29th June 2017

Redcentric plc ("Redcentric" or "the Company")

Preliminary announcement for year ended 31st March 2017

Redcentric plc (AIM: RCN), a leading UK IT managed services provider, today announces its unaudited results for the year ended 31st March 2017.

SUMMARY

- A challenging year but trading in line with revised expectations
- Finance function and processes materially strengthened
- Strong sales & recurring business performance; good sales pipeline looking forward.

FINANCIAL HIGHLIGHTS*

- Revenue of £104.6m, including £90.2m (86.2%) of recurring revenue
- Adjusted EBITDA** of £17.3m, representing an adjusted EBITDA margin of 16.5%
- Non-recurring charges of £5.5m***
- Operating*** loss from operations of (£3.0m)
- Adjusted EPS**** 4.45p. Statutory EPS loss of (1.60)p
- Net debt £39.5m
- No dividend is payable for the year
- Banking facilities refinanced in April 2017.

*As a result of the scale of the restatements to the comparative numbers and on the basis that the auditors intend to issue a qualified audit report on the 2016 Income Statement, we have not sought to comment on comparative trading performance figures.

**Earnings before interest, tax, depreciation, amortisation of acquired intangibles, non-recurring costs and share based payments.

***Operating loss from operations includes non-recurring costs of £5.5m, of which £2.9m relates to additional debtor provisions.

******** Adjusted Earnings per Share excludes amortisation of acquired intangibles, non-recurring costs and share based payments and replaces the reported tax credit with a notional tax charge at the full rate of corporation tax.

OPERATIONAL HIGHLIGHTS

- Sales targets met with 88 new logo wins in year totalling £19.4m of total contract value from new customers ("TCV") including Pizza Express and NHS Digital
- Renewed three key Public Sector contracts
- Net new business to cross sell new business ratio 35:65
- New business sales pipeline (from new and cross-sale opportunities) strong at approximately £89m TCV
- Significant growth capacity in existing network and datacentre estates
- Jon Kempster and Steve Vaughan both appointed non-executive directors

REMEDIAL PLAN

- Appointment of Peter Brotherton as Chief Financial Officer
- New auditors in place from May 2017
- Balance sheet fully reviewed by three audit firms
- Lending banks remain supportive with amended facilities agreed and in place
- More robust internal controls around cash reconciliations and improvements to billing and credit control management systems and processes
- Delivery underway for the replacement of multiple legacy back office systems with standard integrated Microsoft platform
- The forensic review incurred professional fees of approximately £1.3m for the current financial year and have been included in non-recurring items
- Customer and staff loyalty and support very much in evidence through this turbulent period
- We continue to co-operate fully with the ongoing FCA investigation.

This announcement contains inside information. There will be a presentation for analysts held at 09:30hrs on 29th June 2017 at the offices of Tulchan Communications, 85 Fleet Street, EC4 1AE. Please contact redcentric@tulchangroup.com if you would like to attend.

Chris Cole, Chairman, commented:

"During this challenging period for the Company our clients and employees have remained loyal and focused, thus ensuring the day-to-day externally-facing business operations have continued satisfactorily. At the same time the financial structure and personnel have been reinforced and changed to provide resilient and accurate reporting. We now look forward to the business operating normally and trading well in markets that provide opportunities for growth".

Fraser Fisher, Chief Executive, added:

"I would like to thank our Redcentric team for their hard work and dedication throughout the last 12 months. We have taken the necessary actions to strengthen the business where it needed work. We have a loyal client base and a solid market offering exemplified by our new business and cross selling wins. The underlying business is strong, sustainable and well positioned for the future."

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Chairman's Statement

The year has been challenging following the Company's disclosure in November concerning the financial misstatements arising from past periods and the subsequent release of interim results in December 2016. Despite these events, our clients and employees have remained loyal and focused, thus ensuring that the business has continued to provide reliable services and report results in line with revised expectations.

A great deal of work has been carried out in the period. We have made a number of key appointments to ensure the ongoing strengthening and resilience of our financial management team, its processes, structure and all adjacent activities. While we continue to reinforce these activities, the overall operation of the group has largely returned to business as normal.

Summary trading results

The revenue for the year was £104.6m. Operating loss for the year was £3.0m and adjusted EBITDA* was £17.3m resulting in an adjusted EBITDA margin of 16.5%. Adjusted basic EPS** was 4.45p with a statutory EPS loss of (1.60)p.

Board and Employees

I would like to place on record my sincere thanks to all of our employees. Despite the distractions and challenges of the events from the past few months, they have carried on their work with great dedication. This has meant that we have continued to provide our clients with the support they rightly expect.

During the second half of the year a number of changes have occurred to the Board. Tony Weaver resigned from the Board as Non-Executive Director on 1 November 2016. Tim Coleman resigned from the Board as Chief Financial Officer on 7 November 2016.

On 23 November 2016 the Company announced the appointment of Peter Brotherton ACA as Chief Financial Officer, Company Secretary and a Director of the Board. Peter has over 25 years' experience across a number of senior roles. Jon Kempster joined the Board as a Non-Executive Director on 10 January 2017 and Steve Vaughan also joined the board as a Non-Executive Director post year end on 13 June 2017. Jon brings additional financial experience to the board while Steve brings a wealth of industry experience.

These changes create a strengthened Board which is important for the long term outlook of Redcentric. Furthermore, under Peter Brotherton's stewardship, the Finance Team has also been significantly reinforced to ensure the challenges of this year cannot happen again.

Dividend

While the Group remains cash generative, the Board has decided that it is not appropriate to pay a dividend in respect of the year ended 31 March 2017. The Board will review this situation on an ongoing basis.

Outlook
It is appropriate to register our thanks for the support provided to the Company by our banks and advisers. The Board is mindful that this has been an equally difficult period for Shareholders and their ongoing support has been appreciated.

We have a strengthened Board and Management Team who are absolutely focused on ensuring Redcentric has a sustainable and successful long term future. Our strong contract base and recurring nature of our business provides a solid platform for ongoing performance and growth. There remains significant opportunity for the Company to continue to establish itself as a market leader. We see no change in our clients' operational and strategic needs being matched by the delivery of our reliable and innovative services. Therefore the Board is confident that the Company will put this difficult period behind it and progress to improve Shareholder value.

Chris Cole
Non-Executive Chairman
29 June 2017

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, non-recurring costs and share based payments.
****** Adjusted Earnings per Share excludes amortisation of acquired intangibles, non-recurring costs and share based payments and replaces the reported tax credit with a notional tax charge at the full rate of corporation tax.

Operational Review

Overview

Since it started life as a new company in April 2013, Redcentric has grown and developed into one of the leading businesses in the UK managed services market, successfully delivering critical services to over 2,000 mid-market customers. We have built a strong platform, delivering a broad range of core services to our customers, enabling them to focus on improving their own businesses. We are taking the necessary actions, following the accounting misstatements, to strengthen the business. While the business has had a turbulent period, we have weathered the storm and can now return to business as usual, focussing on sales growth and high quality customer services. The underlying business is strong, sustainable and well positioned for the future.

Redcentric's proposition

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

The data centres are connected to our own fully resilient national network, providing coverage and access across the UK. From this strong base of owned managed infrastructure we are able to offer a wide range of IT managed cloud, communications and connectivity services including;

- <u>Collaboration Services.</u> Through IP telephony, messaging and video conferencing we help organisations enable their staff to communicate more effectively.
- <u>Infrastructure.</u> As a leading provider of infrastructure services, Redcentric offers a suite of Cloud services, as well as colocation, data management and virtualisation services, all offered on an "As a Service" basis.
- <u>Connectivity Services.</u> We are a significant service provider with a core backbone network, metro networks and extensive experience in delivering networks for a broad range of organisations.
- <u>Applications Services.</u> We provide packaged solutions for many sectors as well as application management services from legacy to current architecture.
- <u>Security.</u> We help protect customers from deliberate malicious attacks, or unintentional security threats from unauthorised devices and a range of other threats.
- <u>Mobile.</u> We provide a fully managed mobile service with flexibility, reliability and security.

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

Redcentric's headquarters are in Harrogate, with additional offices in London, Reading, Theale, Cambridge, Hyde and Hyderabad. The Hyderabad office operates as a fully integrated part of

Redcentric, with highly skilled second and third line technical engineers complementing the support teams in the UK as well as providing back office services. The Hyderabad office provides access to one of the world's largest sources of highly skilled technical staff, and provides flexibility in delivering high quality services to our customers.

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

Performance

The financial performance of the company is covered in the Financial Review. We focus particularly on recurring revenue, which was £90.2m (86.2% of total revenue for the year). Despite the challenges we have faced through the year with regards to our financial misstatements of previous periods, it is important to note that we have continued to be asked to tender for business, have clients renew contracts and win new clients.

We continue to generate growth by winning new business from both existing clients and new names. The ratio remains healthy with 65% of our new wins coming from cross sell to existing customers and 35% coming from brand new clients. The sales performance throughout the year was strong, with internal sales targets being achieved and 88 new names added to the client list. Some significant wins include:

- Public Healthcare sector: a £3.4m new business win delivering network services
- Private Healthcare Sector: a £2.9m five-year contract cross-sell to provide Cloud services
- Public Sector: a £3.8m two-year contract renewal for Cloud services
- Public Sector: a £2.4m two year contract renewal

We continue to believe that ownership of our own cloud, communications and connectivity infrastructure allow us to provide our clients with the peace of mind that they need as they continue to look externally for the delivery of core IT services.

In addition we have invested heavily in ISO accreditation covering many fields including service management, business continuity and security, ensuring that our high quality team of people deliver a demonstrably exemplary service.

Acquisitions

City Lifeline Ltd was acquired in January 2016 with the integration now complete and the datacentre "on-net". The Shoreditch location provides ample datacentre space. It also provides additional office space allowing for the consolidation of our London locations into a single site.

Strategy

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

Our strategy for future growth is simple;

- We will continue to win new customers, sell more to existing customers and renew our existing customer contracts.
- We will continue to invest in developing and enhancing our own infrastructure so that we can provide our customers with the very highest levels of security and service.
- We will use our scale to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry.

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

People

Redcentric's success has always been dependent on the hard work and dedication of its employees in both the UK and India. Staff numbers have increased this year to 523, with around 140 being located in our Hyderabad office. We have invested in additional space in both our Harrogate and Hyderabad offices to support the business. We are also investing in our Shoreditch location to allow the closure of our other London office.

Our Save-As-You-Earn share-save plan has been in place since December 2014 and the Company plans to launch a third round later this year to include our staff based in India for the first time. The plan provides employees with a risk-free means of sharing in the success of the Company, and I am delighted that so many have been able to participate.

Outlook

A huge amount of work has been carried out to ensure the challenges of this year will not happen again. Significant investment in our finance department has materially strengthened the personnel and systems in place. The addition of the new back office system toward the end of the financial year will cement into place a solid scalable back office platform. The board has been strengthened both by the addition of a new Chief Financial Officer and two experienced Non-Executive directors.

The team at Redcentric remain dedicated and loyal which is key within a people business. Client loyalty has also been very positive. This has been demonstrable in both contract renewal and cross sell wins. The Company has also benefitted from 88 new name customer wins throughout the year demonstrating the appeal of the Company's market offering. The sales team delivered their target last year and the current pipeline remains healthy. Redcentric is a good business with solid market potential underpinned by a robust contract base. While being very aware of the impact from this past year for Redcentric's shareholders, the Board does believe that the business has a positive long term outlook.

Fraser Fisher
Chief Executive Officer
29th June 2017

Financial Review

Summary of results

A summary of the Group's financial performance is shown below.

	2017 £'000
Statutory performance measures	
Revenue	**104,623**
Loss from operations	**(2,995)**
Basic and Diluted earnings per share	**(1.60p)**
Dividend (p)	**0p**
Adjusted financial performance measures	
Adjusted EBITDA	**17,273**
Adjusted EBITDA margin	**16.5%**
Adjusted profit from operations	**8,250**
Adjusted Basic earnings per share	**4.45**
Adjusted Diluted earnings per share	**4.32**
Other key performance indicators	
Net debt (including finance leases)	**£39.5m**
Operating cash flows to adjusted EBITDA	**54.7%**

Accounting misstatements

Net assets and net debt

Following an internal review by the Company's Audit Committee in relation to the interim results for the six months ended 30 September 2016, materially misstated accounting balances in the Group's balance sheet were discovered.

The Board acted promptly and appointed Deloitte and Nabarro to carry out an independent forensic review. The majority of misstatements arose in the group's main subsidiary, Redcentric Solutions Limited. The forensic review found that both net assets and net debt as at 31 March 2016 had been materially misstated. The misstatements arose due a combination of wilful misstatement and poor application of basic accounting controls and processes. The investigation did not find any evidence of theft.

The review found that net assets as at 31 March 2016 had been overstated by £14.9m (subsequently revised to £15.8m as per note 7). A number of accounting policies and practices, specifically those in respect of cost accrual, cost deferment and revenue recognition had been incorrectly applied.

Net debt at 31 March 2016 had been understated by £12.5m. The forensic review uncovered misstatements regarding the timing of cash receipts and cash payments. Cash receipts from customers received post year end had been incorrectly recorded as having been received pre year end and cash payments to suppliers pre year end had been incorrectly recorded as being made post year end.

In addition to the accounting errors and misstatements, supplier payments had been very significantly delayed in order to present a better net debt position (cash flows and net debt discussed below).

Certain additional misstatements have been identified, relating to 31 March 2016 and previous periods, during the preparation of the statutory accounts for the year ended 31 March 2017. The impact of these additional re-statements is to increase the overall overstatement of net assets at 31 March 2016 by £0.9m to £15.8m.

Income statement prior year comparative figures

The scale and complexity of the misstatements, along with the length of time over which the misstatement occurred, meant that the forensic review took a significant time to complete and a level of judgement was applied to the allocation of profit reduction over a number of accounting periods. The forensic review focused on the 30 September 2016 and 31 March 2016 balance sheets and additional work was undertaken by the Company to analyse and attribute the accounting misstatements back to 31 March 2015.

Whilst the audits of the subsidiary companies had been completed, the statutory accounts for the year ended 31 March 2016 were not filed at the same time as the Redcentric plc group accounts. Given the material misstatements discovered, the Group's subsidiary accounts had to be re-audited by the predecessor auditor, PwC. This was a very time consuming exercise and was completed when the subsidiary accounts were drawn up again and filed with Companies House on 28 April 2017. Whilst all of the Group's subsidiaries received unqualified audit reports on the Statements of Financial position, the Statement of Comprehensive income of Redcentric Solutions Limited received a qualified opinion as the company's former auditors, PwC, were unable to form an opinion within reasonable timescales. The directors took the view that the time and cost of the further investigations necessary to provide sufficient audit evidence would be disproportionate, and this conclusion also applies to the comparative consolidated Statement of Comprehensive Income within these financial statements, leading to a qualified opinion being issued by KPMG.

As a result of the scale of the restatements to the comparative numbers and the qualification of the audit report on the 2016 income statement, we have not sought to comment on comparative trading figures.

Remedial plan

The forensic review identified a number of process and control failings which required prompt rectification action. Significant progress has been made in improving the financial control environment post the forensic review:

- The finance team has been significantly strengthened in terms of numbers, experience and capability.
- Significantly enhanced financial controls have been applied across the business.
- Clear cash cut off policies are rigorously applied.

- The replacement of the multiple legacy back office systems is underway and a fully integrated Microsoft platform will be implemented by the start of the next financial year.

Bank refinancing

As a result of the accounting misstatements, the Group's historical financial results had to be restated and this meant that previously reported banking covenant ratios had been breached.

The Group received covenant waivers for the historical breaches from its Banking Syndicate (Barclays, NatWest and Lombard) and a revised facilities agreement was signed on 27 April 2017.

The revised facilities agreement was broadly in line with the original agreement save an increased margin.

Financial Conduct Authority investigation

On 17 March 2017, the Financial Conduct Authority ("FCA") notified Redcentric that it had commenced an investigation in connection with the Company's publication of accounting information and other announcements concerning its financial position. This followed the completion of an independent forensic review commissioned by the Board of Redcentric.

Redcentric is co-operating fully with the FCA and other relevant authorities concerning this matter.

Acquisitions and amortisation of intangibles

No acquisitions were undertaken during the year. In relation to the previous year's acquisitions, with the exception of the City Lifeline Ltd finance function, the Calyx Managed Services Ltd and City Lifeline Ltd businesses were fully integrated into the group's principal subsidiary Redcentric Solutions Ltd.

In the year ended 31 March 2017 the Group recorded an amortisation charge of £6.2m against a £6.0m restated charge in the previous year. The increase in amortisation reflected a full years charge for City Lifeline (2 months in the year ended 31 March 2016).

Capital expenditure and depreciation

Capital expenditure for the year at £8.6m was broadly consistent with the previous year.

The depreciation charge for the year was £7.5m, reflecting the higher levels of capital expenditure in the last two financial years.

Non-recurring items

Non-recurring costs amounted to £5.5m and comprise:

	2017	2016 Restated
	£000	£000
Non-recurring impairment of trade debtor balances	**2,933**	-
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**1,291**	-
Integration and restructuring costs	**658**	3,028
Vacant property provisions	**385**	1,698
Disposal of City Fibre network	**207**	-
Settlement of supplier claims	**-**	1,954
	5,474	6,680

The accounting irregularities experienced at the start of the financial year resulted in inadequate credit management during part of the year, causing a significant build-up of overdue and uncollected debt. This together with a reassessment of the basis for credit risk provisioning has resulted in one-off credit losses of £2.9m being recorded during the year ended 31 March 2017.

Given the non-recurring nature of this additional impairment charge, this has been separately disclosed within "non-recurring costs".

A non-recurring charge of £1.3m was incurred in respect of professional fees paid to Deloitte and Nabarro relating to the forensic exercise and FCA investigation.

Integration and restructuring costs relate primarily to the final operational integration of the City Lifeline and Calyx businesses.

During the year, the Birmingham and Hoddesdon offices were vacated and this led to a vacant property charge of £0.4m in the year.

During the year the Group disposed of its fibre network to City Fibre Limited and this resulted in an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.

The settlement of supplier claims resulted from a software licence audit in respect of prior years.

Cash flows / Net debt

A summary of the cash flows for the year are as follows:

	Unaudited 2017 £000	Unaudited Restated 2016 £000
Net Debt		
Cash at bank	**(4,340)**	3,970
Finance leases	**5,752**	5,592
Borrowings	**38,119**	28,175
Net Debt	**39,531**	37,737

	Unaudited 2017 £000
Operating cash flow before non-recurring costs and movements in working capital	**17,273**
Movements in inventories and trade and other receivables	1,785
Movements in trade and other payables	(9,616)
Non-recurring costs	(3,159)
Corporation tax received	71
Net cash inflow from operating activities	**6,354**
Cash flows from investing activities	
Proceeds on disposal of property, plant and equipment	5,000
Purchase of property, plant and equipment	(6,744)
Net cash outflow from investing activities	**(1,744)**
Cash flows from financing activities	
Dividends paid to shareholders	(4,406)
Interest paid	(1,209)
Repayment of borrowings	(2,435)
Drawdown on revolving credit facility	10,000
Proceeds of issue of shares less costs of issue	1,731
Net cash inflow from financing activities	**3,681**
Net increase (decrease) in cash and cash equivalents	**8,291**
Opening cash and cash equivalents (as restated)	(3,970)
Net increase (decrease) in cash and cash equivalents	8,291
Effect of exchange rates	19
Cash and cash equivalents	**4,340**

The cash flow statement is dominated by the £9.6m catch up in creditor balances. Whilst the net debt position as at 31 March 2016 is correct in technical terms. The balance was materially misstated as a result of significantly delayed payments to suppliers. The delayed payments included trade creditors and payroll creditors. Post the forensic review, the group has had a policy of paying its suppliers in accordance with their terms and this explains the £9.6m cash outflow.

Taxation

The corporation tax charge for the year reflects the offset of available tax trading losses brought forward.

Share based payments

The Group recorded a charge for share based payments during the year of £1.1m. Of this amount, £0.5m related to staff schemes and £0.6m to historic options. The staff charge for the year declined largely as a result of options lapsing due to leavers.

EPS

The statutory basic and diluted earnings per share ("EPS") in the year was (1.60)p. The Group also calculates an adjusted EPS figure to measure underlying performance, which excludes the effect of amortisation of acquired intangibles, share option charges and transaction and integration costs, and applies a normalised tax charge. Adjusted basic EPS was 4.45p with adjusted diluted EPS 4.32p.

*Adjusted earnings per share excludes amortisation of acquired intangibles, non-recurring costs and share based payments and replaces the reported tax credit with a notional tax charge at the full rate of corporation tax.

Dividends

During the year Redcentric returned £4.4m to shareholders in the form of dividends. Whilst the group remains cash generative, the board has decided that it is not appropriate to pay a dividend in respect of the year ended 31 March 2017. The board will review this situation on an ongoing basis.

Change of Auditor

KPMG were appointed as the Group's auditors on 15 May 2017.

Peter Brotherton
Chief Financial Officer
29th June 2017

Consolidated Income Statement

For the year ended 31 March

	Note	Unaudited 2017 £000	Unaudited Restated 2016 £000
Revenue		**104,623**	102,363
Cost of sales		**(43,304)**	(44,553)
Gross profit		**61,319**	57,810
Operating expenditure		**(64,314)**	(62,756)
Operating Loss		**(2,995)**	(4,946)
Analysed as:			
Adjusted EBITDA*		**17,273**	14,380
Depreciation		**(7,507)**	(5,294)
Amortisation of intangibles		**(6,207)**	(6,016)
Non-recurring costs	2	**(5,474)**	(6,680)
Share-based payments		**(1,080)**	(1,336)
		(2,995)	(4,946)
Finance costs		**(1,253)**	(1,195)
Loss on ordinary activities before taxation		**(4,248)**	(6,141)
Tax (charge)/ credit on profit on ordinary activities		**1,870**	1,946
Loss for the year (attributable to owners of the parent)		**(2,378)**	(4,195)
Earnings per share			
Basic and diluted earnings per share	3	**(1.60)p**	(2.89)p

*Earnings before interest, tax, depreciation, amortisation, non-recurring costs and share-based payments
The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	Unaudited 2017 £000	Unaudited Restated 2016 £000
Loss for the year	**(2,378)**	(4,195)
Exchange differences arising on re-translation of foreign subsidiary	**94**	(7)
Total comprehensive income	**(2,284)**	(4,202)

Consolidated Statement of Changes in Equity – Unaudited

	Called up share capital	Share premium	Capital redemption reserve	Retained earnings	**Total equity**
	£000	£000	£000	£000	**£000**
At 31 March 2015 - previously reported	**145**	**62,668**	**(9,454)**	**41,378**	**94,737**
Prior year adjustments	-	-	-	(4,413)	**(4,413)**
At 31 March 2015 – restated	**145**	**62,668**	**(9,454)**	**36,965**	**90,324**
Loss for the year (restated)	-	-	-	(4,195)	**(4,195)**
Other comprehensive gain (loss) – before tax	-	-	-	(7)	**(7)**
Total comprehensive income for the year	-	-	-	(4,202)	**(4,202)**
Transactions with owners:					
Issue of new shares	1	999	-	-	**1,000**
Dividends to shareholders	-	-	-	(5,806)	**(5,806)**
IFRS2 Charge	-	-	-	1,336	**1,336**
Deferred tax on SBP	-	-	-	(965)	**(965)**
At 31 March 2016	**146**	**63,667**	**(9,454)**	**27,328**	**81,687**
Loss for the year	-	-	-	(2,378)	**(2,378)**
Other comprehensive gain (loss) – before tax	-	-	-	94	**94**
Total comprehensive income	-	-	-	(2,284)	**(2,284)**
Transactions with owners:					
Issue of new shares	3	1,728	-	-	**1,731**
Dividends to shareholders	-	-	-	(4,406)	**(4,406)**
IFRS2 Charge	-	-	-	975	**975**
Deferred tax on SBP				(974)	**(974)**
At 31 March 2017	**149**	**65,395**	**(9,454)**	**20,639**	**76,729**

Consolidated Balance Sheet

As at 31 March

	Note	**Unaudited 2017 £000**	Unaudited Restated 2016 £000	Unaudited Restated 2015 £000
Assets				
Non-current assets				
Property plant and equipment		**21,998**	26,026	23,630
Intangible assets		**88,725**	94,191	80,503
		110,723	120,217	104,133
Current assets				
Inventories		**234**	429	-
Trade and other receivables		**25,839**	31,038	16,474
Corporation tax receivable		**369**	531	-
Cash and short term deposits		**4,340**	-	3,295
		30,782	31,998	19,769
Total assets		**141,505**	152,215	123,902
Equity and liabilities				
Equity				
Called up share capital	5	**149**	146	145
Share premium account		**65,395**	63,667	62,668
Capital redemption reserve		**(9,454)**	(9,454)	(9,454)
Retained earnings		**20,639**	27,328	36,965
Total equity		**76,729**	81,687	90,324
Non-current liabilities				
Provisions		**1,207**	1,940	489
Borrowings	4	**41,092**	31,389	9,412
Deferred tax liability		**2,112**	3,110	31
		44,411	36,439	9,932
Current liabilities				
Overdraft		**-**	3,970	-
Trade and other payables		**17,247**	27,407	20,909
Corporation tax payable		**-**	-	1,518
Borrowings	4	**2,779**	2,378	1,033
Provisions		**339**	334	186
		20,365	34,089	23,646
Total liabilities		**64,776**	70,528	33,578
Total equity and liabilities		**141,505**	152,215	123,902

Consolidated Cash Flow Statement

For the year ended 31 March

	Note	**Unaudited 2017 £000**	Unaudited 2016 £000
Cash flows from operating activities			
Loss before taxation		(4,248)	(6,141)
Net finance expense		1,253	1,195
Operating loss		(2,995)	(4,946)
Depreciation and amortisation		13,714	11,310
Non-recurring items		5,474	6,680
Share based payments		1,080	1,336
Operating cash flow before non-recurring costs and movements in working capital		**17,273**	14,380
Non-recurring costs and NI on share based payments		(3,159)	(5,081)
Operating cash flow before movements in working capital		**14,114**	9,299
Decrease (increase) in inventories		196	(429)
Decrease (increase) in trade and other receivables		1,589	(11,456)
(Decrease) increase in trade and other payables		(9,616)	833
Cash generated from operations		**6,283**	(1,753)
Corporation tax received		71	(244)
Net cash inflow from operating activities		**6,354**	(1,997)
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired		-	(13,777)
Proceeds on disposal of property, plant and equipment		5,000	-
Purchase of property, plant and equipment		(6,744)	(8,158)
Net cash outflow from investing activities		**(1,744)**	(21,935)
Cash flows from financing activities			
Dividends paid to shareholders	6	(4,406)	(5,806)
Interest paid		(1,209)	(1,127)
Repayment of borrowings		(2,435)	-
Drawdown on revolving credit facility		10,000	22,600
Proceeds of issue of shares less costs of issue		1,731	1,000
Net cash inflow from financing activities		**3,681**	17,994
Net increase (decrease) in cash and cash equivalents		**8,291**	**(7,265)**
Opening cash and cash equivalents (as restated)		(3,970)	3,295
Net increase (decrease) in cash and cash equivalents		8,291	(7,265)
Effect of exchange rates		19	-
Cash and cash equivalents		**4,340**	(3,970)

Selected notes to the Consolidated Financial Statements

Year ended 31 March 2017

1 General information and basis of preparation

The Group prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information contained within this preliminary announcement is unaudited and has been prepared under the historical cost convention.

The financial information included in this preliminary announcement does not include all the disclosures required by IFRS or the Companies Act 2006 and accordingly it does not itself comply with IFRS or the Companies Act 2006. The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2016 Annual report and accounts.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 434 of the companies Act 2006 for the years ended 31 March 2016 or 31 March 2017.

Whilst the financial information for the year ended 31 March 2016 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies, a number of adjustments have been made in respect of material misstatements to the numbers presented in the Group's 2016 annual report. These adjustments to the 31 March 2016 annual report, as set out in note 7, will be reported as prior period restatements within the statutory accounts for the year ended 31 March 2017.

Because of uncertainty as to the extent to which these adjustments relate to the year ended 31 March 2016, or to the year ended 31 March 2015, or to earlier periods, the annual report for the year ending 31 March 2017 will include a qualified audit opinion in respect of the comparative income statement and cash flow statement (for the year ended 31 March 2016) and also in relation to the opening balance sheet as at 1 April 2015.

The statutory accounts for the year ended 31 March 2017 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 29 June 2017 and has been agreed with the Company's auditors for release. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements which is available on the Group's investor website.

The preliminary announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2 Non recurring costs

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

	Unaudited 2017 £000	Unaudited Restated 2016 £000
Non-recurring impairment of trade debtor balances	**2,933**	-
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**1,291**	-
Integration and restructuring costs	**658**	3,028
Vacant property provisions	**385**	1,698
Disposal of City Fibre network	**207**	-
Settlement of supplier claims	**-**	1,954
	5,474	6,680

The accounting irregularities experienced at the start of the financial year resulted in inadequate credit management during part of the year, causing a significant build-up of overdue and uncollected debt. This together with a reassessment of the basis for credit risk provisioning has resulted in one-off credit losses of £2.9m being recorded during the year ended 31 March 2017.

Given the non-recurring nature of this additional impairment charge, this has been separately disclosed within "non-recurring costs".

An exceptional charge of £1.3m was incurred in respect of professional fees paid to Deloitte and Nabarro relating to the forensic exercise and the FCA investigation and Integration & restricting costs relate primarily to the final integration of the City Lifeline and Calyx businesses.

The vacant property provision relates solely to the Birmingham and Hoddesdon offices which were vacated during the year. This resulted in an exceptional charge of £0.4m

During the year the Group disposed of its fibre network to City Fibre Limited and this resulted in an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.

Prior year exceptional costs relate to the acquisition and integration of Calyx and City Lifeline.

3 Earnings per share

Basic earnings per share has been calculated using loss after tax for the year of £2.4m (2016: £4.2m) and a weighted average number of shares of 147,026,140 (2016: 145,223,982). The dilutive effect of share options at 31 March 2017 increased the weighted average number of shares to 151,093,267 (2016: 153,314,134).

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

	Unaudited 2017 £000	Unaudited Restated 2016 £000
Statutory earnings	**(2,378)**	(4,195)
Tax charge / (credit)	**(1,870)**	(1,946)
Amortisation of acquired intangibles**	**5,944**	5,553
Share based payments	**1,080**	1,336
Non-recurring costs	**5,474**	6,680
Adjusted earnings before tax	**8,250**	7,428
Notional tax charge at standard rate of 20%/21%	**(1,650)**	(1,560)
Adjusted earnings	**6,600**	5,868
Weighted average number of shares in issue	**148,448,225**	145,223,982
Weighted dilutive effect of options and warrants in issue	**4,295,881**	8,090,152
Diluted weighted average number of shares in issue	**152,744,106**	153,314,134
Statutory diluted and basic earnings per shares	**(1.60)p**	(2.89)p
Adjusted basic earnings per share	**4.45p**	4.04p
Adjusted diluted earnings per share	**4.32p**	3.83p

**Amortisation charge per P&L	(6,207)	(6,016)
Amortisation of software	263	463
Customer contracts and related relationships	(5,944)	(5,553)

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

4 Borrowings

	Unaudited 2017 £000	Unaudited Restated 2016 £000
Non-current		
Bank loan	**38,000**	28,308
Finance leases	**3,296**	3,353
Unamortised loan arrangement fee	**(204)**	(272)
Total non-current	**41,092**	31,389
Current		
Finance leases	**2,456**	2,239
Term Loans	**323**	139
Total current	**2,779**	2,378

At 31 March 2017 the Group was party to £71.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a Revolving Credit Facility ("RCF") of £40.0m with a £20.0m accordion, a £5.0m Overdraft Facility and a £6.0m Asset Financing Facility.

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

The Group received covenant waivers for the historical breaches from its Banking Syndicate (Barclays, NatWest and Lombard) and a revised facilities agreement was signed on 27 April 2017

	Unaudited 2017 £000	Unaudited Restated 2016 £000
Net Debt		
Cash at bank	**(4,340)**	3,970
Finance leases	**5,752**	5,592
Borrowings	**38,119**	28,175
Net Debt	**39,531**	37,737

5 Called up share capital - Unaudited

	Allotted and fully paid Number	£'000
At 31 March 2015	144,728,908	145
New shares issued	1,152,277	1
At 31 March 2016	145,881,185	146
New shares issued	2,977,988	3
At 31 March 2017	**148,859,173**	149

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.

Share issues
During the year the following shares were issued:

	2017 Number	2016 Number
Issued on the exercise of share options	**2,977,988**	354,251
Issued on the exercise of warrants	-	798,026
	2,977,988	1,152,277

As at 31 March 2017 the Company had a total of 350,000 warrants in issue with an exercise price of 36p. The warrants were issued to Barclays Bank PLC on demerger in April 2013 in exchange for warrants previously held in Redstone Plc, and can be converted to shares at any time before the sale of the entire share capital of the Company.

6 Dividends

	Unaudited 2017 £000	Unaudited 2016 £000
Amounts recognised as distributions to Shareholders in year:		
Final dividend for year ended 31 March 2016 of 3.0p (2015: 3.0p) per share	**4,406**	3,618
Interim dividend for year ended 31 March 2017 (2016: 1.5p) per share	**-**	2,188
	4,406	5,806

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

7 Error restatement

On 7 November 2016 Redcentric plc ('the Group') announced that an internal review by the Group's audit committee had discovered misstated balances in the Group's accounting records and consequently a forensic review of the Group's net assets was undertaken. Furthermore as part of the forensic review, work was undertaken to validate the previously reported net debt position of the Group.

The findings of the forensic review identified a reduction in net assets of the Group of £14.9m. This misstatement relates to prior periods and subsequently the prior year comparatives have been restated with net assets at 1 April 2015 reducing by £6.0m and as at 31 March 2016 by £14.5m.

Subsequent to this review, the Board have completed a further review of net assets as at 31 March 2016 as part of the finalisation of the 2017 annual report. As a result of this investigation further restatements have been recognised:
- relating to the consolidation of the Group's Indian subsidiary.
- other items, predominantly in relation to misstatement of and taxation and deferred taxation balances.

The cumulative impact of the above adjustments on reported profit for the year ended 31 March 2016 is £9.5m.

The accounting misstatements are discussed on pages 8-9 of the financial performance review. The impact of the prior year adjustments on the Groups income and equity arising from the restatement exercise are summarised below.

7 Error restatement (continued)

Reconciliation of Consolidated Statement of Income

For the year ended 31 March 2016

	Unaudited Previously reported	Unaudited Error restatement	**Unaudited Restated 2016**
	£000	£000	**£'000**
Revenue	109,526	(7,163)	**102,363**
Cost of sales	(45,050)	497	**(44,553)**
Gross profit	64,476	(6,666)	**57,810**
Operating expenditure	(56,037)	(6,717)	**(62,756)**
Adjusted EBITDA*	25,844	(11,464)	**14,380**
Depreciation	(5,825)	531	**(5,294)**
Amortisation of acquired intangibles	(5,548)	(468)	**(6,016)**
Non-recurring costs	(4,591)	(2,089)	**(6,680)**
Share-based payments	(1,441)	105	**(1,336)**
Operating profit/ (loss)	8,439	(13,384)	**(4,946)**
Finance costs	(995)	(200)	**(1,195)**
Profit/ (loss) on ordinary activities before taxation	7,444	(13,584)	**(6,141)**
Tax charge on profit on ordinary activities	(2,188)	4,134	**1,946**
Profit/ (loss) for the year (attributable to owners of the parent)	5,256	(9,450)	**(4,195)**

7 Error restatement (continued)

Reconciliation of Consolidated Balance Sheet

For the year ended 31 March 16

	Unaudited Previously reported £000	Unaudited Error restatement £'000	**Unaudited Restated 2016 £000**
Assets			
Non-current assets			
Property plant and equipment	28,669	(2,643)	**26,026**
Intangible assets	92,285	1,906	**94,191**
	120,954	(737)	**120,217**
Current assets			
Inventories	-	429	**429**
Trade and other receivables	35,762	(4,724)	**31,038**
Corporation tax receivable		531	**531**
Cash and short term deposits	8,492	(8,492)	**-**
	44,254	(12,256)	**31,998**
Total assets	165,208	(12,993)	**152,215**
Equity and liabilities			
Equity			
Called up share capital	146	-	**146**
Share premium account	63,667	-	**63,667**
Capital redemption reserve	(9,454)	-	**(9,454)**
Reserves	43,099	(15,771)	**26,328**
Total equity	97,458	(15,771)	**81,687**
Non-current liabilities			
Provisions	1,940	-	**1,940**
Borrowings	31,912	(523)	**31,389**
Deferred tax liability	5,139	(2,029)	**3,110**
	38,991	(2,552)	**36,439**
Current liabilities			
Overdraft	-	3,970	**3,970**
Trade and other payables	26,570	837	**27,407**
Borrowings	1,855	523	**2,378**
Provisions	334	-	**334**
	28,759	5,330	**34,089**
Total liabilities	67,750	1,497	**69,247**
Total equity and liabilities	165,208	(12,993)	**152,215**