside scenario modelled, the forecasts demonstrate that the Group is expected to maintain sufficient liquidity and will continue to comply with the relevant debt covenants after management have taken the mitigating actions which are within the Group's control including delaying any potential FY23 interim dividend and the rephasing of discretionary capital expenditure. The Directors therefore remain confident that the Group has adequate resources to continue to meet its liabilities as and when they fall due within the period of at least twelve months from the date this Report.

Purchase of own shares

The authority to make purchases of the Company's shares on its behalf was given by resolution of the shareholders at the Company's 2019 and 2020 AGM, and in September 2019 the Company announced that it had approved a share buyback programme of the Company's ordinary shares for an aggregate purchase price of up to £2million (the "Programme"). The Company announced shortly after the end of FY20 that the Programme would be temporarily halted until such time as the outlook around COVID-19 became more certain and in November 2020, in the announcement of its audited results for the six months to 30 September 2020, the Company announced that it would reinstate the Programme. During the year the Company recommenced the Programme and obtained approval from the Board to increase the aggregate consideration payable under the Programme to £5 million in total. As a result, 2,160,500 shares with a nominal value of 0.1p each were repurchased during the year for a total consideration of £2.7m. Several share options exercised during the year were settled using treasury shares meaning the number of shares held in treasury at 31 March 2022 was 2,170,203.

Annual General Meeting

The 2022 AGM will be held at the offices of finnCap plc at 1 Bartholomew Close, London EC1A 7BL at 12:30 on 7 September 2022. The notice convening the AGM and what shareholders should do to register their intention to attend and/or vote by proxy are contained in a separate circular to shareholders and on the Group's website at www.redcentricplc.com/investors/shareholder-documents .

Corporate governance

The Group's statement on corporate governance can be found in the Corporate Governance section of this Report and forms part of this Directors' Report and is incorporated by reference.

The Group's financial risk management objectives and policies are described in note 3 to the financial statements.

Disclosure of information to the auditor

The Directors of the Company at the date of approval of these financial statements confirm, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. The Directors have individually confirmed that they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Subsequent events

Subsequent to the year end, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. The New Facility consists of an £80m RCF and a £20m accordion facility and provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland and Silicon Valley Bank. The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years. The borrowing cost of the RCF is determined by the level of the Group's leverage and has a borrowing cost of 175 basis points over SONIA at the Group's current leverage levels. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The Group is required to comply with financial covenants for adjusted leverage (net debt[2] to adjusted EBITDA[2]), cashflow cover (adjusted cashflow to debt service, where adjusted cashflow is defined as adjusted EBITDA[2] less tax paid, dividend payments, IFRS16 lease repayments and cash capital expenditure) and provisions relating to guarantor coverage such that guarantors must exceed a prescribed threshold of the Group's gross assets, revenue and Adjusted EBITDA[2]. Covenants are tested quarterly each year. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy.

On 7 June 2022, RSL acquired the consulting business of Sungard AS for £4.2m consideration in cash. On 27 June 2022, RSL acquired the entire issued share capital of 4D for £10.5m consideration paid in cash. On 6 July 2022, RSL completed the acquisition of Sungard DCs for an initial consideration of £10.12m. Further details of these acquisitions can be found at note 35.

Directors' report (continued)

The Group is undertaking an exercise to establish the fair value of the net assets acquired in each of these post year end acquisitions. However, due to the timing of the acquisitions this exercise is ongoing and it is not possible to provide further detail at this stage.

On 8 July 2022 the Group settled a supplier dispute resulting in the payment of contract termination fees (£0.4m) and legal fees (£0.1m) which will be accounted for as exceptional items in FY23.

[2]For an explanation of the alternative performance measures used in this report, please refer to pages 22-25.

By order of the Board

Harn Jagpal
Company Secretary
21 July 2022

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

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

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

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

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

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

By order of the Board

Harn Jagpal
Company Secretary
21 July 2022

TRANSFORMING AND MANAGING

Your mission-critical IT infrastructure

KEEPING
20,000
customer
SITES
CONNECTED

PROVIDING
ASSURANCE
TO 100s
OF ORGANISATIONS
across 1,500 racks

SECURELY
CONNECTING
30,000
remote workers

ENABLING
97,000
USERS TO
COMMUNICATE
and collaborate

HELPING OVER
400
ORGANISATIONS
confidently move
TO THE CLOUD

• TRUSTED PARTNER •

to over 1,500 public and private sector organisations, providing all their cloud, connectivity, communication and cyber security needs.

WITH SOLUTIONS DELIVERED ACROSS OUR OWN:

100GB network

• • • •

Voice and IaaS platforms

• • • •

Multiple UK-based Tier 3 designed data centres

SUPPORTED BY OUR OWN:

24/7 Network and Security Operations Centre

• • • •

UK-based support team

• • • •

Highly skilled and accredited teams, based in our offices throughout the UK

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 31 March 2022 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 1 to both the consolidated financial statements and company financial statements.

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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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	£755,000 (2021: £731,000) 0.8% (2021: 0.8%) of Group revenue
Coverage	93.7% (2021: 99%) of total profits and losses that make up Group profit before tax

Key audit matters		vs 2021
Recurring risks	**New:** Revenue recognition	◀▶
	Recoverability of parent Company's investment in subsidiaries	◀▶
Event driven	**New:** Identification and valuation of intangible assets acquired in business combinations	▲

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

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

Independent auditor's report

to the members of Redcentric plc (continued)

The risk		Our response
Revenue recognition (£93.3 million; 2021: £91.4 million) Refer to pages 83 & 84 (*accounting policy*) and page 92 (*financial disclosures*)	**Inappropriate revenue recognition as a result of fraud, and the impact on resulting accrued and deferred income** We have assessed the level of risk to be consistent with the prior period, however given the removal of going concern and credit note provision as key audit matters, the audit effort over this risk has increased relative to others. We have identified incentives/pressures on management to achieve bonus targets and/or investor expectations which increase the risk of fraudulent revenue recognition. Results for any given financial reporting period are expected to be affected by the revenue recognition policies in place for each revenue stream and the accurate accrual and deferral of related amounts at the year-end. There is a risk that amounts recorded in revenue in the year could be subject to manipulation. Additionally, for each of the Group's revenue streams there are manual aspects of the revenue recognition process, particularly relating to the accrual and deferral of revenue amounts at the year end. There is a resulting risk that revenue transactions around the year-end might be fraudulently recorded, such that revenue is not recognised in line with relevant accounting standards, and in particular that accrued income recorded at the year end does not exist and deferred income is incomplete.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls. Our procedures included: • **Substantive analytical procedure:** we performed a revenue predictive analysis, forming an expectation of the Group's total revenue with reference to cash receipts in the year, adjusting for working capital, accrued and deferred income and other expected adjustments and compared this to the amount of revenue recognised in the year. • **Tests of detail:** - for a sample of revenue transactions recognised one month either side of the balance sheet date, we assessed whether revenue was recognised in the appropriate period by comparing to supporting documentation such as invoices, correspondence with customers, and contracts; - for a sample of credit notes raised in the month after the balance sheet date, we assessed whether the credit note related to revenue recognised in the year and if this was indicative of inappropriate revenue recognition through inquiry and inspection of source documentation; - for a sample of customer balances, we assessed the appropriateness of deferred and accrued income at the year-end through inspection of contracts, invoices, customer confirmations and recalculations; - Given the substantive analytical procedure above was performed by reference to cash receipts in the year, we assessed the year-end bank reconciliations, and obtained bank confirmations to obtain audit evidence over the Group's cash balance and to assess the appropriateness of any significant reconciling items as such items may be indicative of inappropriate revenue recognition; and - For unexpected revenue journal postings (where the opposite side of the journal was posted to an account which would not be expected based on our understanding of business processes and transaction flows), we assessed the nature of the posting and obtained supporting documentation where available. • **Enquiry of customers:** for a sample of the Group's customers, we issued customer confirmation requests to corroborate the year-end accrued income balance directly with the customer. • **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of revenue disaggregation by product/service line and timing of revenue recognition.

Independent auditor's report

to the members of Redcentric plc (continued)

The risk		Our response
Identification and valuation of intangible assets acquired in business combinations (Valuation of intangible assets acquired (£10.7m including goodwill) in respect of the Piksel Industry Solutions business combination) Refer to page 52 (*Audit Committee Report*), page 86 (*accounting policy*) and pages 116-118 (*financial disclosures*).	**Subjective estimate and valuation** During the year the Group completed the acquisition of Piksel Industry Solutions Limited. This was a material acquisition for the Group, with total consideration of £12.7m. The Group has performed fair value assessments of the identified acquired intangible assets. The identification of acquired intangible assets involves judgement and the assessment of the fair value of intangible assets acquired involves estimation uncertainty, including forecasting future performance on a market participant basis. There is a high degree of subjectivity in assessing certain assumptions applied by the Group in the discounted cash flow models used to calculate the acquisition date fair value of these assets, including discount rate, royalty rates and customer growth and attrition rates. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the identified acquired intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Test of detail:** we inspected the share purchase agreement, due diligence documents, board minutes and market announcements and assessed whether Group's acquisition workings accurately reflected these and additionally compared the intangibles identified by management to our understanding of the rationale for the purchase based on our inspection of these documents. • **Assessment of experts:** we assessed the competence, capabilities and objectivity of the external valuation experts engaged by the Group to assist in estimating the fair value of material intangible assets acquired by performing independent research on the qualifications and experience of management's expert and evaluating the engagement terms. • **Our valuation expertise:** we involved our own valuation specialists to assist us in assessing completeness of the intangible assets identified, the appropriateness of valuation methodologies applied, and to challenge on key assumptions used such as discount rate, useful economic life estimates, royalty rate, contributory asset charges, attrition rate and terminal growth rate. We challenged the approach to contributory asset charges determination and discount rate selection through an independent recalculation. • **Benchmarking assumptions:** we challenged the discount rate and terminal growth rate by comparing to externally derived market data. • **Assessing transparency:** we considered the adequacy of the Group's disclosures in respect of the business combination and the valuation of the identified intangible assets.

Independent auditor's report

to the members of Redcentric plc (continued)

The risk		Our response
Recoverability of parent Company's investment in subsidiaries (£104.1 million; 2021: £103.0 million) Refer to page 125 (*accounting policy*) and page 127 (*financial disclosures*).	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries represents 100% (2021: 100%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: - **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. - **Test of detail:** Comparing the carrying amount of investments with an estimate of value in use based on forecast future cashflows. - **Benchmarking assumptions:** Challenging the Group's assumptions in relation to key inputs to the value in use assessment such as projected growth and discount rates to externally derived data. - **Comparing valuations:** We compared the carrying amount of the Parent Company's investments to the Group's market capitalisation.

We continue to perform procedures over going concern. However, as the risks relating to Covid-19 have reduced year on year and the Group completed its refinancing exercise in April 2022, we have not assessed going concern as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Additionally, we continue to perform procedures over the provision for credit notes. However, following continued improvements in the rate of billing errors and a corresponding reduction in estimation uncertainty, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it also is not separately identified in our report this year.

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 £755,000 (2021: £731,000), determined with reference to a benchmark of total revenue of £93.3 million (2021: £91.4 million), of which it represents 0.8% (2021: 0.8%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax, and is reflective of the size and complexity of the Group.

Materiality for the parent Company financial statements as a whole was set at £514,000 (2021: £517,000), determined with reference to a benchmark of parent Company total assets, of which it represents 0.5% (2021: 0.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £490,000 (2021: £475,150) for the Group and £334,000 (2021: £336,050) for the parent Company. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £37,750 (2021: £36,550), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 6 (2021: 3) reporting components, we subjected 1 (2021: 2) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

For the residual 5 (2021: 1) components, 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 the 1 (2021: 2) component, and the audit of the parent Company, was performed by the Group team.

Component materiality was £612,000 (2021: component materialities ranged from £517,000 to £579,500), having regard to the mix of size and risk profile of the Group across the components.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Independent auditor's report

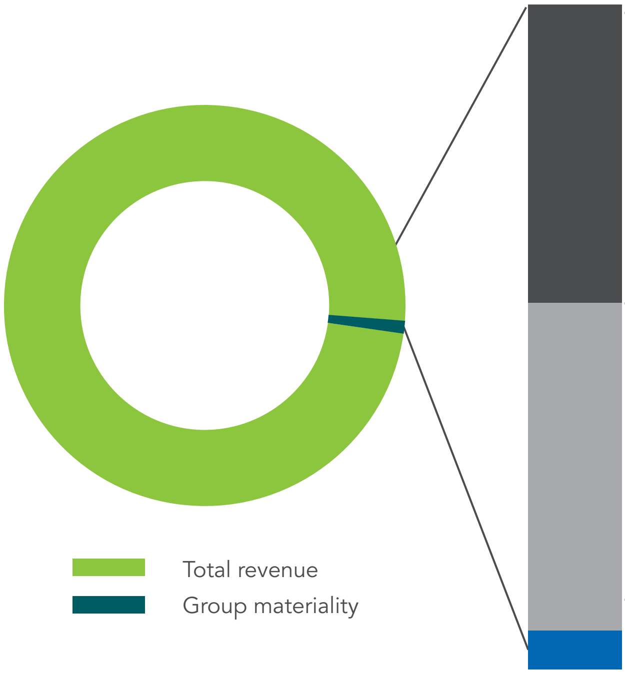
to the members of Redcentric plc (continued)

Total revenue

£93.3m (2021: £91.4m)

Group materiality

£755,000 (2021: £731,000)



£755,000
Whole financial statements materiality (2021: £731,000)

£490,000
Whole financial statements performance materiality (2021: £475,150)

£612,000
Materiality at 1 in scope component (2021: ranged from £517,000 to £579,500)

£37,750
Misstatements reported to the audit committee (2021: £36,550)

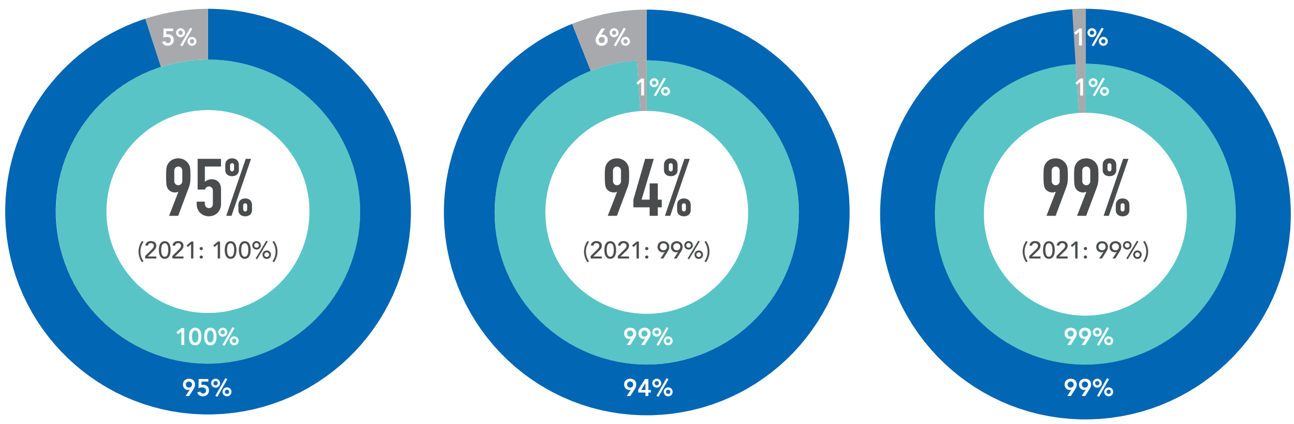
Total revenue

Group materiality

Group revenue

Total losses and profits that made up group profit before tax

Group total assets



Full scope for group audit purposes 2022

Full scope for group audit purposes 2021

Residual components

Independent auditor's report

to the members of Redcentric plc (continued)

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the parent Company or to cease their operations, and as they have concluded that the Group and the parent Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and parent Company's available financial resources and metrics relevant to debt covenants over this period were:

- The level of external financing facilities available and the ability of the Group to operate within the liquidity and covenant parameters of these financing facilities;
- The impact of reduced customer demand and the risk of credit losses and/or customer attrition resulting from macro-economic pressures on the Group's customers such as cost inflation; and
- The achievability of actions the directors consider they would take to improve the position should risks materialise, taking into account the extent to which the directors can control the timing and outcome of these.

We also considered less predictable but realistic second order impacts, such as the impact of supply chain disruption, the erosion of customer or supplier confidence, and outcomes of contingent matters disclosed in Notes 9 and 36 which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and the Audit Committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud , as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, and Remuneration Committee minutes;
- Considering remuneration incentive schemes and performance targets for management; and
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

Independent auditor's report

to the members of Redcentric plc (continued)

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that Group management may be in a position to make inappropriate accounting entries; and the risk that revenue is overstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those journals with unexpected account pairings or posted to unusual accounts;
- Assessing if any bias is present in significant management judgements in relation to cloud computing implementation, customisation and configuration costs;
- Assessing significant accounting estimates for bias;
- Evaluating the business purpose for significant unusual transactions; and
- Performing procedures over revenue recognition as disclosed in section 2 of this report.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, employment law, data protection regulations, environmental protection legislation and contract legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report

to the members of Redcentric plc (continued)

6. 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.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 65, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

9. 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.

Christopher Vaulks (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
21 July 2022

Consolidated statement of comprehensive income

for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated[1]) £000
Revenue	6	**93,328**	91,399
Cost of sales		**(33,778)**	(33,460)
Gross Profit		**59,550**	57,939
Operating expenditure		**(53,046)**	(49,664)
Other operating income	7	**103**	4,507
Adjusted EBITDA[2]		**23,713**	24,579
Depreciation of property, plant and equipment	16	**(2,745)**	(3,408)
Amortisation of intangibles	15	**(6,973)**	(6,922)
Depreciation of right of use assets	17	**(4,578)**	(4,932)
Exceptional items	9	**(1,629)**	4,152
Share-based payments	28	**(1,181)**	(687)
Operating profit		**6,607**	12,782
Finance income	10	**-**	-
Finance costs	10	**(1,071)**	(1,460)
Profit before taxation		**5,536**	11,322
Income tax credit/(expense)	12	**1,404**	(2,311)
Profit for the period attributable to owners of the parent		**6,940**	9,011
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(26)**	103
Deferred tax movement on share options		**58**	(224)
Total comprehensive profit for the period		**6,972**	8,890
Earnings per share			
Basic earnings per share	13	**4.43p**	5.87p
Diluted earnings per share	13	**4.36p**	5.79p

The notes on pages 82 to 122 are an integral part of these consolidated financial statements.

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs.

[2] For an explanation and reconciliation of the alternative performance measures used in this report, please refer to page 22.

Consolidated statement of financial position

as at 31 March 2022

	Note	31 March 2022 £000	31 March 2021 (restated[1]) £000	31 March 2020 (restated[1]) £000
Non-Current assets				
Intangible assets	15	**67,726**	61,280	68,415
Property, plant and equipment	16	**5,372**	5,834	8,475
Right-of-use assets	17	**17,038**	18,787	26,010
Deferred tax asset	18	**3,999**	1,403	2,324
		94,135	87,304	105,224
Current assets				
Inventories	19	**1,393**	1,061	891
Trade and other receivables	20	**22,123**	25,663	23,261
Corporation tax receivable		**-**	-	346
Cash and cash equivalents		**1,804**	5,250	3,710
		25,320	31,974	28,208
Total assets		**119,455**	119,278	133,432
Current liabilities				
Trade and other payables	22	**(24,053)**	(22,459)	(24,311)
Corporation tax payable		**(800)**	(641)	-
Bank and term loans	24	**(508)**	(487)	(12,598)
Leases liabilities	24	**(4,086)**	(3,735)	(3,528)
Provisions	26	**-**	(574)	(12,122)
Contingent consideration	23	**(422)**	-	-
		(29,869)	(27,896)	(52,559)
Non-current liabilities				
Deferred tax liability		**-**	-	-
Bank and term loans	24	**(496)**	(1,004)	(36)
Lease liabilities	24	**(13,359)**	(15,593)	(22,097)
Provisions	26	**(3,883)**	(2,695)	(2,531)
		(17,738)	(19,292)	(24,664)
Total liabilities		**(47,607)**	(47,188)	(77,223)
Net assets		**71,848**	72,090	56,209
Equity				
Called up share capital	27	**157**	156	149
Share premium account	27	**73,267**	73,267	65,734
Common control reserve		**(9,454)**	(9,454)	(9,454)
Own shares held in treasury	27	**(2,673)**	(32)	(724)
Retained earnings		**10,551**	8,153	504
Total Equity		**71,848**	72,090	56,209

The notes on pages 82 to 122 are an integral part of these consolidated financial statements.

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs.

The financial statements of Redcentric Plc (Registration Number 08397584) on pages 77 to 80, and the notes to these financial statements on pages 82 to 122 were approved by the Board on 21 July 2022 and are signed on its behalf by:

David Senior
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated[1]) £000
Profit before taxation		**5,536**	11,322
Finance costs	10	**1,071**	1,460
Operating profit		**6,607**	12,782
Adjustment for non-cash items			
Depreciation and amortisation	15,16,17	**14,296**	15,262
Exceptional items	9	**1,629**	(4,152)
Share-based payments	28	**1,181**	687
Operating cash flow before exceptional items and movements in working capital		**23,713**	24,579
Transfer from intangible assets to cost of sales		**140**	-
Non-cash provision movements		**(577)**	-
Cash costs of exceptional items	9	**(2,091)**	(9,514)
Operating cash flow before changes in working capital		**21,185**	15,065
Changes in working capital			
Increase in inventories		**(185)**	(15)
Decrease in trade and other receivables		**559**	4,433
Decrease in trade and other payables		**(4,391)**	(2,537)
Cash generated from operations		**17,168**	16,946
Tax received/(paid)		**246**	(149)
Net cash generated from operating activities		**17,414**	16,797
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,264)**	(1,541)
Disposal of non-core contracts	7	**5,750**	-
Acquisition of subsidiaries (net of cash acquired)		**(10,422)**	-
Purchase of intangible fixed assets		**(501)**	(767)
Net cash used in investing activities		**(7,437)**	(2,308)
Cash flows from financing activities			
Dividends paid	14	**(5,627)**	(1,868)
Share buy back	27	**(2,666)**	-
Disposal of treasury shares on exercise of share options		**-**	494
Cash received on exercise of share options		**12**	36
Sale and leaseback		**-**	1,036
Interest paid		**(936)**	(1,415)
Repayment of leases	24	**(3,745)**	(4,325)
Repayment of term loans	24	**(487)**	(156)
Drawdown of borrowings	24	**4,500**	7,000
Repayment of borrowings	24	**(4,500)**	(19,500)
Issue of shares		**1**	5,775
Net cash used in financing activities		**(13,448)**	(12,923)
Net (decrease)/increase in cash and cash equivalents		**(3,471)**	1,566
Cash and cash equivalents at beginning of period		**5,250**	3,710
Effect of exchange rates		**25**	(26)
Cash and cash equivalents at end of the period		**1,804**	5,250

The notes on pages 82 to 122 are an integral part of these consolidated financial statements.

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs.

Consolidated statement of changes in equity

for the year ended 31 March 2022

	Share Capital £000	Share Premium £000	Common Control Reserve £000	Own Shares Held in Treasury £000	Retained Earnings £000	Total Equity £000
At 31 March 2020 – as previously reported	149	65,734	(9,454)	(724)	4,096	59,801
Prior year restatement[1]	-	-	-	-	(3,592)	(3,592)
1 April 2020 – (restated[1])	149	65,734	(9,454)	(724)	504	56,209
Profit for the period (restated[1])	-	-	-	-	9,011	9,011
Transactions with owners						
Share-based payments	-	-	-	-	582	582
Issue of new shares	7	7,533	-	-	-	7,540
Dividends paid (note 14)	-	-	-	-	(1,868)	(1,868)
Share option exercises	-	-	-	692	(198)	494
Other comprehensive income						
Deferred tax movement on share options	-	-	-	-	224	224
Currency translation differences	-	-	-	-	(103)	(103)
At 31 March 2021 (restated[1])	156	73,267	(9,454)	(32)	8,153	72,090
At 31 March 2021 – as previously reported	156	73,267	(9,454)	(32)	11,960	75,897
Prior year restatement	-	-	-	-	(3,807)	(3,807)
At 1 April 2021 (restated[1])	156	73,267	(9,454)	(32)	8,153	72,090
Profit for the period	-	-	-	-	6,940	6,940
Transactions with owners						
Share-based payments	-	-	-	-	1,067	1,067
Share buyback (note 27)	-	-	-	(2,666)	-	(2,666)
Issue of new shares	1	-	-	-	-	1
Dividends paid (note 14)	-	-	-	-	(5,627)	(5,627)
Share option exercises	-	-	-	25	(14)	11
Other comprehensive income						
Deferred tax movement on share options	-	-	-	-	58	58
Currency translation differences	-	-	-	-	(26)	(26)
At 31 March 2022	**157**	**73,267**	**(9,454)**	**(2,673)**	**10,551**	**71,848**

The notes on pages 82 to 122 are an integral part of these consolidated financial statements.

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs.

“Redcentric is a name we can trust, and a name our NHS customers trust. You bring in a great service, and a great team behind that as well.”

FUJIFILM
Value from Innovation

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

1 Summary of significant accounting policies

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently in the current and prior period, within the exception of the changes in accounting policy following the IFRIC agenda decision of April 2021 in relation to costs incurred on cloud computing configuration and implementation costs (see note 34).

These financial statements are presented in pound sterling, being the currency of the primary economic environment in which the Group operates.

The financial statements are prepared on the historical cost basis except that contingent consideration is measured at fair value.

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with applicable law and UK-adopted international accounting standards.

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides on the operations and its financial resources, the Group and the Company will have sufficient funds to meet its liabilities as they fall due for that period, and will comply with its debt covenants over that period.

The Directors' forecasts have been built from the detailed Board approved budget for the year ending 31 March 2023, and draft budget for 31 March 2024. The forecasts include a number of assumptions in relation to order intake, renewal and churn rates, EBITDA margin improvements and the impact of post year end acquisitions.

Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. These risks include, but are not limited to, achieving forecast levels of order intake, the impact on customer confidence as a result of general economic conditions, inflationary pressures and the achievability of actions the directors consider they would take should further risks materialise. In making their going concern assessment in light of these risks, the Directors have also modelled a severe but plausible downside scenario when preparing the forecasts.

The downside scenario assumes significant economic downturn over FY23, impacting new order intake alongside cost inflation, supply chain delays and loss of a key customer. In this scenario, recurring monthly order intake is forecast to reduce by 25% compared to base case budget. Product and services revenues reduce by 19% compared to base case budget incorporating both potential supply chain issues and reduced investment from our customer base. Under the downside scenario modelled, the forecasts demonstrate that the Group is expected to maintain sufficient liquidity and will continue to comply with the relevant debt covenants after management have taken the mitigating actions which are within the Group's control including delaying any potential FY23 interim dividend and the rephasing of discretionary capital expenditure. The Directors therefore remain confident that the Group has adequate resources to continue to meet its liabilities as and when they fall due within the period of at least 12 months from the date this report.

1.2 Changes In accounting policy and disclosure

Adopted IFRS not yet applied

There are no new standards, amendments to existing standards or interpretations that are not yet effective that are expected to have a material impact on the Group. Such developments are routinely reviewed by the Group and its financial reporting systems are adapted as appropriate.

Application of IFRIC agenda decision

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision clarifying the accounting treatment of costs incurred in relation to the customisation and configuration of implementing Software-as-a-Service (SaaS) cloud computing arrangements:

- Amounts paid to the cloud vendor for configuration and customisation costs incurred that are not distinct from access to the cloud software are expensed over the SaaS contract term
- In limited circumstances, some configuration and customisation costs incurred in relation to SaaS arrangements may give rise to an identifiable intangible asset, for example where code is created and controlled by the entity.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

- In all other instances, customisation and configuration costs will be expensed as the related services are received.

Following this publication, the Group reviewed the accounting treatment applied to applicable arrangements taking into account factors such as the nature and terms of the relevant arrangements, ownership of intellectual property rights, the ability to restrict access of others, the ability to remove software applications from the cloud and run them independently, and the ability to determine when and how frequently updates are applied.

See notes 15 and 34 for further details.

1.3 Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 March 2022.

Subsidiaries are all 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 of accounting to account for business combinations. The acquisition date is defined as the date on which control is transferred to the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value 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 acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the separable identifiable net assets acquired and liabilities incurred or assumed at the acquisition date is recorded as purchased goodwill. Provision is made for any impairment. Accounting policies previously applied by acquired subsidiaries are changed as necessary to comply with accounting policies adopted by the Group.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on consolidation.

1.4 Segmental reporting

IFRS 8 requires operating segments to be identified based on internal financial information reported to the chief operating decision-maker for decision-making purposes. The Group considers that this role is performed by the main Board. The Board believes that the Group continues to comprise a single reporting segment, being the provision of managed services to customers.

1.5 Revenue recognition

IFRS 15 'Revenue from contracts with customers' requires "performance obligations" to be identified at the inception of the contract for each of the distinct goods or services that have been promised 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 satisfied and the related revenue recognition policy. The Group does not consider that there are any significant judgements made in concluding when a customer obtains control of a promised good or service.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

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) to the customer as a one-off, distinct sale. Performance obligations are satisfied at the point in time that control passes to the customer.	Revenues for product sales are recognised in full in the income statement upon delivery to the customer. Amongst other factors the Group 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.

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 of the revenue recognition point are recognised as deferred income within trade and other payables and amounts billed in arrears are accrued income within trade and other receivables. Revenue expected to be recognised in future periods for performance obligations that are not complete (or partially complete) as at 31 March 2022 is £117m. Of this, £108m relates to revenue for recurring managed services. In comparison, revenue expected to be recognised in future periods for performance obligations that were not complete (or partially complete) as at 31 March 2021 was £123m. Of this, £119m related to revenue for recurring managed services. 30 days standard payment terms are offered to customers.

The Group pays commission to its sales teams for new contracts and renewals with the associated cost recognised over the life of the contract in accordance with IFRS15. Commission payments paid in advance are recognised as a contract assets in within trade and other receivables.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

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.

1.6 Exceptional items

Exceptional items are items of income and expense which are material and, due to their nature or size, are presented separately on the face of the income statement in order to provide an understanding of the Group's financial performance. Exceptional items are excluded from the Group's alternative performance measures (APMs), as defined on page 22, and are disclosed in detail in note 9. Amounts included in exceptional items may also represent true ups presented as exceptional in prior periods.

1.7 Share-based payments

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 costs of equity-settled transactions with employees are settled by Redcentric Solutions Limited on behalf of the parent Company and added to the cost of the investment in the parent Company.

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

1.8 Taxation

The taxation expense charged in the Group statement of comprehensive income represents the sum of the current tax expense and the deferred tax expense.

The current tax payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the Group statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group liability for current tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred 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

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

- 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 Foreign currencies

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

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

1.10 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 accrual's basis. The Group has no further payment obligations once contributions have been paid.

1.11 Business combinations

Business combinations are accounted for by applying the acquisition method at the accounting date, which is the date on which control is transferred to the Group. 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.

Where an acquisition involves a potential payment of contingent consideration the cost is estimated based on its acquisition date fair value and is included as part of the consideration transferred in a business combination. To estimate the fair value an assessment is made as to the amount of additional consideration that is likely to be paid with reference to the associated criteria. Where a change is made to the fair value of contingent consideration within the initial measurement period as a result of new or additional information that existed at the acquisition date the change is accounted for as a retrospective adjustment to goodwill. Any change as a result of events that occurred after the acquisition date then the adjustment is accounted for as a charge or credit to profit or loss. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Costs related to acquisitions, other than those associated with the issue of debt or equity securities, are expensed as incurred.

1.12 Subsidiaries

Subsidiaries are entities controlled by the Group. The Financial Statements of subsidiaries are included in the consolidated financial statements from the date that control is established to the date control ceases.

Control is achieved where the acquiring Company has the power to govern the financial and operating policies of an investee entity therefore obtaining benefits from its activities. Intercompany transactions and outstanding balances are eliminated on consolidation.

1.13 Intangible assets

a) 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.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

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.

b) Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and impairment losses.

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)
- ERP systems – 6 years

Impairment and amortisation charges are included within operating expenditure in the income statement.

c) Internally generated intangibles

Expenditure on software development is capitalised as an intangible asset only if it meets the recognition criteria set out in IAS 38 Intangible Assets, requiring it to be probable that the expenditure will generate future economic benefits and can be measured reliably. To meet these criteria, it is necessary to be able to demonstrate, among other things, the technical feasibility of completing the intangible asset so that it will be available for use or sale.

Development expenditure directed towards incremental improvements in existing products, remedial work and other maintenance activity does not qualify for recognition as an intangible asset.

1.14 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. 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 – 5 years
- Leasehold improvements – 15 years (or over the lease term if shorter)
- Vehicles and Computer Equipment – 3 – 5 years (or over the contract term if shorter)

For property, plant and equipment funded through leases, where there is reasonable certainty that the Group obtains ownership by the end of the lease term, depreciation is provided on a straight-line basis over the useful life, otherwise it's provided over the shorter of the useful life and the lease term.

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.

1.15 Impairment of property, plant and equipment, right of use assets and intangible assets excluding goodwill

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

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

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

1.16 Inventories and Cost of Sales

Inventories are stated at the lower of cost and net realisable value. Cost corresponds to purchase cost determined by the first in first out (FIFO) method. Provision is made, where necessary, for slow-moving, obsolete and defective inventories.

1.17 Leases

IFRS 16 has introduced a single on-balance sheet accounting model for lessees. When entering into a new contract, the Group assesses whether it is, or contains, a lease. A lease conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability. Depreciation is provided on a straight-line basis over the life of the lease, or the useful economic life if that is shorter.

Cost of the right-of-use asset consists of the initial lease liability plus any lease payments made to the lessor before the commencement date (less any lease incentives received), plus the initial estimate of restoration costs and any initial direct costs incurred by the lessee.

Obligations to restore the underlying asset to the condition required by the terms and conditions of the lease are recognised and measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and included in the related right-of-use asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and discounted using the interest rate implicit in the lease or, more typically, the Group's incremental borrowing rate (when the implicit rate cannot be readily determined).

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or changes in the Group's assessment of whether a purchase, extension or termination option is reasonably certain to be exercised.

The Group adopts recognition exemptions for short-term (less than 12 months) on property and low value on a lease by lease basis. The Group classifies payments of lease liabilities (principal and interest portions) as part of financing activities. Payments of short-term, low value and variable lease components are classified within operating activities.

1.18 Financial instruments

a) 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.

Trade receivables

Trade receivables are amounts due from customers for goods sold and services provided in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

In recognising any provision for impairment, the Group applies the IFRS 9 approach to measuring expected credit losses which uses a lifetime expected loss allowance for all assets held at amortised cost. The Group recognises a loss allowance for all expected credit losses on initial recognition of trade receivables.

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

Cash and cash equivalents

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

b) Financial liabilities

Trade payables

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

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

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.

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.

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

1.19 Supplier rebates

Supplier rebates are accounted for inline with the contractual terms and conditions attached to each agreement and only recognised once any associated performance criteria have been satisfied.

1.20 Dividends

Dividends payable to equity shareholders are included in the financial statements within 'other creditors' when a final dividend is approved by shareholders in a general meeting. Interim dividends to equity shareholders approved by the board during the financial year are not included in the financial statements until paid.

1.21 Research and Development costs

Expenditure on research activities is recognised in the Income Statement as an expense as incurred. Expenditure on development activities is capitalised as "development costs" if the product or process is technically and commercially feasible, if the Group has the technical ability and sufficient resources to complete development, if future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.

2 Critical accounting judgements and key sources of estimation uncertainty

Judgements

Information regarding critical accounting judgements made in applying the accounting policies that have the most significant effects on the values recognised in the Group financial statements are as follows:

Intangible assets relating to cloud customisation and configuration costs

Judgement is required in assessing whether the Group has control over the resources defined in the arrangement when costs are incurred in relation to implementation, customisation and configuration costs as part of a cloud based service agreement.

Management has considered the IFRS Interpretations Committee (IFRIC) agenda decision of April 2021 which clarified the accounting treatment in relation to these costs. As a result of the adoption of this guidance a prior year restatement has been made as detailed in notes 15 and 34.

Estimates

Information about estimation uncertainties that have the greatest risk of resulting in a material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below:

Valuation of intangible assets and fair value adjustments on acquisition

As the Group continues with its acquisition strategy there is a requirement to fair value the assets and liabilities of any business acquired during the financial year. The measurement period will end when the Group receives the information it was seeking about the facts and circumstances that existed at the date of acquisition or learns that this information is not available. The measurement period cannot be longer than 12 months from the date of acquisition. The Group is required to identify, assess and value the intangible assets within the acquired business at the time of acquisition. When reviewing the existence of intangible assets consideration is required as to the potential intangible assets arising such as customer relationships.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

The estimation of the value of any potential identified intangible assets, such as customer relationships requires estimates of the expected future cashflows that will be derived from the existing relationships, and the associated useful life, with a suitable discount rate required to calculate the present value. The methods and assumptions included in determining the fair values of acquired intangibles are therefore complex and subject to estimation uncertainty. Details regarding the process applied in establishing the value of intangible assets and fair value adjustments on acquisitions completed in the year are detailed in note 32.

3 Financial risk management

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.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, 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 each specific risk area.

a) Foreign exchange risk

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

b) Cash flow interest rate 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 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 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.

c) Price risk

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

d) 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 and reviewed 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.

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.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

4 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 2022 was 0.0x (31 March 2021 – 0.0x).

The bank facilities referred to in Note 24 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 Board remains committed to maintaining the same level of dividend. A final dividend of 2.4p (£3.7m) has been recommended to the shareholders.

The Group grants share options to Directors and other selected employees. However, these do not have a significant impact on the Group's capital structure.

5 Segment reporting

IFRS 8 requires operating segments to be identified based on internal financial information reported to the chief operating decision-maker (CODM) for decision-making purposes. The Group considers that this role is performed by the main Board. The Board believes that the Group continues to comprise a single reporting segment, being the provision of managed services to customers. The CODM assesses profit performance principally through an adjusted EBITDA measure, as defined on page 15.

Whilst the Board reviews the Group's three revenue streams 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.

Non-current assets held outside the UK are immaterial (31 March 2021: immaterial).

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

6 Revenue

Revenue for the year ended 31 March 2022 was generated wholly from the UK and is analysed as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Recurring revenue	**82,965**	81,897
Product revenue	**6,187**	5,072
Services revenue	**4,176**	4,430
Total revenue	**93,328**	91,399

Revenue is analysed into the following categories:

- Recurring revenue, which was higher at £83.0m (FY21: £81.9m).
- Non-recurring product revenue, which was higher at £6.2m (FY21: £5.1m).
- Non-recurring services revenue which was lower at £4.2m (FY21: £4.4m).

6.1 Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contract with customers.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Receivables, included in trade and other receivables, net of provisions	**10,228**	9,164
Accrued income, included in trade and other receivables	**2,626**	1,999
Deferred income, included in trade and other payables	**(7,530)**	(7,471)

There were no material impairment losses recorded during the year or the prior year. Of the balances included at 31 March 2021 £8.3m is included within revenue in FY22.

£2.0m of the accrued income balance at 31 March 2021 is included in revenue in FY22 and £6.3m of deferred revenue at 31 March 2021 is recognised as revenue in FY22.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

7 Operating profit

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

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Amortisation of acquired intangible assets	**6,498**	6,252
Amortisation of intangible assets: owned	**475**	670
Depreciation: owned assets	**2,745**	3,408
Depreciation and Amortisation of ROU assets: Leased	**4,578**	4,932
Share-based payments	**1,181**	687
Net foreign exchange losses /(gains)	**74**	(52)
Expense in relation to short-term and low value leases not recognised under IFRS 16	**27**	31
Employee benefits expense, excluding share-based compensation	**21,670**	20,294
	37,248	36,222

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement following the Groups adoption of the IFRIC agenda decision on cloud computing implementation, configuration and customisation costs.

Operating income is broken down as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Other income	**103**	-
Proceeds from sale of non-core business unit	**-**	5,750
Disposal of goodwill	**-**	(1,185)
Other associated costs	**-**	(58)
	103	4,507

Other income in FY21 relate to amounts due on disposal of the non-core business contract (note 9). Full proceeds were received in FY22.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

8 Auditor's remuneration

Total fees payable by the Group during the year to KPMG LLP in respect of the audit and other services provided were as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Audit of these financial statements	**30**	25
Audit of Subsidiaries (including overseas subsidiaries)	**288**	226
Total audit	**318**	251
Tax compliance services	**3**	11
Tax advisory services	**1**	13
Services relating to taxation	**4**	24
Other non-audit services not covered above	**-**	3
Total non-audit services	**4**	27
Total fees	**322**	278

9 Exceptional items

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Included within administrative expenses:		
Employee restructuring	**159**	393
(Release)/addition of Insurance adviser provision including professional fees	**(483)**	610
Onerous service contracts	**-**	148
Circuit termination charges	**-**	4
Restitution provision	**-**	(2,172)
Lease modification	**(119)**	649
Business sale process	**70**	93
Profit upon sale of non-core business unit	**-**	(4,507)
Acquisition fees and integration costs	**971**	-
Historic Share warrant exercise	**310**	-
Legal fees related to the defence of an ongoing supplier dispute	**119**	-
Impairment of intangible assets	**205**	-
Cloud configuration and customisation costs	**397**	630
	1,629	(4,152)

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement following the Groups adoption of the IFRIC agenda decision on cloud computing implementation, configuration and customisation costs.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

9 Exceptional items (continued)

Employee restructuring costs relate to a rationalisation programme across various departments during the year as a result of efficiencies delivered through the continued integration of the Group's ERP system launched in FY21 and were cash costs in FY22 and FY21.

The insurance advisor provision costs in the prior year represent a provision booked for costs repayable on advisor fees in relation to the FCA Investigation which has been released in FY22 as repayment is not considered probable. Cash costs were £44k (FY21 - £17k).

The onerous service contract cost in the prior year relate to costs associated with third party service arrangements no longer utilised (or in the process of being ceased) by the business. This was a cash cost in FY22 of £47k (FY21 of £23k).

Circuit termination charges in the prior year relate to cancellation costs incurred on unused circuits / connections cancelled during the year, as part of the Group's network rationalisation review. This was non-cash in FY21.

The Restitution scheme provision in the prior year related to the provision released upon closure of the scheme. The scheme originally related to an estimate of the costs to settle with net purchasers of ordinary shares in the Company between 9 November 2015 and 7 November 2016 as agreed with the FCA. The cash cost in FY21 was £7.73m.

Lease modification costs represent legal and advisor fees incurred in relation to a new leasehold property in York prior to the lease being signed (£30k), residual costs incurred after the business terminated a lease in the prior year (£79k) and a credit relating to the early termination of the office lease in Hyderabad (£228k). This was a cash cost in FY22 of £109k (FY21 - £nil).

Business sale process costs were incurred as a result of the sales process during FY21. Cash costs were £70k in FY22 (FY21 - £721k).

Profit upon sale of non-core business unit in the prior year resulted from the sale of assets and knowhow for the provision of maintenance services to EDF nuclear power stations. The total consideration was £5.75m and was a received in cash in FY22 (no cash impact in FY21).

Acquisition and integration costs were incurred in relation to the purchase of Piksel Industry Solutions Limited and 7 Elements Limited during the year (note 32) and relate to legal and advisor fees and due diligence costs and other direct costs incurred in integrating the two businesses into the Group. Cash costs were £837k.

During the year options were exercised by Barclays Bank PLC over warrants with an exercise price of 36p, settled in cash, resulting in an expense of £310,000 (note 28). The warrants were issued on demerger in April 2013 for warrants previously held in Redstone PLC, and could have been 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 service business. Cash costs were £310k.

Legal fees related to the defence of a supplier dispute were charged by the Group's advisors during the year. Cash costs were £119k.

Cloud configuration and customisation costs relate to expenditure previously capitalised in relation to the Group's implementation and development of its ERP system (Microsoft Dynamics 365[1]) – this was a cash costs in both years.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

10 Finance income and costs

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Finance income		
Other interest receivable	**-**	-
Finance costs		
Interest payable on bank loans and overdrafts	**(81)**	(295)
Interest payable on leases	**(990)**	(1,165)
	(1,071)	(1,460)

Interest payable on leases includes £0.8m (FY21: £1.0m) of interest on leases previously classified as operating leases under IAS17.

11 Employees

The average monthly number of people (including Executive Directors) employed by the Group during the year was as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Operations	**346**	288
Selling and distribution	**79**	73
Administration	**61**	59
	486	420

Employee costs were:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Wages and salaries	**18,682**	17,440
Social security costs	**1,969**	1,819
Share options granted to Directors and employees	**1,181**	687
Pension costs	**848**	610
Payments in lieu of notice and redundancy not included within exceptional items	**12**	32
Payments in lieu of notice and redundancy included within exceptional items	**159**	393
	22,851	20,981

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

11 Employees (continued)

11.1 Key management compensation

Key management personnel are those persons having authority and responsibility for planning, controlling and directing the activities of the entity either directly, or indirectly. The following table details the compensation of key management personnel, being senior management that sit on the Operating Board of the Group along with exec and non-exec directors.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Basic salary, allowances, fees and other employment expenses	**1,878**	1,292
Bonus and other benefits	**306**	501
Share based payments	**593**	405
Pension costs	**63**	53
	2,840	2,251

11.2 Director's remuneration

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

	Basic salary, allowances, and fees £000	Bonus £000	Pension £000	Share-based payments £000	**FY22 Total £000**	FY21 Total £000
Executive						
Peter Brotherton[1]	328	-	15	520	**863**	672
David Senior[2] (appointed 3-Apr-20)	180	-	8	105	**293**	265
Dean Barber (resigned 3-Apr-20)	-	-	-	-	**-**	4
Non-Executive						
Ian Johnson (resigned 17-Nov-21)	54	-	-	-	**54**	85
Stephen Vaughan (resigned 27-Apr-21)	11	-	-	-	**11**	45
Jon Kempster	49	-	-	-	**49**	45
Nick Bate (appointed 17-Nov-21)	31	-	-	-	**31**	-
Helena Feltham (appointed 7-Jul-21)	37	-	-	-	**37**	-

[1] On 23 November 2021 Peter Brotherton exercised options over 298,879 ordinary shares of 0.1p each at a price of £1.24 resulting in a gain of £370,493. The share-based payments charge for the year includes £149,996 in relation to the gain from an allotment of shares to Peter Brotherton. The allotment was made for over achievement against bonus targets in the financial year ended 31 March 2021 and the allotted shares cannot be sold for a period of 2 years from issue.

[2] On 23 November 2021 David Senior exercised options over 20,000 ordinary shares of 0.1p each at a price of £1.24 resulting in a gain of £24,792. The share-based payments charge for the year includes £79,950 in relation to the gain from an allotment of shares to David Senior. The allotment was made for over achievement against bonus targets in the financial year ended 31 March 2021 and the allotted shares cannot be sold for a period of 2 years from Issue.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

11 Employees (continued)

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

		Exercise price (p)	Number of shares 31 March 2021	Number of shares granted	Number of shares Forfeited / expired	Number of shares exercised	Number of shares 31 March 2022
Peter Brotherton	(a)	0.1	298,879	-	-	(298,879)	-
	(b)	0.1	379,267	-	-	-	379,267
	(d)	0.1	242,915	-	-	-	242,915
	(e)	0.1	-	554,326	-	-	554,326
	(f)	99.9	-	18,023	-	-	18,023
			921,061	**572,349**	**-**	**(298,879)**	**1,194,531**
David Senior	(c)	0.1	20,000	-	-	(20,000)	-
	(b)	0.1	100,000	-	-	-	100,000
	(d)	0.1	129,555	-	-	-	129,555
	(e)	0.1	-	312,296	-	-	312,296
			249,555	**312,296**	**-**	**(20,000)**	**541,851**

(a) The options were granted on 26 November 2018 under the Company's LTIP. The options vested post the release of the Group's results for FY21 subject to the achievement of performance conditions related to the growth in earnings per share and were exercised on 23 November 2021.

(b) The options were granted on 28 June 2019 under the Company's LTIP. The options will vest post the release of the Group's results for FY22 subject to the achievement of performance conditions related to the growth in share price.

(c) The options were granted on 27 June 2018 under the Company's LTIP. The options vested post the release of the Group's results for FY21 subject to the achievement of performance conditions related to the growth in earnings per share and were exercised on 23 November 2021.

(d) The options were granted on 8 December 2020 under the Company's LTIP. The options will vest post the release of the Group's results for FY23 subject to the achievement of performance conditions related to the growth in share price.

(e) The options were granted on 18 November 2021 under the Company's LTIP. The options will vest three years from grant subject to absolute TSR targets. For awards up to 100% of salary, 25% will vest for TSR of 5% p.a. increasing pro-rata to 100% vesting for TSR of 10% p.a. For awards between 100% and 200% of salary, 0% will vest for TSR of 10% p.a. increasing pro-rata to 100% vesting for TSR of 15% p.a.

(f) The options were granted on 23 December 2021 under the SAYE option plan under which employees contribute a monthly amount which is saved over three years to buy shares. The options are exercisable from 1 February 2025. There are no performance conditions.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

12 Income tax expense

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated)[1] £000
Income tax		
UK current year tax charge	**1,739**	1,152
Overseas current year tax charge	**32**	69
Adjustment in respect of prior years	**(1,371)**	(54)
Total income tax	**400**	1,167
Deferred tax		
Current year	**(1,214)**	769
Adjustment in respect of prior years	**196**	375
Effect of changes in tax rates	**(786)**	-
Total deferred tax	**(1,804)**	1,144
Total tax (credit)/charge in consolidated statement of comprehensive income	**(1,404)**	2,311
Other Comprehensive Income items		
Deferred Tax	**58**	(224)

Factors affecting the tax charge for the year		
Profit before taxation	**5,536**	11,322
Taxation at the average UK corporation tax rate of 19.0% (FY21: 19.0%)	**1,052**	(2,151)
Tax effects of:		
- Expenses not allowable in determining taxable profit	**308**	330
- Adjustment in respect of prior years	**(1,175)**	321
- Non-taxable income	**(381)**	(513)
- Share options	**(32)**	6
- Fixed assets transferred in	**(58)**	-
- Reversal of uncertain tax position	**(323)**	**-**
- Prior year adjustment on provision	**(21)**	**-**
- Tax rate changes	**(786)**	-
- Effect of overseas tax rates	**12**	16
Tax (credit)/charge for the year	**(1,404)**	2,311

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax asset at 31 March 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary/timing differences (2021: 19%).

Included within the adjustment in respect of prior years is an additional deduction of £1.6m which has been recognised in FY22 relating to previous expenses not deducted. The amount was not previously recognised due to uncertainty about the availability of these losses which has now been confirmed.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

13 Earnings per share (EPS)

The calculation of basic and diluted EPS is based on the following earnings and number of shares.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated[1]) £000
Earnings		
Statutory earnings	**6,940**	9,011
Tax (credit)/charge	**(1,404)**	2,311
Amortisation of acquired intangibles	**6,498**	6,252
Share-based payments	**1,181**	687
Exceptional items	**1,629**	(4,152)
Adjusted earnings before tax	**14,844**	14,109
Notional tax charge	**(2,820)**	(2,681)
Adjusted earnings	**12,024**	11,428

	Number 000	Number 000
Weighted average number of ordinary shares		
In issue	**156,992**	153,930
Held in treasury	**(420)**	(439)
For basic EPS calculations	**156,572**	153,491
Effect of potentially dilutive share options	**2,803**	2,215
For diluted EPS calculations	**159,375**	155,706

EPS	**Pence**	Pence
Basic	**4.43p**	5.87p
Adjusted	**7.68p**	7.45p
Basic diluted	**4.36p**	5.79p
Adjusted diluted	**7.54p**	7.34p

In line with the Group's policy, the notional tax charge above is calculated at a standard rate of 19% (2021 – 19%).

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud computing implementation, configuration and customisation costs.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

14 Dividends

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Interim dividend for the year ended 31 March 2021	**-**	1,868
Final dividend for the year ended 31 March 2021	**3,749**	-
Interim dividend for the year ended 31 March 2022	**1,878**	-
	5,627	1,868

The Group paid an interim dividend for the year ended 31 March 2021 of 1.2p per ordinary share, with a total payment value of £1.9m.

The Group paid a final dividend in respect of the year to 31 March 2021 of 2.4p per ordinary share, with a total payment value of £3.7m

The Group paid an interim dividend for the year ended 31 March 2022 of 1.2p per ordinary share, with a total payment value of £1.9m.

A final dividend of 2.4p per share is recommended by the Board and will be paid on 16 September 2022, subject to approval at the Company's AGM, to shareholders on the register at 29 July 2022 (ex-dividend date 28 July 2022).

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

15 Intangible assets

	Goodwill £000	Customer contracts and related relationships £000	Trademarks £000	Software and licences £000	Total £000
Cost					
At 1 April 2020	43,269	62,284	275	5,669	111,497
Additions (restated[1])	-	-	-	1,047	1,047
Disposals	(1,185)	-	-	(130)	(1,315)
Exchange differences	-	-	-	(1)	(1)
At 31 March 2021 (restated[1])	42,084	62,284	275	6,585	111,228
Additions	-	-	-	502	502
Additions on acquisition (note 32)	10,332	2,746	174	31	13,283
Disposals	-	-	-	(1,548)	(1,548)
Exchange differences	-	-	-	-	-
At 31 March 2022	**52,416**	**65,030**	**449**	**5,570**	**123,465**
Accumulated amortisation and impairment					
At 1 April 2020	-	38,317	275	4,490	43,082
Charged in year (restated[1])	-	6,252	-	670	6,922
Disposals	-	-	-	(56)	(56)
At 31 March 2021	-	44,569	275	5,104	49,948
Charged in year	-	6,324	174	475	6,973
Disposals	-	-	-	(1,182)	(1,182)
At 31 March 2022	**-**	**50,893**	**449**	**4,397**	**55,739**
At 31 March 2022	**52,416**	**14,137**	**-**	**1,173**	**67,726**
At 31 March 2021 (restated[1])	42,084	17,715	-	1,481	61,280

Customer contracts have a weighted average remaining amortisation period of 4 years and 4 months (FY21: 3 years and 11 months).

Software and licences includes £0.1m (FY21 - £0.6m) of additions in relation to customer capital expenditure.

[1]Application of IFRIC agenda decision

During the year and following the release of the IFRIC guidance issued in April 2021 in relation to Software-as-a-Service (SaaS) cloud computing implementation costs, the Group has reviewed its accounting policy in relation to the customisation and configuration costs previously capitalised. Following this review costs capitalised in the year to 31 March 2020 of £4.4m have now been expensed and amortisation of £0.4m previously charged on these assets in the year has been reversed. In addition, £0.6m of costs previously capitalised in the year ended 31 March 2021 have been expensed and associated amortisation of £0.4m reversed. See note 34 for further details on the prior year restatement.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

15 Intangible assets (continued)

Goodwill and intangible assets are allocated to cash generating units (CGUs) in order to be assessed for potential impairment. CGUs are defined by accounting standards as the lowest level of asset groupings that are capable of generating separately identifiable cashflows independently of other CGUs. During the year, and as a result of the acquisitions completed, the Group has considered the following:

- Following the hive out of trade and assets from Piksel Industry Solutions Limited into Redcentric Solutions Limited on 28 February 2022, the acquisition does not result in a separate CGU.

- The acquisition of 7 Elements Limited on 14 March 2022 results in a new CGU "Security Services".

The CGUs and allocation of Goodwill to those CGUs is shown below:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
IT Managed Service	50,765	42,084
Security Services	1,651	-
	52,416	42,084

Goodwill is tested annually for impairment and, to confirm whether an impairment of the goodwill is necessary, management compares the carrying value to the value in use. Other intangible assets are tested for impairment whenever events or a change in circumstances indicate carrying values may no longer be recoverable.

The value in use has been calculated using budgeted cash flow projections to the period of 31 March 2024, extrapolated for a further three years by an average annual revenue growth rate of 2.0% (FY21: 1.5%). A terminal value based on a perpetuity calculation using a 0.0% real growth rate was then added (FY21: 0.0% growth).

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

- Gross margin percentage reducing to 63% (FY21: 60.5%)
- Operating costs increasing by 1.5% (FY21: 1.5%)
- Pre-tax discount rate of 11.8% (FY21: 8.3%) (post tax rate of 7.2% (FY21: 7.0%) estimated using a weighted average cost of capital, adjusted to reflect current market assessments of the time value of money and the risks specific to the Group; and
- Terminal growth rate percentage consistent with the market the entity operates in.

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

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

16 Property, plant and equipment

	Leasehold improvements £000	Office fixtures and fittings £000	Vehicles & computer equipment £000	Total £000
Cost				
At 1 April 2020 (restated)[1]	7,528	1,033	21,559	30,120
Additions	404	442	940	1,786
Disposals	(129)	(103)	(816)	(1,048)
Exchange differences	-	(9)	(24)	(33)
At 31 March 2021 (restated)[1]	7,803	1,363	21,659	30,825
Additions	527	107	1,630	2,264
Additions on acquisition (note 32)	11	27	-	38
Disposals	-	(331)	(25)	(356)
Exchange differences	-	16	-	16
At 31 March 2022	**8,341**	**1,182**	**23,264**	**32,787**
Accumulated depreciation				
At 1 April 2020 (restated)[1]	4,458	653	16,534	21,645
Charged in year	458	148	2,802	3,408
On disposals	-	-	(32)	(32)
Exchange differences	-	(8)	(22)	(30)
At 31 March 2021	4,916	793	19,282	24,991
Charged in year	533	141	2,071	2,745
On disposals	-	(316)	(9)	(325)
Exchange differences	-	4	-	4
At 31 March 2022	**5,449**	**622**	**21,344**	**27,415**
Net book value				
At 31 March 2022	**2,892**	**560**	**1,920**	**5,372**
At 31 March 2021	2,887	570	2,377	5,834

Vehicles and computer equipment includes £1.0m (FY21 - £1.3m) relating to customer capital expenditure.

[1] The cost of property, plant and equipment (PPE) at 1 April 2020 has been restated due to a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs. In FY21 costs were reclassified from PPE to intangible assets. Following the change in accounting policy and subsequent restatement, these assets have been expensed to the income statement retrospectively resulting in a restatement of the cost and net book value of assets in FY20. For further details please see note 34.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

17. Right of use assets

Most of the Group's right-of-use assets are associated with our leased property portfolio.

	Office fixtures and fittings £000	Vehicles & computer equipment £000	Total £000
Cost			
At 1 April 2020	29,889	9,615	39,504
Additions	-	2,092	2,092
Remeasurement	(4,383)	-	(4,383)
At 31 March 2021	25,506	11,707	37,213
Additions	2,947	460	3,407
Disposals	(1,479)	(231)	(1,710)
At 31 March 2022	**26,974**	**11,936**	**38,910**
Accumulated depreciation			
At 1 April 2020	9,721	3,773	13,494
Charged in year	2,540	2,392	4,932
At 31 March 2021	12,261	6,165	18,426
Charged in year	2,252	2,326	4,578
Disposals	**(893)**	**(239)**	**(1,132)**
At 31 March 2022	**13,620**	**8,252**	**21,872**
Net book value			
At 31 March 2022	**13,354**	**3,684**	**17,038**
At 31 March 2021	13,245	5,542	18,787

Of the £3,407k right of use assets acquired in the year, £438k was funded using leases that would have previously been classified as finance leases under IAS17 (FY21: £2,092k).

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

18 Deferred tax

Certain deferred tax assets and liabilities have been offset on the face of the consolidated statement of financial position. The following is the analysis of the deferred tax balances (before offset) for financial reporting purposes:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 (restated[1]) £000
Deferred tax liabilities	**(3,114)**	(3,362)
Deferred tax assets	**7,113**	4,765
	3,999	1,403

18.1 Deferred tax liabilities

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Opening balance	**3,362**	4,550
Recognised in the income statement	**(895)**	(1,188)
Movements arising on acquisitions (note 32)	**686**	-
Adjustment in relation to prior year	**(39)**	-
	3,114	3,362

Deferred tax liabilities relate to intangible assets from business acquisitions.

18.2 Deferred tax assets

	India £000	Share-based payments £000	Tax losses £000	Property, plant and equipment £000	Other timing differences £000	Total £000
Cost						
At 1 April 2020 (restated)[1]	47	153	2,410	3,773	491	6,874
Adjustment upon transition to IFRS 16	-	20	(1,633)	(273)	(72)	(1,958)
Recognised in income statement	-	224	-	-	-	224
Adjustment in relation to prior year	-	-	(154)	(248)	27	(375)
At 31 March 2021 (restated)[1]	47	397	623	3,252	446	4,765
Deferred tax acquired (note 32)	-	-	1,331	52	20	1,403
Recognised in income statement	-	92	461	264	288	1,105
Recognised in other comprehensive income	-	58	-	-	-	58
Adjustment in relation to prior year	-	(26)	(435)	(299)	542	(218)
At 31 March 2022	**47**	**521**	**1,980**	**3,269**	**1,296**	**7,113**

[1] See note 34 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

19 Inventories

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Goods for resale	**1,393**	1,061

Goods for resale includes components required to deliver managed services to customers. The cost of inventories charged to cost of sales in the year totalled £4.7m (FY21 £4.7m)

20 Trade and other receivables

The amounts of the maximum exposure to credit risk at the reporting date are as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade receivables	**11,112**	10,268
Less: provision for impairment of trade receivables and credit notes	**(884)**	(1,104)
Trade receivables – net	**10,228**	9,164
Other receivables	**737**	5,825
Prepayments	**6,434**	6,579
Commission contract asset	**2,098**	2,096
Accrued income	**2,626**	1,999
	22,123	25,663

The commission contract asset arose on the adoption of IFRS 15. For the year ended 31 March 2022 the impairment for this contract asset was immaterial (FY21: immaterial). Other receivables in FY21 relate to amounts due on disposal of the non-core business unit (note 9).

There is £immaterial (FY21: £immaterial) expected credit loss against other receivables.

21 Credit quality of financial assets

The amounts of the maximum exposure to credit risk at the reporting date are as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade receivables	**10,228**	9,164
Other receivables	**737**	5,825
Cash and cash equivalents	**1,804**	5,250
	12,769	20,239

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

21 Credit quality of financial assets (continued)

21.1 Credit quality of trade receivables

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.

The amounts of the maximum exposure to credit risk at the reporting date are as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current	**8,736**	9,343
1 to 30 days overdue	**1,997**	600
31 to 60 days overdue	**452**	282
61 to 90 days overdue	**80**	21
91 to 180 days overdue	**19**	21
> 180 days overdue	**(172)**	1
Gross trade debtors	**11,112**	10,268
Provision	**(884)**	(1,104)
Net trade debtors	**10,228**	9,164

As at 31 March 2022, trade receivables of £85k were provided for (31 March 2021: £165k). £799k has been provided for within the credit note provisions (31 March 2021: £939k). No provision has been made against accrued income in the year ended 31 March 2022 (31 March 2021: £nil).

Trade debtor days were 36 at 31 March 2022 compared to 34 at 31 March 2021. Trade debtor days are calculated as trade debtors divided by revenue (incl. VAT) multiplied by 365.

The provision is calculated by management on a specific basis based on their best estimate of recoverability considering 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.

Movements on the Group bad debt and credit provisions were as follows:

	Provision in relation to FY18 and earlier £000	Provision in relation to FY19 £000	Provision in relation to FY20 £000	Provision in relation to FY21 £000	Provision in relation to FY22 £000	Total provision £000
At 1 April 2020	7	606	825	-	-	1,438
Creation of provision	-	-	-	1,272	-	1,272
Utilisation of provision	(4)	(465)	(499)	(638)	-	(1,606)
At 31 March 2021	3	141	326	634	-	1,104
Creation of provision	-	-	-	-	832	832
Utilisation of provision	-	(116)	(292)	(344)	(300)	(1,052)
At 31 March 2022	**3**	**25**	**34**	**290**	**532**	**884**

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

21 Credit quality of financial assets (continued)

21.2 Cash and cash equivalents

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

22 Trade and other payables

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade payables	**8,910**	8,470
Other payables	**1,130**	243
Taxation and social security	**2,433**	2,390
Accruals	**4,050**	3,885
Deferred income	**7,530**	7,471
	24,053	22,459

Trade creditor days were 37 at 31 March 2022 compared to 37 as at 31 March 2021. Trade creditor days are calculated as trade creditors divided by total purchases (cost of sales and operating expenditure) multiplied by 365.

Of the deferred income balance of £7.5m at 31 March 2021, £6.3m has been recognised as revenue in the year ended 31 March 2022.

23 Contingent consideration

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Contingent consideration due on acquisitions within one year:		
- 7 Elements Limited	**422**	-
	422	-

Contingent consideration for 7 Elements Limited is based on the directors' best estimate of future payments due at 31 March 2023 as detailed in note 32. Contingent consideration is level 3 within the fair value hierarchy.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

24 Borrowings

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current		
Lease liabilities	**4,086**	3,735
Term loans	**508**	487
	4,594	4,222
Non-current		
Lease liabilities	**13,359**	15,593
Term loans	**496**	1,004
	13,855	16,597

At 31 March 2022, the Group was party to £32m of bank facilities with a maturity date of 30 June 2022. The facilities comprise a Revolving Credit Facility of £5m (£nil utilised at 31 March 2022) with a £20.0m Accordion facility (£nil utilised at 31 March 2022) and a £7.0m Asset Financing Facility (£1.1m utilised at 31 March 2022).

Term loans constitute financing arrangements for services and include a supplier loan of £822k for an unsecured 3 year maintenance contract.

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

Covenants within the RCF agreement included cash flow cover, interest cover and adjusted leverage. The Group reported performance against these covenants at quarterly intervals throughout the year. Subsequent to the balance sheet date, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. No security is provided in regards to the RCF. See note 35 for further details.

Lease liabilities are comprised of secured and unsecured agreements. Secured lease liabilities of £3.3m and secured term loans are secured against assets included within ROU assets with a carrying value of £3.7m (FY21 £5.5m).

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

24 Borrowings (continued)

24.1 Reconciliation of net debt

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Revolving credit facility		
Drawdown on facility	**4,500**	7,000
Repayment of facility	**(4,500)**	(19,500)
Finance costs in relation to RCF (non-cash)	**86**	295
Interest paid	**(86)**	(295)
Release of deferred arrangement fees	**-**	-
Movement in revolving credit facility	**-**	(12,500)
Opening balance	**-**	12,500
Closing balance	**-**	-
Lease liabilities		
New leases entered into (non-cash)	**2,675**	1,945
IFRS16 leases modifications (non-cash)	**-**	(3,917)
Leases terminated (non-cash)	**(813)**	-
Principal element of lease payments	**(3,745)**	(4,325)
Interest element of lease payments	**797**	1,107
Interest cost (cash)	**(797)**	(1,107)
Movement in lease liabilities	**(1,883)**	(6,297)
Opening balance	**19,328**	25,625
Closing balance	**17,445**	19,328
Term loans		
New Loans (non-cash)	**-**	1,496
Repayment of loans	**(487)**	(156)
Finance costs in relation to term loans (non-cash)	**45**	13
Interest paid	**(45)**	(13)
Movement in term loans	**(487)**	1,340
Opening balance	**1,491**	151
Closing balance	**1,004**	1,491
Cash	**1,804**	5,250
Net debt	**(16,645)**	(15,569)

All lines included above are cash unless otherwise stated.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

24 Borrowings (continued)

24.2 Terms and repayment schedule

	Currency £000	Nominal interest rate £000	Year of maturity £000
RCF	GBP	LIBOR + 2.40%	2022
Term loans	GBP	0.0 - 2.0%	2023-25
Leases	GBP	0.0% - 7.5%	2022-35

24.3 Leases liabilities

	Present value as at 31 March 2022 £000	**Finance charges £000**	**Future lease payments as at 31 March 2022 £000**	Present value as at 31 March 2021 £000	Finance charges £000	Future lease payments as at 31 March 2021 £000
Not later than 1 year	**4,086**	**868**	**4,954**	3,735	900	4,635
After 1 year but not more than 5 years	**7,593**	**1,638**	**9,231**	9,566	1,805	11,371
After more than 5 years	**5,766**	**795**	**6,561**	6,027	985	7,012
	17,445	**3,301**	**20,746**	19,328	3,690	23,018

The lease for the Shoreditch data centre contains a break clause in March 2030. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £9,500,000.

25 Liquidity risk

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.

	Less than 1 year £000	1-5 years £000	More than 5 years £000	**Total £000**
At 31 March 2022				
Leases	4,086	7,593	5,766	**17,445**
Term loans	508	496	-	**1,004**
Trade payables	8,910	-	-	**8,910**
Other payables	1,130	-	-	**1,130**
	14,634	8,089	5,766	**28,489**
At 31 March 2021				
Leases	3,735	9,566	6,027	19,328
Term loans	487	1,004	-	1,491
Trade payables	8,470	-	-	8,470
Other payables	242	-	-	242
	12,934	10,570	6,027	29,531

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

26 Provisions

	Restitution Scheme provision £000	Scheme fees provision £000	Dilapidations provision £000	Onerous service contract provision £000	Total provision £000
At 1 April 2020	11,429	-	2,526	698	14,653
Additional provisions created during the period	130	553	333	21	1,037
Released during the period	(2,172)	-	(164)	(193)	(2,529)
Utilised during the period	(9,387)	-	-	(505)	(9,892)
At 31 March 2021	-	553	2,695	21	3,269
Additional provisions created during the period	-	-	1,189	-	1,189
Provisions acquired from business combination	-	-	-	577	577
Released during the period	-	(527)	-	-	(527)
Utilised during the period	-	(26)	(1)	(598)	(625)
At 31 March 2022	**-**	**-**	**3,883**	**-**	**3,883**
FY22 Analysed as:					
Current	-	-	-	-	-
Non-current	-	-	3,883	-	3,883
	-	**-**	**3,883**	**-**	**3,883**
FY21 Analysed as:					
Current	-	553	-	21	574
Non-current	-	-	2,695	-	2,695
	-	553	2,695	21	3,269

The Scheme fees provision represents costs which were potentially repayable on adviser fees in relation to the FCA Investigation. This provision was released in FY22 as repayment is no longer considered probable.

The dilapidations provision represents the estimated costs associated with returning certain leasehold properties to the original condition upon exiting the lease. Given there is estimation in determining the quantum of provisions to be recognised a third-party expert was engaged to determine appropriate estimates. After initial measurement, any subsequent adjustments to the dilapidations provision will be recorded against the original amount included in right of use assets with a corresponding adjustment to future depreciation charges. The utilisation of the dilapidations provision will be in line with the end of the leasehold properties lease terms to which the provisions relate.

The onerous service contract provision relates to the costs associated with third party services arrangements no longer utilised by the business and service contracts with customers where the Group estimates the cost to fulfil the contract will exceed the benefit.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

27 Share capital

	Ordinary shares of 0.1p each Number	£000	Share premium £000
At 1 April 2020	149,310,713	149	65,734
New shares issues	6,854,997	7	7,533
At 31 March 2021	156,165,710	156	73,267
New shares issued	826,272	1	-
At 31 March 2022	**156,991,982**	**157**	**73,267**

During the year the Company purchased, and held in treasury, 2,170,203 of its ordinary share capital (FY21: nil) for total proceeds of £2,666,246 (FY21: £nil). The total shares held in treasury at 31 March 2022 was 2,170,203 at an average cost of £1.23 per share therefore a value of £2,672,777. (31 March 2021: 33,284).

The number of shares 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.

The common control reserve represents the difference between the net assets acquired and the fair value of consideration transferred on the acquisition of Redcentric Holdings Limited via demerger from Redstone plc in 2013.

28 Share-based payments

At 31 March 2022, the Group had the following share-based payment arrangements in place:

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.

Save As You Earn (SAYE)

The Group operates a HMRC approved SAYE option plan under which it offers its UK based colleagues the opportunity to participate in a share purchase plan. To participate in the plan, the colleagues 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 colleagues are entitled to purchase shares using funds saved at a price 20% below the market price at grant date. Only colleagues 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. Colleagues 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.

The Group recognised the following expense for its share-based payments:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Equity-settled share-based charge on LTIP scheme	**858**	430
Equity-settled share-based charge on SAYE plan	**209**	152
National Insurance arising on share options	**114**	105
	1,181	687

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

28 Share-based payments (continued)

The fair value of the equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	LTIP (number)	SAYE (number)	Total (number)	WAEP (pence)
Balance at 31 March 2020	2,582,830	1,325,758	3,908,588	21.1p
Issued in the period	822,077	521,782	1,343,859	46.5p
Forfeited in the period	(323,750)	-	(323,750)	0.1p
Cancelled in the period	-	(46,655)	(46,655)	119.6p
Exercised in the year	(233,611)	(854,647)	(1,088,258)	49.6p
Lapsed in the year	-	(52,016)	(52,016)	76.9p
Balance at 31 March 2021	2,847,546	894,222	3,741,768	22.1p
Issued in the period	1,965,877	876,638	2,842,515	9.6p
Forfeited in the period	(295,851)	-	(295,851)	0.1p
Cancelled in the period	-	(366,395)	(366,395)	103.7p
Exercised in the year	(836,272)	(5,219)	(841,491)	0.7p
Lapsed in the year	-	(4,515)	(4,515)	119.6p
Balance at 31 March 2022	**3,681,300**	**1,394,731**	**5,076,031**	**26.1p**

During the year options were exercised by Barclays Bank PLC over warrants with an exercise price of 36p, settled in cash, resulting in an expense of £310,000 (included in exceptional costs – note 9). The warrants were issued on demerger in April 2013 for warrants previously held in Redstone PLC, and could have been 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 service business.

The weighted average remaining contractual life for the share options outstanding at 31 March 2022 is 6 years and 9 months (31 March 2021: 6 years and 11 months). The range of exercise prices for options outstanding at the end of the year was 0.1p to 119.6p. Share options outstanding at the end of the year with approximate remaining average life are as follows:

Exercise price	**Number, year ended 31 March 2022**	**Life at 31 March 2022**	Number, year ended 31 March 2021	Life at 31 March 2021
0p	**3,681,300**	**8 years, 5 months**	2,847,546	8 years, 4 months
63p	**369,393**	**1 year, 0 months**	434,145	2 years, 0 months
120p	**241,311**	**2 years, 0 months**	460,077	3 years, 0 months
108p	**168,998**	**3 years, 0 months**	-	-
100p	**615,029**	**3 years, 4 months**	-	-
	5,076,031	**6 years, 9 months**	**3,741,768**	**6 years, 11 months**

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

28 Share-based payments (continued)

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

	31 March 2022 Number of options	**31 March 2022 WAEP**	31 March 2021 Number of options	31 March 2021 WAEP
Performance conditions satisfied	**-**	**0.0p**	-	0.0p
Subject to performance conditions	**3,681,300**	**0.1p**	2,847,546	0.1p
Save-As-You-Earn	**1,394,731**	**94.6p**	894,222	92.2p
Outstanding at the end of the year	**5,076,031**	**26.1p**	3,741,768	22.1p

29 Capital commitments

The Group had no contracted but not provided for capital commitments at 31 March 2022 (31 March 2021: £nil) included within trade and other payables.

30 Pensions

The Group operates a defined contribution pension scheme for eligible employees. The charge for the year ended 31 March 2022 was £0.8m (FY21: £0.6m). At the year- end there was a pension's creditor of £0.2m (2021: £0.1m).

31 Subsidiaries

The undertakings whose results and financial position are consolidated within the Group financial statements at 31 March 2022 are as follows:

	Principal activity	Country of incorporation	% of ordinary share capital owned
Held directly by Redcentric plc			
Redcentric Holdings Limited (dissolved 6 July 2021)	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 Support Services Private Limited	Support services	India	100%
Piksel Industry Solutions Limited	Dormant	England and Wales	100%
7 Elements Limited	Security services	Scotland	100%
Hotchilli Internet Limited	Dormant	England and Wales	100%

All companies have a registered office of Central House, Beckwith Knowle, Harrogate HG3 1UG, except Redcentric Solutions Private Limited and Redcentric Support Services Private Limited which have a registered office at 8th Floor, My Home Twitza, Plot No. 30/A Sy No. 83/1, TSIIC Knowledge City, Raidurg, Hyderabad Rangareddy Telangana 500081 INDIA and 7 Elements Limited which has a registered office of 4-5 Lochside Way, Edinburgh Park, Edinburgh EH12 9DT, Scotland.

32 Acquisition of subsidiary

Piksel Industry Solutions Limited

On 30 September 2021, the Group acquired 100% of the issued share capital of Piksel Industry Solutions Limited "Piksel" obtaining control at this date. The acquisition is in line with the Group's strategy to grow its operations, both organically

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

32 Acquisition of subsidiary (continued)

and through acquisitions. Piksel is a provider of IT modernisation and digital transformation services focussing primarily on the public cloud. Taking control of Piksel significantly enhances Redcentric's service offerings in both cloud and security and provides a complementary customer base with excellent cross-sell opportunities. The Group also expects to reduce costs through cost synergies as Piksel is integrated into the Group.

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	£000s
Cash[6]	9,459
Novation of Intercompany loans[7]	3,069
Deferred consideration[8]	183
	12,711

[6] Of the total cash consideration, $750k (£549k) is to be held in Escrow for a period of 12 months after which time the balance will be released to the vendor less any claims made by the Group to offset undisclosed liabilities

[7] An intercompany receivable balance between Piksel and the seller was novated to the acquiring group company (Redcentric Solutions Limited) as part of the acquisition.

[8] Deferred consideration is to offset against future costs incurred as part of the transitional services agreement between Piksel and the seller.

The Group incurred acquisition-related costs of £948,000 on legal fees, due diligence costs and direct integration costs relating to systems migration etc. These costs have been included in exceptional costs (note 9).

The following table summarises the recognised amounts of assets and liabilities assumed as the date of acquisition:

	Note	Book value £000	Fair value adjustments £000	**Final fair value £000**
Tangible fixed assets	16	38	-	38
Customer relationships	15	-	1,868	1,868
Other intangible assets	15	28	174	202
Trade and other receivables		2,418	-	2,418
Cash and cash equivalents		965	-	965
Intercompany loans		3,069	-	3,069
Corporation tax receivable		557	-	557
Deferred tax	18	1,403	(467)	936
Trade and other payables		(2,940)	-	(2,940)
Deferred income		(1,817)	-	(1,817)
Payroll and social security creditors		(345)	-	(345)
VAT liability		(344)	-	(344)
Onerous contract provisions	26	(577)	-	(577)
Total identifiable net assets acquired		**2,455**	**1,575**	**4,030**
Goodwill	15			**8,681**
Total consideration				**12,711**

The goodwill arising on acquisition represents future income from new customers, the potential to cross-sell existing Group products to the established Piksel customer base as well and the assembled workforce which increases the Group's competence in key growth areas of the managed IT services sector allowing the Group to provide additional services to its existing customer base, together with the benefits to the Group in merging the business with its existing infrastructure and the anticipated future operating synergies from the new combination.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

32 Acquisition of subsidiary (continued)

The fair value of the acquired customer relationships is £1.9m. To estimate the fair value of the customer relationships intangible asset, a multi-period excess earnings method "MEEM" approach has been adopted, this approach considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

The fair value of financial assets acquired includes trade receivables with a fair value of £1.1m comprised of the gross amount due under contracts, all of which is expected to be collectable.

On 28 February 2022 the trade, assets and liabilities of Piksel were hived out to the Group's trading subsidiary Redcentric Solutions Limited. For the 5 months ended 28 February 2022, Piksel contributed revenue of £4.9m and profits, before allocation of group overheads, share based payments and tax, of £0.3m to the Group's results.

7 Elements Limited

On 14 March 2022 the Group acquired 100% of the issued share capital on 7 Elements Limited "7 Elements" obtaining control at this date. 7 Elements is an industry-leading provider of security testing, incident response management and bespoke security consultancy services. The acquisition significantly enhances the Group's service portfolio with additional capacity within the increasingly important security market. The acquisition is in line with the Group's strategy to grow its operations, both organically and through acquisitions. The following table summarises the acquisition date fair value of each major class of consideration transferred:

	£000
Cash[9]	2,409
Contingent consideration (note 23)[10]	422
	2,831

[9] Of the cash consideration of £2.4m above, £0.13m was paid after the year end.

[10] The contingent consideration is payable on the performance of the business over the next thirteen months (to the financial year ended 31 March 2023) "earn out". Payment will be due immediately once performance criteria have been satisfied over this period. The potential undiscounted amounts of the contingent payment are between £nil and £450,000. In considering the fair value, management assessed recent trading performance and expected performance once 7 Elements has been integrated into the Group against the criteria of the earn out.

The Group incurred acquisition-related costs of £23,000 on legal fees and due diligence costs. These costs have been included in exceptional costs (note 9).

The following table summarises the recognised amounts of assets and liabilities assumed as the date of acquisition:

	Note	Book value £000	Fair value adjustments £000	**Final fair value £000**
Other intangible assets	15	3	-	3
Customer relationships	15	-	878	878
Trade and other receivables		168	-	168
Cash & cash equivalents		465	-	465
Trade and other payables		(11)	-	(11)
Payroll and social security creditors		(1)	-	(1)
Deferred Tax	18	-	(220)	(220)
VAT liability		(50)	-	(50)
Corporation tax liability		(52)	-	(52)
Total identifiable net assets acquired		**522**	**658**	**1,180**
Goodwill	15			**1,651**
Total consideration				**2,831**

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

32 Acquisition of subsidiary (continued

The goodwill arising on acquisition represents future income from new customers, the potential to cross-sell existing group products to established 7 Elements customer base and the assembled workforce which increases the Group's competence in key growth areas of the managed IT services sector.

The fair value of the acquired customer relationships is £878,000. To estimate the fair value of the customer relationships intangible asset, a multi-period excess earnings method "MEEM" approach has been adopted, this approach considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

The fair value of financial assets acquired includes trade receivables with a fair value of £159,000 comprised of the gross amount due under contracts, all of which is expected to be collectable.

7 Elements earned revenue of £104,000 and delivered profits, before allocation of group overheads, share-based payments and tax of £54,000 in the period since acquisition.

Unaudited pro-forma full year information

The following unaudited pro-forma summary presents the Group as if the business acquired during FY22 had been part of the Group since 1 April 2021. This includes the results of the acquired business, depreciation of the acquired assets and an amount of £160,000 relating to the amortisation of the acquired intangible assets recognised on acquisition. This information is presented purely for illustrative purposes and does not necessarily reflect the actual underlying results that would have occurred.

	Pro-forma year ended 31 March 2022 £000
Revenue	100,169
Profit	6,903

33 Related parties

Directors' emoluments are disclosed in the Annual Remuneration Report on page 58 and compensation of key management personnel is disclosed in note 11.

There were no other transactions with related parties in the year to 31 March 2022.

34 Prior year restatement

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision to clarify the accounting treatment in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) cloud computing arrangements, issuing the following conclusions:

- Any amounts for configuration and customisation to the cloud vendor, that are not distinct from access to the cloud software should be expensed over the SaaS contract term
- Any code that is created and controlled by the entity may give rise to an identifiable intangible asset, however this is expected to be in very limited circumstances
- In all other instances, cloud configuration and customisation costs should be expensed as the configuration and customisation services are received.

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

34 Prior year restatement (continued)

Due to the nature of this decision combined with the level of investment made by the Group on its ERP system (Microsoft Dynamics 365), the Group's accounting policy in relation to cloud implementation, customisation and configuration costs has been reviewed and amended to align with the issued IFRIC guidance. The revision to the accounting policy has been accounted for retrospectively resulting in a prior year restatement and represents a non-cash adjustment.

The Group identified £4.4m of assets in FY20, £0.6m of additions in FY21 and a further £0.4m of costs incurred in FY22 that relate to configuration and customisation costs which should now be expensed after further consideration of the IFRIC guidance. In FY21 in relation to these assets, £0.4m of amortisation was charged, which is to be reversed.

These costs give rise to a reduction in the tax charge for the year ended 31 March 2020 of £842k and corresponding increase to the deferred tax asset.

The affected financial statement line items are as follows:

	31 March 2021 (previously reported) £000	Restatement £000	31 March 2021 (restated) £000
Income Statement Impact			
Included within admin expenses:			
Amortisation of intangible fixed assets	(7,337)	415	(6,922)
Exceptional items	4,782	(630)	4,152
Operating profit	12,998	(216)	12,782
Profit/(loss) on ordinary activities before taxation	11,538	(216)	11,322
Income tax (expense)/credit	(2,311)	-	(2,311)
Profit/(loss) for the period attributable to owners of the parent	9,227	(216)	9,011
Total Comprehensive income/(loss) for the period	9,106	(216)	8,890
Basic earnings/(loss) per share	6.01	(0.14)	5.87
Diluted earnings/(loss) per share	5.93	(0.14)	5.79

	31 March 2021 (previously reported) £000	Restatement £000	31 March 2021 (restated) £000
Statement of Financial Position			
Intangible assets	65,929	(4,649)	61,280
Deferred Tax Assets	561	842	1,403
Total non-current assets	91,111	(3,807)	87,304
Net assets	75,897	(3,807)	72,090
Retained earnings	11,960	(3,807)	8,153
Total equity	75,897	(3,807)	72,090

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

34 Prior year restatement (continued)

	31 March 2021 (previously reported) £000	Restatement £000	31 March 2021 (restated) £000
Statement of Cash Flows Impact			
Operating profit/(loss)	12,998	(216)	12,782
Depreciation and amortisation	15,677	(415)	15,262
Exceptional items	(4,782)	630	(4,152)
Exceptional items (cash)	(8,884)	(630)	(9,514)
Operating cash flow before changes in working capital	15,696	(630)	15,066
Net cash generated from operating activities	17,428	(630)	16,798
Purchase of intangibles	(1,397)	630	(767)
Net cash used in investing activities	(2,938)	630	(2,308)

In accordance with IAS 1, a third balance sheet has been prepared to illustrate the impact to the opening balance sheet for the year ended 31 March 2021. Costs that the Group identified that were previously capitalised under cloud computing arrangements in FY20 totalling £4.4m have been expensed and the associated amortisation charge of £0.4m has been reversed.

The opening balance sheet of the prior year has therefore been restated for these adjustments with the affected financial statement line items as follows:

	1 April 2020 (previously reported) £000	Restatement £000	1 April 2020 (restated) £000
Statement of financial position impact			
Tangible assets	12,909	(4,434)	8,475
Deferred tax assets	1,482	842	2,324
Total non-current assets	108,816	(3,592)	105,224
Net assets	59,801	(3,592)	56,209
Retained Earnings	4,096	(3,592)	504

Notes to the consolidated financial statements

for the year ended 31 March 2022 (continued)

35 Subsequent events

Subsequent to the year-end, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. The new debt facilities consist of an £80m Revolving Credit Facility and a £20m accordion facility and are provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland and Silicon Valley Bank. The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years. The borrowing cost of the RCF is determined by the level of the Group's leverage and has a borrowing cost of 175 basis points over SONIA at the Group's current leverage levels. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The Group is required to comply with financial covenants for adjusted leverage (net debt[2] to adjusted EBITDA[2]), cashflow cover (adjusted cashflow to debt service, where adjusted cashflow is defined as adjusted EBITDA[2] less tax paid, dividend payments, IFRS16 lease repayments and cash capital expenditure) and provisions relating to guarantor coverage such that guarantors must exceed a prescribed threshold of the Group's gross assets, revenue and Adjusted EBITDA[2]. Covenants are tested quarterly each year. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy. No security has been provided with regards to the RCF.

On 7 June 2022 the Group's trading subsidiary Redcentric Solutions Limited acquired the consulting business from Sungard Availability Services (UK) Limited (in administration) for £4.2m consideration in cash. The business provides services in respect of business continuity, cloud and infrastructure, cyber resilience, disaster recovery and hybrid cloud transformation services alongside the provision and operation of Cloud related services. Management consider the signing of the Agreement for the sale of assets as the change of control and therefore acquisition date for the transaction. No costs in relation to this acquisition have been incurred in the year.

On 27 June 2022 the Group's trading subsidiary Redcentric Solutions Limited acquired 100% of the issued share capital of 4D Data Centres Limited for £10.5m consideration paid in cash. The business provides colocation, cloud and connectivity services to mid-market customers. The primary purpose of the business combination is to scale the Group's existing revenues in this area with significant synergies expected as the acquisition is integrated into the Group. Management consider signing of the share purchase agreement (SPA) on 27 June 2022 as the change of control and therefore acquisition date for the transaction. No costs in relation to this acquisition have been incurred in the year.

On 6 July 2022 the Group's trading subsidiary Redcentric Solutions Limited acquired certain business and assets relating to three data centres "DCs" from Sungard Availability Services (UK) Limited (in administration) for initial consideration of £10.1m with contingent consideration with a maximum potential value of £19m depending on customer retention and certain performance criteria.

The Group is undertaking an exercise to establish the fair value of the net assets acquired in each of these post year end acquisitions. However, due to the timing of the acquisitions this exercise is ongoing and it is not possible to provide further detail at this stage.

On 8 July 2022 the Group settled a supplier dispute resulting in the payment of contract termination fees (£0.4m) and legal fees of (£0.1m) which will be accounted for as exceptional items in FY23.

[2] For an explanation of the alternative performance measures used in this report, please refer to page 22.

36 Contingent liability

During the FCA investigation the Group made a claim under its insurance policy in relation to defence costs for which a provision was recognised in the prior year of £0.5m for costs potentially repayable (the "scheme fees provision"). Following professional advice and further developments in the year, the Group no longer consider repayment of these fees to be probable. As a result, the related provision has been released and a contingent liability is disclosed for the £0.5m.

Company Balance Sheet

as at 31 March 2022

	Note	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Fixed assets			
Investments	2	**104,051**	102,983
Deferred tax	3	**406**	-
		104,457	102,983
Current liabilities			
Creditors – amounts falling due within one year	4	**(16,242)**	(21,633)
Provisions	5	**-**	(554)
Net current liabilities		**(16,242)**	(22,187)
Net assets		**88,215**	80,796
Capital and reserves			
Called up share capital		**157**	156
Share premium account		**73,267**	73,267
Share option reserve		**7,843**	6,776
Own shares held in treasury		**(2,673)**	(32)
Retained earnings		**9,621**	629
Total shareholders' funds		**88,215**	80,796

The notes on pages 125 to 129 are an integral part of these financial statements.

The financial statements of Redcentric Plc (Registration Number 08397584) on pages 123 to 124 were approved by the Board on 21 July 2022 and are signed on its behalf by:

David Senior
Chief Financial Officer

Company Statement of Changes in Equity

for the year ended 31 March 2022

	Called up Share Capital £000	Share Premium £000	Share option reserve £000	Own shares held in treasury £000	Retained Earnings £000	Total Equity £000
Balance at 1 April 2020	149	65,734	6,194	(724)	3,894	75,247
Loss for the period	-	-	-	-	(1,199)	(1,199)
Transactions with owners						
Dividend paid to shareholders	-	-	-	-	(1,868)	(1,868)
Issue of new shares	7	7,533	-	-	-	7,540
Share option exercises	-	-	-	692	(198)	494
Share-based payments	-	-	582	-	-	582
At 31 March 2021	156	73,267	6,776	(32)	629	80,796
Profit for the period	-	-	-	-	14,633	14,633
Transactions with owners						
Dividend paid to shareholders	-	-	-	-	(5,627)	(5,627)
Issue of new shares	1	-	-	-	-	1
Share option exercises	-	-	-	25	(14)	11
Share buyback	-	-	-	(2,666)	-	(2,666)
Share-based payments	-	-	1,067	-	-	1,067
At 31 March 2022	**157**	**73,267**	**7,843**	**(2,673)**	**9,621**	**88,215**

Notes to the Company Financial Statements

for the year ended 31 March 2022

1 Accounting policies

These separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC). Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("Adopted IFRSs"),but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. These policies have all been applied consistently throughout the year unless otherwise stated.

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 investments;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRS;
- 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 the 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;
- 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, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

1.1 Investments

Investments in subsidiaries are carried at cost less impairment which is based on the fair value at acquisition. Investments are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. 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.

1.2 Income taxes

The taxation expense charged in the statement of comprehensive income represents the sum of the current tax expense and the deferred tax expense.

The current tax payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the Group statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Company Financial Statements

for the year ended 31 March 2022

1 Accounting policies (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred 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.

1.3 Dividends

Dividends payable to equity shareholders are included in the financial statements within 'other creditors' when a final dividend is approved by shareholders in a general meeting. Interim dividends to equity shareholders approved by the board during the financial year are not included in the financial statements until paid.

Dividends receivable from the Company's investments are recorded in the Company income statement once the dividend has been declared and approved by the board.

1.4 Provisions

Provisions are recognised when the Company 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.

1.5 Treasury shares

Redcentric Plc shares held by the Company are deducted from equity as "treasury shares" and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to reserves. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of equity shares.

1.6 Share based payments

The cost of equity-settled transactions with employees of the Group 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 in the subsidiary company 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.

Notes to the Company Financial Statements

for the year ended 31 March 2022

Accounting policies (continued)

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 costs of equity-settled transactions with group employees are settled by Redcentric Solutions Limited on behalf of the parent Company and added to the cost of the investment in the parent Company.

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

1.7 Key judgements and sources of estimation uncertainty

There were no critical accounting judgements that would have a material effect on the amounts recognised in the Company's financial statements or key sources of estimation uncertainty at the balance sheet date that would have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year. Impairment reviews show significant headroom and there are no additional indicators to suggest that the Company's investments should be impaired.

2 Investments held as fixed assets

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Investments in subsidiaries	**96,062**	96,062
Capital contribution related to share-based payments for subsidiaries	**7,989**	6,921
	104,051	102,983

All of the Company's investments are unlisted. Details of subsidiary undertakings are included in note 31 of the Group financial statements.

The Company's investments have been tested for impairment and, to confirm whether an impairment is necessary, management compares the carrying value to the value in use.

The value in use has been calculated using budgeted cash flow projections to the period of 31 March 2024, extrapolated for a further three years by an average annual revenue growth rate of 2.0% (FY21: 1.5%). A terminal value based on a perpetuity calculation using a 0.0% real growth rate was then added (FY21: 0.0% growth).

Notes to the Company Financial Statements

for the year ended 31 March 2022

2 Investments held as fixed assets (continued)

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

- Gross margin percentage increasing to 63% (FY21: 60.5%)
- Operating costs increasing by 1.5% (FY21: 1.5%)
- Pre-tax discount rate of 11.8% (FY21: 8.3%) (post tax rate of 7.2% (FY21: 7.0%) estimated using a weighted average cost of capital, adjusted to reflect current market assessments of the time value of money and the risks specific to the Group; and
- Terminal growth rate percentage consistent with the market the entity operates in.

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

3 Deferred tax

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Deferred tax asset on tax losses	**406**	-
	406	-

4 Creditors – amounts falling due within one year

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Amounts owed to subsidiaries	**16,242**	21,633

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

Notes to the Company Financial Statements

for the year ended 31 March 2022

5 Provisions

	Scheme Fees provision £000	Restitution Scheme provision £000
At 1 April 2020	-	11,429
Additional provision created during the period	554	130
Utilised during the period	-	(9,387)
Released during the period	-	(2,172)
At 31 March 2021	554	-
Additional provisions created during the period	-	-
Utilised during the period	(26)	-
Released during the period	(528)	-
At 31 March 2022	-	-

The scheme fees provision represented costs repayable on adviser fees in relation to the FCA Investigation. The provision was released in FY22 as repayment is no longer considered probable.

6 Share capital

Details of the share capital of the company are disclosed in note 27 to the consolidated financial statements. During the year the Company purchased, and held in treasury, 2,170,203 of its ordinary share capital (FY21: nil) for total proceeds of £2,666,246 (FY21: £nil). The total shares held in treasury at 31 March 2022 was 2,170,203 (31 March 2021: 33,284).

7 Auditor' remuneration

The Company audit fee is £30,000 (FY21: £25,000). This fee was borne by another Group company.

8 Related parties

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

Directors' emoluments are disclosed in the Annual Report on Remuneration of the consolidated financial statements on page 58.

There were no other transactions with related parties in the year to 31 March 2022.

9 Contingent liabilities

During the FCA investigation the Group made a claim under its insurance policy in relation to defence costs for which a provision was recognised in the prior year of £0.5m for costs potentially repayable (the "scheme fees provision"). Following professional advice and further developments in the year, the Group no longer consider repayment of these fees to be probable. As a result, the related provision has been released and a contingent liability is disclosed for the £0.5m.

“From the signing of the contract, through to delivery, Redcentric’s turnaround was very quick. Redcentric delivered exactly what was promised and delivered ahead of schedule.”

ArmstrongWatson®
Accountants, Business & Financial Advisers

Directors and advisers

Directors

Executive

Peter Brotherton – Chief Executive Officer

David Senior – Chief Financial Officer

Non-executive

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