Registered number: 11334361

Nasstar Group Limited (formerly Divitias Midco Limited)

Reports and Financial Statements

For the Year Ended 31 December 2021

Nasstar Group Limited (formerly Divitias Midco Limited)

Company Information

Directors	W W Churchill K J Budge M P Cosgrave
Registered number	11334361
Registered office	19-25 Nuffield Road Poole BH17 0RU
Independent auditors	Ernst & Young LLP No 1. Colmore Square Birmingham B4 6HQ

Nasstar Group Limited (formerly Divitias Midco Limited)

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Group Strategic Report
For the Year Ended 31 December 2021

The Directors present their Group Strategic Report together with the audited financial statements of Nasstar Group Limited ('the Company') and its subsidiaries (collectively 'the Group') for the year ended 31 December 2021.

Principal activities
The principal activity of the Group is to build and manage high quality Communications, Hybrid Cloud and Network solutions for direct customers and channel partners.

The Company acts as a holding company for its subsidiary undertakings.

Business review
On 31 July 2021, Nasstar purchased the National Business from KCOM. The total purchase consideration was £33,114k. The National Business is a leading B2B managed connectivity, unified communications, and cloud services provider with direct customers and channel partners in the UK.

The acquisition of the National Business provides scale and new capabilities in many areas. This includes enhanced voice and connectivity services and cloud expertise. Nasstar will also benefit from the addition of new routes to market via the channel network. The products and solutions provided by the National Business includes multi-site WAN implementations, unified communications, contact centres, complex cloud services and broadband wholesale services.

Executive Management was led by Wayne Churchill CEO (appointed September 2019) and Kevin Budge CFO (appointed May 2020).

The Group is divided into two business divisions:

- Communications
- A Managed IT and Cloud Business Unit

As the marketplace becomes increasingly competitive, to remain truly effective and grow, the Group will be concentrating its resources, focus its learning and energy around the specialisms that exist in the business today, and driving synergy savings from the acquisitions.

The skills, know-how and expertise in the Group is extensive. The business division structure concentrates this expertise to bring about greater focus and enables us to build a more compelling value proposition.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006

Key performance indicators.
The key performance indicators of the business are set out below:

	2021 £000's	2020 Restated (note 33) £000's
Revenue	**161,278**	**113,876**
Gross profit	**85,293**	**66,974**
EBITDA*	**23,385**	**22,112**
Loss before tax	**(50,572)**	**(85,255)**

*EBITDA is defined to be Profit before Interest, Tax, Depreciation, Amortisation, Impairments of tangible assets, Other Operating Income relating to R&D tax credits, Exceptional items, and Profit/Losses on disposal of assets.

Overall revenue for the year has increased by £47,402k over 2020, an increase of 42%. This includes a contribution of £57,200k, from the acquisition of National Business, for the period from 1 August 2021 onwards. The underlying revenue, year on year, was negatively impacted by the changes in market conditions arising directly from the Covid-19 pandemic which altered the demands of a wide range of customers across our portfolio. However, by working effectively with our customers we managed to limit the impact of these changes and continued to deliver to all our customers positively throughout the year.

Gross profit has increased by £18,319k, an increase of 27%. The acquisition of National Business from the period 1 August 2021 onwards contributed £18,172k. As part of driving synergies from the acquisition primarily in our direct cost base as well as adjusting our supply chain (relating to the Covid-19 pandemic) we made significant operational improvements in our cost base during the year.

EBITDA has increased by £1,273k, an increase of 6%. The acquisition of National Business from the period 1 August 2021 onwards contributed £4,031k.

The Directors believe that the operating improvements made during the year will continue into the forthcoming year, furthermore the Directors are pleased with both the financial and commercial improvements made during a difficult year.

Prior to the acquisition of National Business from KCOM, three long-standing customers that were transferred to Nasstar had either issued a termination notice or had stated an intention to move services away. HMRC, Citizens Advice Bureau, and BUPA, with a combined annual revenue of £25,200k. The customers consume a mixture of services which include contact centre, unified communications, and voice services. The services provided to both HMRC and BUPA consume a legacy technology platform, Cisco Workplaces, which is a private cloud service and is end-of--life technology.

The terminations by these customers led to two onerous customer contracts, The Link & NHS BSA. Under the terms of the Government Contract Framework (Crown Commercial Services ('CCS')), the business must provide services to the customer until the end of the individual contracts. These customer contracts are now loss making and the excess of the unavoidable costs of fulfilling the contracts over and above the benefits. A separate provision has been created per these onerous contracts (£928k).

An onerous supplier contract in respect of an unused datacentre with Global Switch after the termination of the customer contract has also been created. The provision of £4,500k is for the unavoidable costs of decommissioning work.

Principal risks and uncertainties
The Directors consider the principal risks and uncertainties that the Group is exposed to are regulatory change, market conditions, capital risk, credit risk and liquidity risk.

Regulatory change
The Group operates within the telecommunications sector in the UK and is therefore regulated by Ofcom and subject to the conditions of the Communications Act 2003. A breach of the regulatory requirements could result in penalties, financial or otherwise. An increase in regulation could also cause increased regulatory costs. The Group actively monitors all changes to regulations within the sector and provides training to staff to help prevent any non-compliance.

Market conditions
The Group faces the risk that adverse currency fluctuations could lead to margin erosion on any contracts already closed prior to Brexit, due to increased equipment costs. It also faces the risk that uncertainty and sentiment in the market may or may not cause customers to go out to tender, thus affecting the Group's pipeline of work. Only a small percentage of the Group's cost base is in an overseas currency, so the Business has limited exposure. The business has an ever-increasing pipeline of work and a varied customer base, which helps to spread the risk.

The Board have considered the war in Ukraine and impact on energy prices and have fixed the energy contract for 2 years from April 2022. Full year revenues in 2022 are slightly suppressed from budget, but a continued strong cost out programme following the acquisition of the National Business from KCOM along with other cost controls has mitigated this, resulting in an EBITDA that is only slightly below budget. Management have continued to monitor ongoing performance closely through the date of these financial statements.

Inflation across the economy is impacting wage inflation with the onboarding of new staff, and staff retention. The Group is well positioned to manage the inflation through ongoing customer and supplier contract reviews.

Capital risk management
The Directors consider the capital of the Group to relate to share capital, reserves, and long-term borrowings. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Directors carefully monitor the Group's long-term borrowings including the ability to service debt and long-term forecast covenant compliance. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or borrow additional debt.

Funding
The Group is funded by a £173,500k Senior Facilities Agreement ('SFA') and loan notes with carrying value of £220,237k some of which are listed on The International Stock Exchange ('TISE'). Included within the loan notes of £220,237k are ultimate controlling party loan notes totalling £166,747k, payable to Mayfair Equity Partners who own the majority of the share capital of the entire Group. The loan notes are comprised of three classes consisting of A, B, and C loan notes. The C loan notes contain a redemption premium equating to six times their subscription value and are classified as complex financial instruments which are measured at fair value. The Group also has access to a committed Revolving Credit Facility (currently undrawn) to provide additional significant liquidity headroom. As part of the amended SFA from the acquisition of the National Business on 31 July 2021 (see Note 32), the Revolving Credit Facility has increased to £15,000k.

The interest rates on each of the Group's major monetary assets and liabilities are managed to achieve the desired mix of fixed and variable rates, Measurements of this interest rate risk and its potential volatility to the Group's reported financial performance is undertaken on a regular basis.

Hedging activities are evaluated regularly to align with defined risk appetite and any interest rate risk conditions impaired by lenders; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through varying interest rate cycles. The business does not have any specific hedging instruments.

The objective of the Group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The Group expects to meet its financial obligations through operating cash flows. The Group has generated sufficient cash from operations to meet its working capital requirements. The Group monitors rolling cash flow forecasts of its liquidity requirements to ensure it has sufficient cash to meet operational needs.

Credit risk
The Group may offer credit terms to its customers which allow payment of the debt after delivery of the goods or services. The Group is at risk to the extent that a customer may be unable to pay the debt on the specified due date. This risk is mitigated by the strong ongoing customer relationships and by the exposure over a large number of customers rather than a significant concentration.

Credit risk arises from cash and cash equivalents, credit sales and deposits with banks. Credit risk related to the use of treasury instruments is managed on a Group basis. This risk arises from transactions with banks, such as those involving cash and cash equivalents and deposits. To reduce the credit risk, the Group has concentrated its main activities with a Group of banks that have secure credit ratings. For each bank, individual risk limits are set based on its financial position, credit ratings, past experience and other factors. The utilisation of credit limits is regularly monitored.

Management continually review the Group's aged debtors for potential indicators of impairment. In the instance where an indicator is identified, management will determine overall recovery from a legal perspective and provide for any irrecoverable amounts.

Future developments
For the 2022 and forward financial years, the Group has and will continue to invest in systems, processes, and integrate the acquisitions made over historical periods. The Group is expected to realise cost savings in future periods.

Strategy and objectives
Our strategic goal is to transition the Group into a stable platform for the acquisition and integration of value generating businesses.

The Directors noted growth opportunities in Microsoft products such as Teams and Azure, plus the need for scale in IT Managed Services.

Management have delivered on this strategy through a number of acquisitions including the acquisition of Modality Group in June 2019 of companies with expertise in Microsoft products and followed by the acquisition of Nasstar Plc in January 2020 which enhanced the Company's capabilities in IT Managed Services.

Energy and carbon report
This Streamlined Energy and Carbon Report ("SECR") consolidates the Group's energy consumption (kWh) and environmental impact in terms of associated greenhouse gas emissions (tonnes CO2 equivalent) for the financial year ended 31st December 2021

Nasstar Group Ltd 2021 Financial Year	Units	FY21 Total	FY2020 (Normalised)
Total energy consumption	**MWh / yr**	**8,341.4**	3,974.0
Energy consumption - breakdown			
Ops Electricity (network sites/data centres)	MWh / yr	**6,048.7**	3,502.0
Ops Electricity (3rd party sites)	MWh / yr	**1,414.8**	
Electricity (offices)	MWh / yr	**766.4**	365.0
Gas (offices)	MWh / yr	**111.5**	107.0
Total emissions (gross annual)	**t CO_2 e / yr**	**1,441.1**	957
Scope 1 emissions (directly procured gas)			
Administration (offices)	t CO_2 e / yr	**20.4**	20
Scope 2 emissions (directly procured electricity)			
Operations (network sites /data centres)	t CO_2 e / yr	**795.8**	816
Administration (offices)	t CO_2 e / yr	**162.7**	85
Scope 3 emissions			
Business travel	t CO_2 e / yr	**7.1**	36
Third party sites	t CO_2 e / yr	**300.4**	Not included
Transmission & distribution losses	t CO_2 e / yr	**154.6**	Not included
Operations metrics			
Employees (average UK based)	Number	**766**	605
Turnover (UK)	£'M / year	**167.9**	115
Intensity ratios			
Total emissions per employee	**t CO_2e/employee**	**1.88**	1.58
Operations emissions/turnover	t CO_2e/£'M	**6.5**	7.1
Non-Operations emissions/turnover	t CO_2e/£'M	**2.05**	1.2

Background
On 31 July 2021, the Group completed the acquisition of the National Business from KCOM. The greenhouse gas emissions of the enlarged Group differ significantly from the previously reported SECR figures. This a direct result of the greater energy use across the wider portfolio and the increase in number of employees and their associated business travel.

Methodology

1. **Approach**: This report is to comply with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We have followed the March 2019 HM Government Environmental Reporting Guidelines and used the GHG reporting Protocol – Corporate Standard (Revised).
2. **Description:** The scope for this SECR disclosure includes electricity and gas supplied to the network sites and data centres and offices administrative facilities occupied during the reporting period:
    a. For the first time this report includes Scope 3 emissions associated with electricity transmission and distribution losses (category 4). This reflects energy losses that occur getting electricity from the power plant to the Group's facilities where it is used.
    b. Allowance has been made for Scope 3 emissions from the upstream supply of services in the form of third-party network sites (category 4). These are directly interchangeable with emissions due to the operation of directly operated network sites and data centres.
    c. Scope 3 (category 7). Employee commuting and home working energy use and associated emissions have not been included.
    d. Energy use and emissions arising from international activities are out of scope for SECR for large unquoted organisations and are therefore not included.
    e. Where locations and sites have been taken over or vacated within the reporting period the energy use and the associated emissions have been included where they have been billed or invoiced.
    f. During this period, no fuel was recorded as being purchased for stand-by emergency generators.
3. **Sources of data:**
    a. The primary source of data are electricity and gas invoices. These typically are based on actual meter readings taken monthly or automatically for larger consuming sites.
    b. Secondary sources for electricity used are site rental agreements, and electricity use details from the invoices for the use of third-party sites.
    c. Travel emissions are calculated based on staff expense claims data and reports from Concur.
4. **Conversion factors derived from**: HM Government Conversion Factors for Company Reporting for the two years ended 31 December 2021, and BEIS guidance.
5. **Validation & verification**: Invoices for energy costs and expenses are checked and validated as part of routine finance controls.
6. **Energy use & emissions - benchmark**: All SECR reports are benchmarked against previous years data. Some decreases in energy use, travel and associated emissions can be attributed to the impact of Covid-19 (SARS CoV 2). To facilitate future performance comparisons "normalised" energy and emission figures have been included. These reflect the impact that reduced business travel and the reduced use of sites during the Covid-19 related lockdown in the reporting period.

Intensity measurement
Operational activities (i.e., network sites and data centres) represent over 75% of the Group's total reported emissions. These relate to the use of directly procured electricity in the network sites and data centres.

1. **Primary metric:** The chosen intensity measure is total gross emissions (tonnes of CO_2 equivalent) per employee.
2. **Secondary metrics**: To connects the Group's environmental and financial performance the ratio of operations and non-operation emissions to turnover has been included. These provide a basis for measuring the effectiveness of measures taken to improve energy efficiency in operational activities and the provision of the necessary admin support.

Measures taken to reduce energy use and emissions, and to improve energy efficiency.

Climate related matters may require the Group to direct its capital expenditure in new ways going forwards which may include greener assets, additional tracking of power consumption and moving to greener providers. The business will look at government backed green initiatives in future periods, and we may become eligible for grants and tax credits. Some of the initiatives taken are outlined below:

1. **Portfolio rationalisation** – During the last part of the reporting period the Group commenced decommissioning of the National Business long distance network. Further work will be continuing as the National Business acquisition is integrated into the Group.
2. **Metering and monitoring**: With the significant contribution to both energies used, and emission attributed to the use of third-party network sites steps will be taken to obtain direct metering of electricity used these locations.
3. **Heating and cooling**: Equipment consolidation and ongoing energy efficiency measures have been undertaken in the Alford and Salford Data centres.
4. **Power and lighting**: Implementation of energy efficiency measures in Alford and Salford Data Centres. Additional LED lighting upgrades
5. **Transport and travel**: Relatively low levels of business travel have been achieved during the latest reporting period driven in part by the national COVID-related restrictions.
6. **Emission offsets**: Electricity for Alford and Salford data centres has been procured with zero carbon intensity from renewable and nuclear sources. No emission offsets (e.g., purchase and surrender of emissions certificates) measures have been taken.
7. **On Site renewable generation**. The potential business case for using existing sites for onsite solar will be assessed.

The Directors have considered the impact of climate change on these financial statements and in their opinion such impact is immaterial.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of the Company consider, both individually and together, that they have acted, in good faith, in the way they consider, would be the most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 December 2021. By reference to the approval of our strategic and business plans by our stakeholders, supported by the board assurance statement accompanying our plans.

In doing so Directors have regard, among other matters, to:

- the likely consequences of any decision in the long-term;
- the interests of the Company employees;
- the need to foster the Company's business relationships with suppliers, customers, and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

While direct stakeholder engagement often takes place at senior management or operational level rather than at Board level, during the year the Board received information about stakeholder views and interests that enabled it to consider the impact of the Company's activities and Board decisions on these Groups. Directors also receive information relating to Company strategy, financial and operational performance, risks, and compliance with legal and regulatory requirements. As a result, the Directors are able to comply with their legal duty under section 172 of the Companies Act 2006.

Our plans have been designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering better quality, more competitive and reliable set of services to all our current and prospective customers. We will continue to operate our business within tight budgetary controls and in line with all regulatory and statutory requirements.

Our purpose is to harness talent and technology in an ethical manner to benefit all our stakeholders who are our customers and their industries, our shareholders, our people, and the communities in which we operate.

Our employees are fundamental to the delivery of our plans. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The health safety and well-being of our employees is one of our primary considerations in the way we do our business.

As the Board of Directors, our intention is to behave responsibly and ensure that the management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so, will contribute to the delivery of our plan. The intention is to nurture our reputation and brand presence, through both the construction and delivery of our plans, that reflects our responsible behaviour.

As the Board of Directors, our intention is to behave responsibly toward our investors and treat them fairly and equally, so they too benefit from the successful delivery of our plans. As set out further below a key strategy for our investors was the expansion of our Group's presence in servicing public sector organisations.

Our Customers are the heart of our business. We aim to deliver truly outstanding customer experiences ensuring desired outcomes and value for money. On a monthly basis the Board receives reports detailing our customers outstanding debt positions which are used to evaluate any risks in terms of cash collectability and/or trading issues which may require remedial action. In 2022, the Group will continue to assess and implement and improve our portfolio of product offering to meet the developing commercial needs of our customers at more effective prices. The Board will be considering a restructuring to ensure the on-going approach to market is more effective for our current and prospective customers.

Engagement with suppliers is key in supporting our commitment to the Supplier Code and also supports our Modern Slavery Statement (which can be found on our website). We also recognise that compliance is key for our suppliers and ourselves. Sustainability is an important part of any business strategy, and our suppliers are willing to work with us on this aspect too. We look for the right balance of global, national, and local capability, working with partners to drive innovation.

The Board of Directors maintains regular and constructive dialogue with our investors to communicate our strategy and performance in order to promote investor confidence and ensure our continued access to capital. In addition, we have conversations around acquisitions and disposals strategy and our corporate structure. As part of all these key communications we ensure that where applicable any legal, taxation or mergers & acquisitions support are engaged to ensure we remain compliant and effective in any decisions we make.

Working with our investors and the commercial leads of the business the Group established a series of market channel improvements in 2021 which should significantly increase the scale, propositions, and presence of Nasstar, enabling it to address very large enterprises and Public Sector organisations across a broader product and services portfolio. It also sees the Group become part of the NHS Health and Social Care Network ('HSCN') with it fully accredited to provide and deploy HSCN network services to the health and care sector across the UK. Following this strategy the Group announced on 25 June 2021, that Group had acquired the trade and assets of the National Business from KCOM.

This report was approved by the Board and signed on its behalf.

DocuSigned by:
kevin Budge
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K J Budge
Director

Date: 07 June 2023

Directors' Report
For the Year Ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

The Group was incorporated on 27 April 2018 issuing 1 £1 Ordinary Share which was fully paid.

Results and dividends
The loss for the year, after taxation, amounted to £54,415k (2020 restated- loss £85,335k).

No dividends were paid during the period.

Directors
The Directors who served during the year were:

W W Churchill
K J Budge
M P Cosgrave (appointed 15 March 2023)

Statement of Directors' responsibilities in respect of the financial statements
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the company financial statements, in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.;

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, that comply 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.

Disabled employees
It is the policy of the Company, where possible, to give full and fair consideration to disabled persons in their applications for employment within the Company and continuing the employment of, and arranging training for, employees who have become disabled persons whilst employed and otherwise for the training, career development and promotion of disabled persons.

Qualifying third party indemnity provisions
Qualifying third-party indemnity provisions for the benefit of the Directors were in force during the year.

Disclosure of information to auditors
Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware; and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Post balance sheet events
The Group considered how the war in the Ukraine's affected management's evaluation of disclosure controls and procedures, management's assessment of the effectiveness over financial reporting, and the role of the Board of Directors in risk oversight of any action or inaction related to Russia's invasion of Ukraine, including consideration of whether to continue or to halt interactions with customer and suppliers. A review was undertaken throughout the business and there was no known direct or indirect Russian/Belarus connections in our supply chain or customer basis. The conflict has heightened our constant upgrading of cybersecurity and volatility related to trading prices of commodities, including power charges.

On the 16 February 2023, the Group acquired 100% of the equity of Colibri Limited for a consideration of £13,100k, which was funded by £6,250k cash and £6,850k of Loan Notes. The loan notes carry a fixed interest rate of 10% per annum and have redemption date of 30 June 2026. These loan notes contain a redemption premium equating to once times the subscription value of the instrument. Colibri is a technology consultancy which focuses on assisting customers transition to cloud-based solutions.

Going concern
The Group has committed facilities of £173,500k under a Senior Facilities Agreement ('SFA') and loan notes with a carrying value of £190,618k, mainly owed to shareholders. Details of the committed facilities, including maturity can be found in Notes 18 and 19 of these Financial Statements. The Group also has access to a committed £15,000k Revolving Credit Facility ("RCF") (currently undrawn, subject to a Super Senior test) to provide additional significant liquidity headroom. The SFA and RCF has a quarterly leverage covenant test. This is the only material financial covenant test and is based on EBITDA (adjusted for exceptional items, proforma adjustments for acquisitions and synergies subject to certain criteria and limits) to net debt measured quarterly.

The Board performed several stress tests to assess the Group's ability to continue as a going concern until 30 June 2024 with a focus on 1) the sufficiency of liquidity to fund operations, and 2) whether the Group is forecast to be in compliance with the leverage covenant per the SFA, being the most pertinent covenant.

The directors are excited about their plans to significantly grow the professional services element of the business under the leadership of our new CEO as well realising the remaining planned synergies from the National Business acquisition which the directors plan will more than double the business' run-rate EBITDA. The directors are comfortable with the levels of liquidity headroom the group has under its financing arrangements; however, the group's ambitious plans mean that forecasting is inherently more uncertain. The Group has a supportive lender (Arcmont Asset Management Limited) who have confirmed that they will, if requested by management as result of an identified financial covenant breach, waive all covenants without limitation until and including 30 June 2024.

The Group had cash on balance sheet of £16,719k as at 31 March 2023 along with the fully committed and undrawn RCF of £15,000k. With its recurring revenue business model (which accounted for 87% of revenue in 2022), and with £31,719k of liquidity, the Directors are comfortable that the Group can satisfy its commitments as they fall due over the going concern period.

Having considered all the above, including the Group's current financial position, the directors are confident in the long-term prospects for the Group and its ability to continue as a going concern for the period to 30 June 2024 and therefore continue to adopt the going concern basis in preparing the financial statements.

See note 1.3 for further details.

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board and signed on its behalf.

DocuSigned by:

kevin Budge

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K J Budge
Director

Date: 07 June 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASSTAR GROUP LIMITED

Opinion

In our opinion:

- Nasstar Group Limited's Group financial statements and Parent Company financial statements (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 December 2021 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Nasstar Group Limited (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2021 which comprise:

Group	Parent Company
Consolidated statement of financial position	Company statement of financial position
Consolidated Income Statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) ("FRS102").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We understood and walked through management's process for, and controls related to, assessing going concern including discussion with management to ensure all key factors were taken into account.
- We read and considered the Directors' going concern assessment for the Group covering the period through to 30 June 2024, to understand the key assumptions upon which it was based and tested the model for integrity and for clerical accuracy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASSTAR GROUP LIMITED

- We assessed the liquidity of the Group, including its current cash resources and available debt facilities in order to meet their obligations falling due over the going concern period. We confirmed the requirements for the availability of the Group's debt facilities by checking them to the underlying agreements.

- We inspected the debt facilities agreement to confirm the basis of the leverage covenant calculation and assessed whether the EBTIDA has been correctly calculated in accordance with the definition of EBTIDA provided in the facility.

- We tested the forecast covenant compliance and liquidity availability as follows:
  - We obtained management's financial forecast for the period to 30 June 2024, which was formed as part of the refinancing in Q3 FY22 and updated following the Group's acquisition of Colibri Digital in Q1 FY23 and checked its arithmetical accuracy.
  - We assessed the underlying assumptions upon which the forecast was based (including revenue, gross margin, and EBITDA) to assess the level of uncertainty in achieving those forecasts, including consideration of the external adviser financial due diligence report on the National Business and Colibri Digital acquisitions.
  - We assessed the assumptions surrounding the level of synergies management expect to achieve and the level of uncertainty in respect of their achievability and timing of realisation.
  - We obtained the stress testing performed in the Director's going concern assessment. We checked the calculations for accuracy and evaluated the underlying assumptions and cost saving mitigations. We challenged management to prepare further stress tests to where there was increased uncertainty over the achievability and timing of sales growth and synergies.
  - We recalculated the results of the sensitivity testing performed by management to determine the impact of reasonably possibly fluctuations in key assumptions on the Group's available liquidity and covenant compliance.
  - For mitigations modelled we assessed whether management had the ability to affect these in the time period modelled.
  - We compared the forecast to the current trading performance to February 2023 by inspecting the Group's management accounts, in addition to making inquiries of management to identify issues with current trading or debtor recoverability.
  - We obtained and assessed the comfort letter provided by the Senior Facilities Agreement authorised signatories stating that they will, if requested by management as result of an identified financial covenant breach, exercise their rights to waive any such breach without limitation, up to and including the test date at 30 June 2024.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of up to the date of 30 June 2024 from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and Parent Company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the 10 components whose results were significant to the Group. • The components where we performed full or specific audit procedures accounted for 91% of EBITDA, 97% of Revenue and 99% of Total assets.
Key audit matters	• Going concern • Carrying value of intangible assets and goodwill • Revenue recognition – overstatement of sales through inconsistent pricing • Management override – exceptional item classification and journals posted to improve revenue • New acquisition accounting – National Business • A and C loan note accounting
Materiality	• Overall Group materiality is £1,203,700 which represents 5% of EBITDA.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASSTAR GROUP LIMITED (continued)

An overview of the scope of the Parent Company and Group audits

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment, the potential impact of climate change and other factors such as the results of last year's audit procedures when assessing the level of work to be performed at each company.

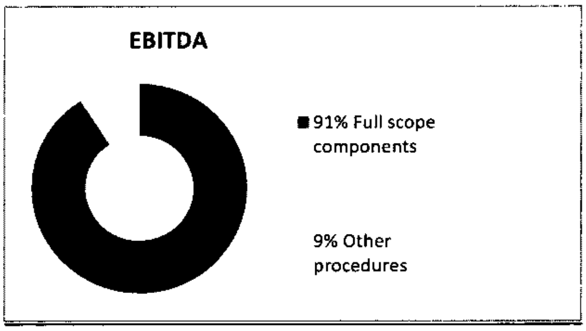
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 27 reporting components of the Group, we selected 11 components covering entities within United Kingdom, which represent the principal business units within the Group.

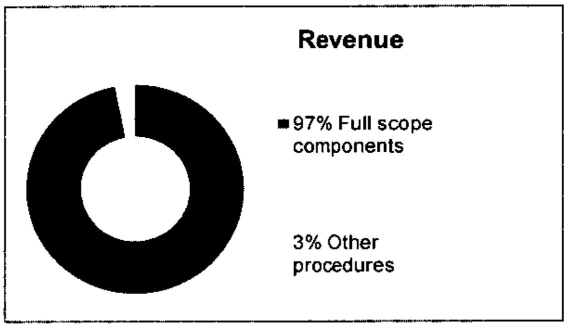
We performed an audit of the complete financial information of 11 components ("full scope components") which were selected based on their size or risk characteristics.

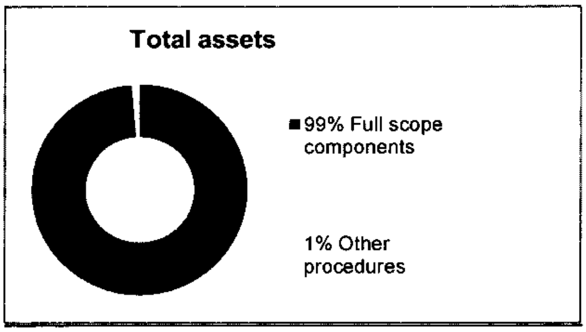
The reporting components where we performed audit procedures accounted for 91% (2020: 93%) of the Group's EBITDA, 97% (2020: 93%) of the Group's revenue and 99% (2020: 85%) of the Group's total assets. All reporting components were full scope components.

Of the remaining 16 components that together represent 9% of the Group's EBITDA, none are individually greater than 5% of the Group's EBITDA. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations, and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.







Changes from the prior year
Scoping has been influenced by the increased contribution through the acquisition of the National Business component.

All audit work performed for the purposes of the audit was undertaken by the UK Group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact UK companies. The Group has disclosed their Streamlined Energy and Carbon Report, as well as their measures taken to reduce energy use and emissions, and to improve energy efficiency.

Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, for which they have identified no material risk applicable to the preparation of the financial statements. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Carrying value of intangible assets and goodwill (FY21 £212.2m carrying value and £5.7m impairment, FY20: £212.0m carrying value and £12.3m impairment) *Refer to Accounting policies (page 37 and 38); and Note 12 of the Consolidated Financial Statements (page 47)* The Group has significant goodwill, other intangible assets, including trade names, and customer lists recognised on the balance sheet. The competitive trading environment and inherent subjectivity of forecasting performance results in this continuing to be a key audit matter.	We obtained and assessed management's impairment analysis to ensure the value in use calculation was in line with the accounting standard. We recalculated the model to assess the model integrity, including checking that it casts appropriately, that formulars are appropriate and that input data, such as CGU asset values, are complete and accurate. We assessed the key forecasts assumptions in relation to revenue, margins, and costs against historical performance and considered historical accuracy of prior year forecasts versus that achieved during FY21 and FY22 where comparable. We reconciled the forecasts used to the approved budgets. We also obtained a third-party cost saving appraisal relating to the Group's cost reduction plans that supported that other market participants would consider them when evaluating the fair value of the asset. We used internal valuations specialists to assist us in assessing the discount rate based on the size and industry the Group operates in. We challenged management to provide updates to the rate when they were outside of our acceptable range.	We consider the Group's conclusions in respect of impairment of intangible and tangible assets are appropriate, and that the £5.7m impairment of goodwill is fairly stated. The impairment disclosures are in accordance with accounting standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASSTAR GROUP LIMITED - (Continued)

	We asked management to update their calculations when new forecasts became available, to only include revenue streams that were present at the year end date, and incorporate sensitivities modelled as part of going concern. We audited the impairment disclosures and assessed their compliance with FRS102.	
Revenue recognition – overstatement of sales (FY21: £161.3m, FY20: £113.9m) *Refer to Accounting policies (page 34); and Note 2 of the Consolidated Financial Statements (page 40)* The risk of incorrect revenue recognition is a presumed risk in every audit due to auditing standards. We deem there to be a risk of material misstatement of revenue due to the nature of the Group's revenue process, as revenue recognition is driven by an application outside of the Group's accounting software which often has a manual reconciliation between systems. Given that there is no tangible good/service delivery, the occurrence of revenue transactions is harder to monitor by management and has greater opportunity to be manipulated.	We updated our understanding of the revenue process and controls across all components through enquiries, and corroborating by walking through transactions and obtaining and inspecting related evidence. We used data analytics over the entire population of revenue transactions for the 12 month period to map journal entry patterns through to trade receivables and then cash receipts and investigated anomalies. We assess revenue recognition for the most significantly sized customer contracts as well as new contracts. We considered different streams of revenue within each contract to managements treatment relative to the requirements of the accounting standard. We tested a sample of revenue transactions in each of the in-scope entities and agreed through to cash receipts. We reconciled the manually uploaded billing system data for the systems back to revenue in the ERP systems and investigated any differences above a threshold derived from allocated performance materiality. We tested cut-off of revenue transactions by selecting a sample either side of the period end and confirming the delivery of revenue into the appropriate period. We tested a sample of deferred revenue balances and verify the amounts to invoices (and cash receipts are received) prior to the period end. We tested any unexpected manual journal entry postings during the period impacting revenue.	Revenue has been appropriately recorded in the period, in all material respects, in accordance with the requirements of FRS 102. Disclosures surrounding the types and location of revenue continue to be appropriate.
Management override – exceptional item classification and journals posted to increase revenue (£3.0m, PY comparative £4.2m) *Accounting policies (page 34); and Note 11 of the Consolidated Financial Statements (page 46)* As per the requirements of the Auditing Standards, we must consider the risk that the financial statements as a whole are not free from material misstatement	We understood the controls put in place to address the risk of fraud and considered their effectiveness. We performed testing of journal entries, focusing our testing on manual postings, as well as testing postings to revenue and exceptional items accounts. We asked management to enhance the disclosures in respect of the nature of items classified as exceptional items. We introduced unpredictability, both manual and automated, across our sample selections and audit procedures.	Exceptional costs disclosed total £3.0m, and primarily relate to reorganisation and redundancy costs, professional fees related to the acquisition in the year that did not meet the criteria to capitalise, and contract settlement costs surrounding commission. We concluded that the amounts were fairly stated and appropriately disclosed.

whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. The classification of exceptional items is judgemental, and the users of the financial statements should carefully consider the items disclosed in making their own evaluation of the performance of the business.	We evaluated the business rationale for significant unusual transactions outside the normal course of business. We reviewed significant accounting estimates for evidence of management bias.	We did not identify any manual adjustments to revenue that were not appropriately accounted for.
New acquisition accounting – National Business (£33.1m, PY – no risk) *Refer to the Accounting policies (page 32); and Note 26 of the Consolidated Financial Statements (page 61)* There is judgement involved in identifying and valuing acquired intangible assets and determining the appropriate useful life of these assets. Management have established an appropriate policy in previous years, however, there remains a risk of estimation uncertainty in these judgements.	We used internal valuations specialists to support us in our assessment of the Groups purchase price allocation fair value conclusions. We inspected the sale and purchase agreement to ensure that the accounting was in line with the substance of the transaction. We agreed the total consideration back to the terms of the contract, completion accounts and bank statements. We benchmarked assumptions surrounding Weighted Average Cost of Capital ("WACC") used in the fair value of intangible assets to industry comparators. We assessed prospective financial information and compared to historic performance and external market factors to support growth assumptions. We assessed whether the useful economic lives of the acquired intangible assets are reasonable. We reconciled material balances in the opening balance sheet back to supporting information. We assessed the Group's acquisition disclosures to assess their compliance with the accounting standard. We assessed the completeness of the National Business financial data and reconciled it to the opening and closing balances and performed an analytical review to assess the income statement movement in between for indicators of contra evidence. We assessed the accounting and rationale for any opening balance adjustments including additional provisions, and onerous costs not included in the acquired business's completion accounts.	The purchase price allocation which includes the identification and fair value of the assets and liabilities acquired, is materially correct. The value of intangible assets acquired outside of the goodwill were: - Customer relationships £15.2m - Technology £1.1m Both values were within the expected ranges. The accounting basis surrounding onerous costs in the acquired opening balance sheet is materially correct. The related disclosures in the financial statements are in accordance with FRS 102.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASSTAR GROUP LIMITED - (Continued)

A and C Loan note accounting (FY21: £30.3m restatement) *Refer to the Accounting policies (page 38); and Note 33 of the Consolidated Financial Statements (pages 65-69)* On 3 February 2020, the Company issued a new tranche of existing loan notes ("A Loan Notes") and a new class of loan notes ("C Loan Notes") to fund the acquisition of Nasstar Plc. As part of this transaction, the Company issued £27,057k of A Loan Notes and £18,863k of C Loan Notes both of which mature on 30 June 2026 and accrue interest at a rate of 10% per annum and compounded on an annual basis. The C Loan Notes also have a redemption premium (less interest paid) of £113,178k equating to six times the subscription value of the instrument. Both of these loan notes were recorded at their respective nominal values (i.e. proceeds received) at inception in the Report and Financial Statements for the year ended 31 December 2020, as well as interest accrued on the nominal value. Following a further review of the documentation in respect of the loan notes, certain adjustments have been required to restate relevant figures for the year ended 31 December 2020. The key judgment relates to whether the A and C loan notes are classified as 'basic' or 'complex' under FRS 102. In addition, the measurement of any fair value adjustments on inception and at each period end date is a significant estimate.	We used internal financial accounting and valuation specialists to help us assess the appropriateness of management's accounting as well as the related fair value assessments. We assessed the appropriateness of management's judgment to restate the prior year comparatives based on the materiality of the adjustment. We have checked the accuracy of the double entry journals posted were in accordance with our understanding of the accounting, as well as agreeing the accuracy of the reversal of the original accounting entries. We have assessed whether the disclosures are complete, accurate and in accordance with the requirements of FRS 102.	The A loan notes have been determined as being a basic financial instrument, and the C loan notes as complex. Following this, the A loan notes are measured at amortised cost, and C loan notes at fair value through profit and loss. We agree with the determination is appropriate, in accordance with the relevant accounting standards. The fair values calculated by management were reassessed and updated to be within our independently assessed acceptable range. The disclosures for the restatement and explaining the judgment surrounding these loan notes are in accordance with FRS 102.

In the prior year, our auditor's report included a key audit matter in relation to the acquisition of Nasstar whereas our key audit matter is focussed on the acquisition made during the current year, National Business. In the current year we have also added the key audit matter in relation to A and C loan note accounting due to the material restatement in the financial statements. There are no (2020: no) key audit matters in respect of the Parent Company financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1,189,000 (2020: £655,000), which is 5% (2020: 3%) of EBITDA. We believe that EBITDA provides us with the most appropriate basis for the Group, as the primary internal KPI, is applicable for the covenant requirements and will be a core measure used on a future exit as applicable.

We determined materiality for the Parent Company to be £6,618,000 (2020: £6,010,000), which is 3% (2020: 3%) of the Parent Company's gross assets. Materiality is set on this basis given the primary activity of the Parent Company is to hold investments in subsidiary companies.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £594,500 (2020: £327,500). We have set performance materiality at this percentage due to the history of errors identified.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £123,000 to £399,750 (2020: £66,300 to £198,900).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £60,000 (2020: £33,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The increase is due to the continued growth of the Group through acquisitions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1-12, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework FRS102, the Companies Act 2006 and the relevant direct and indirect tax compliance regulations.
- We understood how the Group is complying with those frameworks by making enquiries of management and the audit committee. We corroborated those enquiries through our review of Board minutes and noted that there was no contradictory evidence.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk assessment performed by management, understanding the controls in place to mitigate fraud, and considering which areas may be most susceptible to the risk of management override. We also performed risk assessment analytical procedures and identified sources and types of journal entries in the company's financial

processes. Any fraud risk factors identified were evaluated to identify risk of material misstatement due to fraud as well as the presumptive risk of material misstatement due to fraud in respect of revenue recognition and management override.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved using data analytic approaches to identify any unusual journal entries, including any in the revenue process and obtaining evidence that those journals are authorised, supported by appropriate documentation and have been accounted for appropriately. We also made enquiries of those charged with governance and those outside of the finance function as to whether there was any actual or suspected fraud. These procedures were designed to provide reasonable assurance that the Group and Parent Company financial statements were free from material misstatement due to fraud.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

DocuSigned by:

Ernst & Young LLP

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James Golder (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

07 June 2023

Consolidated Income Statement
For the Year Ended 31 December 2021

	Note	2021 £000's	2020 Restated (note 33) £000's
Turnover	2	**161,278**	113,876
Cost of sales		**(75,985)**	(46,902)
Gross profit		**85,293**	66,974
Administrative expenses		**(61,910)**	(45,230)
Other operating income – Furlough credits	3	**2**	368
EBITDA		**23,385**	22,112
Depreciation	13	**(4,691)**	(3,810)
Amortisation	12	**(28,822)**	(29,227)
Impairment of tangible assets	13	**-**	(590)
Impairment of intangible assets	12	**(5,701)**	(12,272)
Gain/(loss) on disposals		**(93)**	-
Other operating income – R&D tax credits	3	**68**	146
Exceptional items	11	**(2,989)**	(4,153)
Operating loss	4	**(18,843)**	(27,794)
Interest receivable and similar income	8	**-**	12
Interest payable and similar expenses	9	**(28,965)**	(26,193)
Fair value difference on inception	33*	**-**	(24,936)
Movement on liabilities at fair value through Profit and loss	33*	**(2,764)**	(6,344)
Loss before tax		**(50,572)**	(85,255)
Tax on loss	10	**(3,843)**	(80)
Loss for the financial year		**(54,415)**	(85,335)
Loss for the year attributable to:			
Owners of the controlling party		**(54,415)**	(85,335)
		(54,415)	(85,335)

*Note 33 relates to the restatement of the year end 31 December 2020.

There were no recognised gains and losses for the two years ended 31 December 2021 other than those included in the Profit and loss account.

The notes on pages 32 to 69 form part of these financial statements.

Nasstar Group Limited (formerly Divitias Midco Limited)
Registered number: 11334361

Consolidated Statement of Financial Position
As at 31 December 2021

	Note		2021 £000's		2020 Restated (note 33) £000's
Fixed assets					
Intangible assets	12		**212,172**		212,038
Tangible assets	13		**15,411**		10,145
			227,583		222,183
Current assets					
Stocks	15	**1,243**		859	
Debtors: amounts falling due within one year	16	**57,538**		31,435	
Cash at bank and in hand		**25,779**		12,914	
		84,560		45,208	
Creditors: amounts falling due within one year	17	**(86,247)**		(54,958)	
Net current (liabilities)			**(1,687)**		(9,750)
Total assets less current liabilities			**225,896**		212,433
Creditors: amounts falling due after more than one year	18		**(391,364)**		(338,792)
Provisions for liabilities					
Deferred tax	21	**(17,173)**		(11,539)	
Other provisions	22	**(12,730)**		(3,058)	
			(29,903)		(14,597)
Net liabilities			**(195,371)**		(140,956)

Nasstar Group Limited (formerly Divitias Midco Limited)
Registered number: 11334361

Consolidated Statement of Financial Position (continued)
As at 31 December 2021

	Note	2021 £000's	2020 Restated (note 33) £000's
Capital and reserves			
Called up share capital	23	-	-
Retained earnings	24	**(195,371)**	(140,956)
		(195,371)	(140,956)

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

DocuSigned by:
Kevin Budge
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K J Budge
Director

Date: 07 June 2023

The notes on pages 32 to 69 form part of these financial statements.

Nasstar Group Limited (formerly Divitias Midco Limited)
Registered number: 11334361

Company Statement of Financial Position
As at 31 December 2021

	Note		2021 £000's		2020 Restated (note 33) £000's
Fixed assets					
Investments	14		-		-
			-		-
Current assets					
Debtors: amounts falling due after more than one year	16	**28,112**		25,499	
Debtors: amounts falling due within one year	16	**192,494**		174,862	
		220,606		200,361	
Creditors: amounts falling due within one year	17	**(33,025)**		(30,214)	
Net current assets			**187,581**		170,147
Total assets less current liabilities			**187,581**		170,147
Creditors: amounts falling due after more than one year	18		**(220,236)**		(201,084)
Net liabilities			**(32,655)**		(30,937)

Nasstar Group Limited (formerly Divitias Midco Limited)
Registered number: 11334361

Company Statement of Financial Position (continued)
As at 31 December 2021

	Note	2021 £000's	2020 Restated (note 33) £000's
Capital and reserves			
Called up share capital	23	-	-
Retained earnings	24	**(32,655)**	(30,937)
		(32,655)	(30,937)

The financial statements were approved and authorised for issue by the board and were signed on its behalf

DocuSigned by:
kevin Budge
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K J Budge
Director

Date: 07 June 2023

The notes on pages 32 to 69 form part of these financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements. The loss after tax of the Parent Company for the year was £1,718k. Loss for the company previously reported was £310k, and is now restated by £29,889 in line with adjustment.

In line with s414(1) of the Companies Act, the Company's income statement has separately been approved by the Directors.

Nasstar Group Limited (formerly Divitias Midco Limited)

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

	Called up share capital	Retained earnings	Total equity
	£000's	£000's	£000's
At 1 January 2020	-	*(55,621)*	*(55,621)*
Comprehensive expense for the period			
Loss for the year (restated per note 33)	-	**(55,446)**	**(55,446)**
At 1 January 2021 (as reported)	-	**(111,067)**	**(111,067)**
Restatement (note 33)		(29,889)	(29,889)
At 1 January 2021 (restated)		**(140,956)**	**(140,956)**
Comprehensive expense for the year			
Loss for the year	-	**(54,415)**	**(54,415)**
At 31 December 2021	-	**(195,371)**	**(195,371)**

The notes on pages 32 to 69 form part of these financial statements.

Nasstar Group Limited (formerly Divitias Midco Limited)

Company Statement of Changes in Equity
For the Year Ended 31 December 2021

	Called up share capital	Retained earnings	Total equity
	£000's	**£000's**	**£000's**
At 1 January 2020	-	**(738)**	**(738)**
Comprehensive expense for the period			
Loss for the year	-	**(310)**	**(310)**
At 1 January 2021 (as reported)	-	**(1,048)**	**(1,048)**
Restatement (note 33)		(29,889)	(29,889)
At 1 January 2021 (restated)		**(30,937)**	**(30,937)**
Comprehensive expense for the period			
Loss for the year	-	**(1,718)**	**(1,718)**
At 31 December 2021	-	**(32,655)**	**(32,655)**

The notes on pages 32 to 69 form part of these financial statements.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2021

	2021 **£000's**	2020 Restated (note 33) *£000's*
Cash flows from operating activities		
Loss for the financial year	**(54,415)**	(85,335)
Adjustments for:		
Amortisation of intangible assets	**28,822**	29,227
Depreciation of tangible assets	**4,691**	3,810
Impairments of tangible assets	-	590
Loss on disposal of tangible assets	**93**	-
Other operating income	-	(514)
Finance charges	**31,729**	57,473
Interest received	-	(12)
Taxation charge	**3,843**	80
(Increase)/decrease in stocks	**(266)**	113
Decrease in debtors	**3,364**	6,549
Increase/(decrease) in creditors	**2,409**	(7,495)
(Decrease)/Increase in provisions	**(913)**	2,350
Impairments of intangible assets	**5,701**	12,272
Corporation tax (paid)/received	**(1,096)**	(1,672)
Net cash generated from operating activities	**23,962**	**17,436**
Cash flows from investing activities		
Purchase of intangible fixed assets (note 12)	**(106)**	(113)
Purchase of tangible fixed assets (note 13)	**(2,320)**	(1,901)
Purchase of subsidiary undertaking, net of cash acquired (note 26)	**(31,888)**	(76,047)
Disposal of tangible fixed assets	**264**	-
Interest received	-	12
Deferred consideration received	-	449
Deferred consideration paid	-	(1,952)
Repayment from previous acquisition	-	363
Net cash from investing activities	**(34,050)**	**(79,189)**

Consolidated Statement of Cash Flows (continued)
For the Year Ended 31 December 2021

	2021 £000's	2020 £000's
Cash flows from financing activities		
New secured loans issued	**33,000**	35,000
Repayment of loans	**-**	(954)
Management loan notes issued	**-**	46,920
Interest paid	**(8,574)**	(8,417)
Repayments of capital element of finance leases	**(153)**	-
Loan note interest paid	**-**	(153)
Cash cost of raising finance	**(1,320)**	(1,343)
Net cash received in financing activities	**22,953**	71,053
Net increase in cash and cash equivalents	**12,865**	9,300
Cash and cash equivalents at beginning of year	**12,914**	3,614
Cash and cash equivalents at the end of year	**25,779**	12,914

Cash and cash equivalents at the end of year comprise:

	2021 £000's	2020 £000's
Cash at bank and in hand	**25,779**	12,914
	25,779	12,914

1. Accounting policies

1.1 Basis of preparation of financial statements

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements.

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

a) Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the Parent Company would be identical;

b) Disclosures in respect of the Parent Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole as per Section 11 Financial Instruments paragraphs 11.39 to 11.48A;

c) the requirement of Section 33 Related Party Disclosures paragraph 33.7; refer to section 31 in this document; and

d) the requirement of the Parent Company's cash flow statement.

The following principal accounting policies have been applied:

1.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ('the Group') as if they form a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Profit and loss account from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the Group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 27 April 2018.

1.3 Going concern

Notwithstanding the Group's net liabilities of £195,371k (2020 restated - £140,956k), which include net amounts owed to group undertakings of £52,968k (2020 - £47,856k), the directors believe the preparation of the financial statements on a going concern basis to be appropriate for the reasons set out below.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 9. The principal risks and uncertainties section includes a description of the Group's objectives, policies, and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has committed facilities of £173,500k under a Senior Facilities Agreement ('SFA') and loan notes with carrying value of £220,236k, mainly owed to shareholders. Details of the committed facilities, including maturity can be found in

1. Accounting policies (continued)

Notes 18 and 19 of these Financial Statements. The Group also has access to a committed £15,000k Revolving Credit Facility ("RCF") (currently undrawn, subject to a Super Senior test) to provide additional significant liquidity headroom.

The SFA and RCF each has a quarterly leverage covenant test. This is the only material financial covenant test and is based on EBITDA (adjusted for exceptional items, proforma adjustments for acquisitions and synergies subject to certain criteria and limits) to net debt measured quarterly.

The SFA and leverage covenant were updated and amended in October 2022 and on 17 February 2023 in connection with the annual budgeting process. The leverage covenant thresholds are now held flat until March 2024 with reducing limits on adjustments for exceptional items and future synergies. The leverage covenant threshold reduces from the 30 June 2024 test onwards by when the Directors expect the Group to have delivered all the synergies.

Despite the COVID 19 pandemic the Group has improved its EBITDA to £23,385k (2020 £22,112k) and increased its cash position by £12,865k during 2021.

The Board have considered the war in Ukraine and impact on energy prices and have fixed the energy contract for 2 years from April 2022 at a relatively good price versus costs across its duration. Full year revenues in 2022 are suppressed from forecast but a continued strong cost out programme following the acquisition of the National Business from KCOM along with other cost controls has mitigated this impact on EBITDA. Management have continued to monitor ongoing performance closely through the date of these financial statements.

The Board performed several stress tests to assess the Group's ability to continue as a going concern until 30 June 2024 with a focus on 1) the sufficiency of liquidity to fund operations, and 2) whether the Group is forecast to be in compliance with the leverage covenant per the SFA, being the most pertinent covenant.

The Directors have prepared detailed forecasts for the Group covering a period through to 30 June 2024 on which to assess going concern, plus have considered their strategic outlook beyond this period to assess if there are any conditions or expected outcomes that would cast significant doubt over the going concern conclusion.

The acquisition of the National Business in 2021 had a significant impact on the size of the business and progress with integration the group's synergy plan is ongoing. These forecasts reflect an assessment of current and future market conditions and their impact on the Group's future profitability performance, including the continued generation of a further £8,600k of synergies from the cost out programme. The forecasts also reflect the reduction in revenue from the known loss of certain contracts acquired from the acquisition of the National Business from KCOM with the impact on profitability and cash flow considered, net of certain expected cost savings given the reduced volumes.

The Group has a supportive lender (Arcmont Asset Management Limited) who have confirmed that they will, if requested by management as result of an identified financial covenant breach, waive all covenants without limitation until and including 30 June 2024. Accordingly, when the directors have been considering the forecasts for the purpose of going concern, cash headroom (and not leverage covenant headroom) has been relevant for the period to 30 June 2024. In the sensitised scenario, reflecting a severe but plausible downside, the forecasts indicate the Group would still have sufficient cash headroom. Should it become apparent that trading performance is being affected for a prolonged period, the directors will undertake a further review on discretionary expenditure and capital investment to protect the Group's position. The forecasts have also been reverse stress tested and concluded no liquidity issues.

The Group had cash on balance sheet of £16,719k as at 31 March 2023 along with the fully committed and undrawn RCF of £15,000k. With its recurring revenue business model (which accounted for 87% of revenue in 2022), and with £31,719k of liquidity, the Directors are comfortable that the Group can satisfy its commitments.

1. Accounting policies (continued)

as they fall due over the going concern period.

Having considered all the above, including the Group's current financial position, the directors remain confident in the long-term prospects for the Group and its ability to continue as a going concern for the period to 30 June 2024 and therefore continue to adopt the going concern basis in preparing the financial statements.

1.4 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

The main services that the Group provides to its customers are as follows:

1) Managed IT Services
2) Cyber Security as a Service
3) Cloud Services
4) Collaboration and Communication Services
5) Contact Centre Transformation
6) IT Professional Services
7) Managed Network Services

The services are categorised depending on their terms and conditions as follows:

1) Recurring revenue, being regular and contracted revenues; and
2) Non-Recurring revenue, being such items as professional services, hardware or software.

Revenue is recognised when the following conditions are met:

- the Group has transferred the significant risks and rewards of ownership to the customer;
- the amount of turnover can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group assesses whether the criteria for revenue recognition have been met by ensuring that products have been delivered and services have been completed in line with their contracts. Where amounts are billed in advance of delivering the service obligations these amounts are deferred.

Our customer contracts vary in length and are wholly dependent on the customers' individual needs. Some contracts, by nature of their complexity, extend for greater than 2 years, however most regular contracts have an annual renewal period.

1.5 Research and development

In the research phase of an internal project, it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs, which mainly relate to new software, are amortised on a straight-line basis over their useful economic lives of 3 years, from the date they are available for use.

Following a review made by the Directors, the capitalisation of labour on small value projects will no longer be made; capitalisation will be assessed for large projects and determination as to whether labour capitalisation is appropriate.

1. Accounting policies (continued)

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

1.6 Interest income

Interest income is recognised in the Profit and loss account using the effective interest method.

1.7 Interest expenses

Interest expenses are charged to the Profit and loss account over the term of any debt classified as basic using the effective interest method. Issue costs are initially recognised as a reduction in the proceeds of the associated financial liability.

1.8 Borrowing costs

All borrowing costs are recognised in the Profit and loss account in the year in which they are incurred.

1.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

1. Accounting policies (continued)

1.10 Exceptional items

Items are classified as exceptional where they are material and do not represent normal costs of the business and will not be incurred again in the normal course of business. Such items are recognised as an exceptional expense in the Profit and loss account in the period they are incurred.

1.11 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis to the Profit and loss account over its useful economic life of 10 years.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Patents and licences	-	5	years
Development expenditure	-	3	years
Goodwill	-	10	years
Customer lists	-	10	years

Management has elected to recognise customer relationships separately under FRS 102.18.8.

1.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided using the following economic life:

Freehold property	-	50 years
Leasehold improvements	-	the remaining lease term
Fixtures and fittings	-	5 years
Core Network Hardware	-	5 years

1. Accounting policies (continued)

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and loss account.

1.13 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets or Cash Generating Unit's ('CGU') fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

1.14 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.15 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Profit and loss account.

1.16 Financial instruments

Under Sections 11 and 12 of FRS 102, entities have an accounting policy choice to either follow the provisions of Sections 11 and 12 of FRS 102 or the recognition and measurement provisions of IAS 39 or IFRS 9 and the presentation and disclosure requirements of Sections 11 and 12. The Group has chosen to follow the provisions of Sections 11 and 12 of FRS 102.

The Group generally only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and loss account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

1. Accounting policies (continued)

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Where financial instruments are classified as complex in accordance with Section 12 of FRS 102, the fair value *of complex financial instruments is measured based on the guidance in FRS 102 set out in the Appendix to* Chapter 2: Concepts and Pervasive Principles, as required by FRS 102 12.10. Please refer to Note 18 & 33 in respect of judgements and restatements in respect of financial instruments.

Basic financial instruments are recorded initial at the transaction price (or fair value for financing transaction), and subsequently applying the amortising cost method using the effective interest rate.

1.17 Judgements and key sources of estimation uncertainty

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual outcome may diverge from these estimates if other assumptions are made, or other conditions arise.

The estimates and judgements that have the most significant effect on the amounts included in these financial statements are as follows:

- Fair value of complex financial instruments

Certain loan notes issued by the company ("C Loan Notes") are classified as complex financial instruments and are therefore measured at fair value at each reporting date. The terms of the loan notes require redemption at face value as well as a redemption premium equating to six times the subscription value. The fair value is estimated based on the expected cashflows arising on the Loan Notes, taking into account the enterprise value of the group and the likely timing of redemption. The Group has obtained external valuation advice to support the valuation of the loan notes.

- Intangible assets and goodwill carrying values

Intangible assets and goodwill are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The Group is assessed as two cash generating units.

As part of our regular annual reviews, an impairment charge of £5,701k for the period 2021, has been made against Goodwill in relation to acquisitions made by the Group. Judgements and estimates were applied during *the Director's assessment of the carrying value of the cash generating units, particularly around the long-term* growth rate, discount rate and the cash forecasts within the Business value calculations.

The carrying value was assessed using latest budgets and the 4-year strategic plan and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. Future synergies on past acquisitions are only included to the extent that they are sufficiently evidenced and would therefore be taken into account in a fair value calculation by a prospective buyer. These cash flows were risk adjusted based upon variance to budget year to date, a long-term growth rate of 2.5% (2020 – 2.25%) was applied and the cash flows were then discounted at the Group's pre-tax WACC of 9.6% (2020 - 8%). The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

1. Accounting policies (continued)

- Fair value of acquired assets

The Group can acquire identifiable assets both individually and as part of business combinations. Management estimates the fair value of identifiable assets by considering the present value of the expected future economic benefits to be generated by the asset. The Group also gain independent 3rd party valuations of acquired assets to ensure present value is correctly represented in the financial statements.

- Valuation of investments in subsidiary undertakings

The carry value is regularly reviewed by reference to the net assets or liabilities of the subsidiary undertakings and current and expected future trading prospects. If there is evidence of impairment the carrying amount of the investment is reduced to its recoverable amount. The impairment loss is recognised immediately in the Profit and loss account.

2. Turnover

An analysis of turnover by class of business is as follows:

	2021 **£000's**	2020 £000's
Recurring revenue	**116,186**	91,917
Non-recurring revenue	**45,092**	21,959
	161,278	113,876

	2021 **£000's**	2020 £000's
United Kingdom	**145,449**	105,793
Rest of Europe	**1,861**	1,934
Rest of the World	**13,968**	6,149
	161,278	113,876

3. Other operating income

	2021 **£000's**	2020 £000's
Furlough credits	**2**	368
R&D tax credits	**68**	146
	70	514

Furlough income is recognised above EBITDA and R&D tax credits are recognised below EBTIDA.

4. Operating loss

The operating loss is stated after charging:

	2021 £000's	2020 £000's
Exchange differences	**36**	135
Other operating lease rentals	**777**	797
Amortisation	**28,822**	29,227
Depreciation	**4,691**	3,810
Impairment of tangible assets	**-**	590
Impairment of intangible assets	**5,701**	12,272

5. Auditors' remuneration

	2021 £000's	2020 £000's
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	**460**	360

Fees payable to the Group's auditor and its associates in respect of:

All other services – corporate finance transactions	**1,132**	428
Total fees paid to auditors	**1,592**	788

Fees payable to the Group's auditor in respect of the audit of the Parent Company, Nasstar Group Limited, total £26k (2020 - £20k).

6. Employees

Staff costs were as follows:

	Group 2021 £000's	Group 2020 £000's
Wages and salaries	**38,871**	31,391
Social security costs	**4,202**	3,713
Cost of defined contribution scheme	**3,218**	1,996
	46,291	37,099

The average monthly number of employees of the Group, including the Directors, during the year was as follows:

	2021 No.	2020 No.
Product staff	**329**	271
Operational staff	**282**	232
Selling staff	**131**	108
Administrative staff	**109**	89
	851	700

The Parent Company has no employees other than the Directors, who did not receive any remuneration (2020 - £nil) in their capacity as Directors of the Company. The Directors of the Parent Company are remunerated by GCI Network Solutions Limited, a wholly owned subsidiary of Nasstar Group Limited. No recharges have been made to the Parent Company (2020 - £nil).

7. Directors' remuneration

	2021 £000's	2020 £000's
Directors' emoluments	**586**	494
Company contributions to defined contribution pension schemes	**11**	11

During the year retirement benefits were accruing to 2 Directors (2020 - 2) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £323k (2020 - £319k).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £11k (2020 - £11k).

Refer to note 30 for related party transactions involving one of the Directors of the Group.

8. Interest receivable

	2021 £000's	2020 £000's
Other interest receivable	**-**	12

9. Interest payable and similar expenses

	2021 £000's	2020 Restated (note 33) £000's
Bank loan interest	**9,269**	8,702
Amortised finance costs	**781**	906
Other interest	**18,915**	16,585
	28,965	26,193

Bank loan interest is charged at 5.81%-7.077% above base rate per annum, on a balance totalling £173,500k (2020 - £140,500k) at the year end.

Amortised finance costs comprise of the release of costs in relation to the financing of the Group.

Loan note interest is charged on loan notes held with the controlling parent and the ultimate controlling parent. Interest on the loan notes is charged at 10% and accrues to maturity. Certain loan notes accrue interest using the effective interest rate method. See note 18 & 33 for further details. This debt is listed on The International Stock Exchange ('TISE').

10. Taxation

	2021 **£000's**	2020 £000's
Corporation tax		
Current tax on losses for the year	**877**	348
Adjustments in respect of previous periods	**232**	(237)
	1,109	111
Total current tax	**1,109**	111
Deferred tax		
Origination and reversal of timing differences	**(1,722)**	(1,073)
Adjustment in respect of previous periods	**(80)**	(331)
Effect of change in tax rate on opening balance	**4,536**	1,372
Total deferred tax	**2,734**	(31)
Taxation charge on loss	**3,843**	80

10. Taxation (continued)

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is higher than (2020 – higher than) the standard rate of corporation tax in the UK of 19% (2020 – 19%). The differences are explained below:

	2021 £000's	2020 Restated £000's
Loss before tax	**(50,572)**	(85,255)
Loss before tax multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**(9,609)**	(16,198)
Effects of:		
Expenses not deductible for tax purposes	**8,086**	14,139
R&D expenditure credits	**(13)**	-
Adjustments to tax charge in respect of prior periods	**128**	(567)
Changes to tax rates	**3,381**	1,372
Overseas tax rate difference	**-**	47
Group relief	**1,008**	917
Movement in unrecognised deferred tax	**862**	361
Transfer pricing adjustments	**-**	9
Total tax charge for the year	**3,843**	80

Factors that may affect future tax charges – (Refer to note 21)

11. Exceptional items

Exceptional costs in the current year are comprised of the following:

	2021 £000's	2020 £000's
Reorganisation costs	**1,384**	2,552
Legal and professional fees	**1,210**	319
Contract settlement	**960**	584
Settlement of disputed costs	**(677)**	250
Rebranding costs	**91**	20
Recruitment of key personnel	**21**	-
W & I insurance prepayment release	-	379
MRR project	-	42
Other exceptional costs	-	7
	2,989	4,153

Reorganisation costs have been incurred during the year following acquisitions and restructures. These are post-acquisition, reorganisation and restructuring costs including redundancy costs of £337k for 25 employees (2020: £1,578k for 36 employees), payroll costs of £455k for 12 FTE employees (2020: £270k for 3 employees) each of whom will be redeployed elsewhere in the Group where skill sets are appropriate and if opportunities exist and a further £545k (2020: £131k) for contractors specifically engaged in the reorganisation and integration. In 2022, a further £3,565k has been incurred on the reorganisation and integration of the acquired businesses.

Exceptional costs relating to legal and professional fees are, in the main, Group restructuring advice of £191k and the assignment of a lease, on office space no longer utilised within the Group, of £340k.

Exceptional contract settlement relates to the full and final settlement of a dealer arrangement commission in 2021 and there will be none in future periods.

In 2021, settlement of a disputed costs claim was reached with a supplier. The remaining provision, after costs, has been released (£677k). In 2020, a wholly owned subsidiary of the Group completed a settlement of disputed costs with one of our preferred suppliers. No further costs have arisen.

Other exceptional costs comprise a number of unrelated, low value, one-off items.

12. Intangible assets

Group

	Patents and licences £000's	Development expenditure £000's	Customer lists £000's	Trade names £000's	Goodwill £000's	Total £000's
Cost						
At 1 January 2021	1,747	4,625	77,761	3,754	199,375	287,262
Additions	-	106	-	-	-	106
Disposals	(410)	(276)	-	-	-	(686)
On acquisition of Subsidiaries	-	1,104	15,217	-	18,230	34,551
At 31 December 2021	1,337	5,559	92,978	3,754	217,605	321,233
Amortisation						
At 1 January 2021	707	1,434	14,776	349	57,958	75,224
Charge for the year	267	981	8,410	376	18,788	28,822
Impairment charge	-	-	-	-	5,701	5,701
Disposals	(410)	(276)	-	-	-	(686)
At 31 December 2021	564	2,139	23,186	725	82,447	109,061
Net book value						
At 31 December 2021	773	3,420	69,792	3,029	135,158	212,172
At 31 December 2020	1,040	3,191	62,985	3,405	141,417	212,038

Development expenditure - As part of the acquisition of National Business from KCOM in August 2021, the Group acquired Myriad Advanced Services Platform (£1,104k) which provides customers full control of call plans and call data. Amortisation is charged annually in line with the Group policy.

Trade names - In January 2020, the Group acquired Nasstar Plc. As part of that acquisition the Group acquired the rights to several trading names with a fair value of £3,754k. Amortisation is charged annually in line with company policy.

12. Intangible assets (continued)

See Note 26 for further details on additions from the acquisition of subsidiaries, On 31 July 2021, the Group via one of its subsidiary companies, purchased the National Business from KCOM. The purchase consideration for the National Business was £28,624k plus transaction costs and deferred consideration of £2,000k.

As part of our regular annual reviews, an impairment charge totalling £5,701k has been applied against Goodwill in relation to acquisitions made by the Group. The Directors have assessed that the carrying value of 1 of the 4 cash generating units is impaired, mainly due to the effect of associated detrimental market impacts.

13. Tangible assets

Group

	Freehold property £000's	Leasehold improvements £000's	Fixtures and fittings £000's	Core network hardware £000's	Total £000's
Cost or valuation					
At 1 January 2021	2,456	863	6,758	8,044	18,121
Additions	-	6	1,232	1,084	2,322
Acquisition of subsidiary	-	55	520	7,418	7,993
Disposals	(757)	(376)	(2,394)	(673)	(4,200)
At 31 December 2021	1,699	548	6,116	15,873	24,236
Depreciation					
At 1 January 2021	674	359	3,419	3,524	7,976
Charge for the year on owned assets	20	45	1,328	3,298	4,691
Disposals	(497)	(274)	(2,396)	(675)	(3,842)
Impairment charge	-	-	-	-	-
At 31 December 2021	197	130	2,351	6,147	8,825
Net book value					
At 31 December 2021	1,502	418	3,765	9,726	15,411
At 31 December 2020	1,782	504	3,339	4,520	10,145

See Note 26 for further details on additions from the acquisition of subsidiaries.

Finance leases

Assets under finance lease arrangements have a net book value of £218k (2020: £307k) at the year end and are included within Core network hardware.

14. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Nasstar Limited (formerly Divitias Bidco Limited) *	England and Wales	Ordinary	100%
Nasstar Managed Services Group Limited (formerly GCI Managed Services Group Limited)	England and Wales	Ordinary	100%
GCI Network Solutions Limited	England and Wales	Ordinary	100%
Blue Chip Data Systems Limited	England and Wales	Ordinary	100%
Freedom Communications (U.K.) Limited	England and Wales	Ordinary	100%
Packet Media Limited	England and Wales	Ordinary	100%
Fusion Media Networks Limited	England and Wales	Ordinary	100%
Evolution Telco Limited	England and Wales	Ordinary	100%
Erskine Logie Cloud Limited	Scotland	Ordinary	100%
IA3 Limited	Scotland	Ordinary	100%
Edge Contact Solutions Limited	England and Wales	Ordinary	100%
Modality Systems Limited	England and Wales	Ordinary	100%
Modality Systems Inc.	Delaware, USA	Ordinary	100%
Modality Systems Pty Ltd	Australia	Ordinary	100%
ACT Teleconferencing Malaysia Sdn. Bhd	Malaysia	Ordinary	100%
Packet Media Holdings Limited**	England and Wales	Ordinary	100%
Fusion Managed Services Limited**	England and Wales	Ordinary	100%
Nasstar Systems Limited**	England and Wales	Ordinary	100%
Edge Telecommunications Limited**	England and Wales	Ordinary	100%
Global Communication Integrators Limited**	England and Wales	Ordinary	100%
Sweet Telecom Limited**	England and Wales	Ordinary	100%
Netservices UK Limited**	England and Wales	Ordinary	100%
IP Infrastructures Limited**	England and Wales	Ordinary	100%
Edge Technical Resources Limited**	England and Wales	Ordinary	100%
Invomo Limited**	England and Wales	Ordinary	100%
Digital IP Holdings Limited**	England and Wales	Ordinary	100%
Digital IP Limited**	England and Wales	Ordinary	100%
Edge Telecom Limited**	England and Wales	Ordinary	100%
Nasstar Services Limited (formerly Nasstar Limited)	England and Wales	Ordinary	100%
Nasstar (UK) Limited	England and Wales	Ordinary	100%
Denara Holdings Limited	England and Wales	Ordinary	100%
Nasstar for Recruitment Limited	England and Wales	Ordinary	100%
Nasstar Trading Limited (formerly Nasstar Group Limited)	England and Wales	Ordinary	100%
e-know Inc	USA	Ordinary	100%
Denara Technologies Limited**	England and Wales	Ordinary	100%
Nasstar South Limited	England and Wales	Ordinary	100%
Modrus NZ Limited	New Zealand	Ordinary	100%

14. Fixed asset investments (continued)

Subsidiary undertakings (continued)

*Direct subsidiary of Parent Company, the remaining are indirect holdings.
**Dormant entity

All of the above companies have been consolidated in the Group accounts.

The notes to the consolidated financial statements include all dormant subsidiaries that are exempt from preparing and filing individual accounts by virtue of s394A of Companies Act 2006.

The following companies have claimed the claimed the exemption from their individual entity audit under Section 479A of the Companies Act 2006 relating to subsidiary companies. These entities have been audited at Group level for inclusion within these consolidated financial statements:

Company name	Company registered number
Packet Media Limited	04398450
Nasstar Services Limited	05623736
Nasstar (UK) Limited	03499514
Nasstar for Recruitment Limited	04405334
Modality Systems Limited	06143649
Nasstar Limited	11334412
Denara Holdings Limited	04822804
Evolution Telco Limited	06721957
Erskine Logie Cloud Limited	SC482566
IA3 Limited	SC370037
Edge Contact Solutions Limited	08963115

15. Stocks

	Group 2021 £000's	Group 2020 £000's
Work in progress	**1**	19
Finished goods and goods for resale	**1,242**	840
	1,243	859

The difference between purchase price or production cost of stocks and their replacement cost is not material.

16. Debtors

	Group 2021 £000's	Group 2020 £000's	Company 2021 £000's	Company 2020 £000's
Debtors: amounts falling due after more than one year				
Amounts owed by Group companies	-	-	**28,112**	25,499
	-	-	**28,112**	25,499

The contractual obligation for the above to be repaid is in 2026.

	Group 2021 £000's	Group 2020 £000's	Company 2021 £000's	Company 2020 £000's
Debtors: amounts falling due within one year				
Trade debtors	**25,278**	16,187	-	-
Amounts owed by Group companies	-	-	**192,486**	174,856
Amounts owed by controlling parent	**4,729**	4,451	-	-
Completion accounts receivable	**774**	-	-	-
Other debtors	**266**	509	-	-
Prepayments and accrued income	**25,485**	9,269	**8**	6
Corporation tax overpayments	**1,006**	1,019	-	-
	57,538	31,435	**192,494**	174,862

Included within trade debtors is a bad debt provision totalling £2,676k (2020 - £2,218k). During the year, a bad debt expense of £852k (2020 - £297k) has been incurred.

17. Creditors: amounts falling due within one year

	Group 2021 £000's	Group 2020 £000's	**Company 2021 £000's**	Company 2020 £000's
Bank loans	**950**	260	-	-
Trade creditors	**11,350**	6,603	-	11
Amounts owed to Group companies	-	-	**3,440**	3,394
Amounts owed to controlling parent	**29,585**	26,809	**29,585**	26,809
Other taxation and social security	**5,839**	3,242	-	-
Finance lease liability (note 20)	**13**	166	-	-
Other creditors	**2,516**	313	-	-
Accruals and deferred income	**35,994**	17,565	-	-
	86,247	54,958	**33,025**	30,214

The loans payable to the controlling parent are repayable on demand, are unsecured and interest is charged at 10% p.a. which is accrued daily. Although the balances have no fixed repayment terms it is not expected that repayments will be required within the next 12 months.

18. Creditors: amounts falling due after more than one year

	Group 2021 £000's	Group 2020 Restated (note 33) £000's	**Company 2021 £000's**	Company 2020 Restated (note 33) £000's
Liabilities at amortised cost				
Bank loans	**171,128**	137,708	-	-
Amounts owed to controlling parent	**28,112**	25,499	**28,112**	25,499
Amounts owed to ultimate controlling party	**113,957**	102,108	**113,957**	102,108
Amounts owed to other shareholders	**10,252**	8,326	**10,252**	8,326
Liabilities at fair value through the Profit and loss account				
Amounts owed to ultimate controlling party	**52,790**	50,641	**52,790**	50,641
Amounts owed to other shareholders	**15,125**	14,510	**15,125**	14,510
	391,364	338,792	**220,236**	201,084

18. Creditors: amounts falling due after more than one year (continued)

- Liabilities at amortised cost

The Company issued bank loans as described in note 19. The Company has A Loan Notes in issue measured at amortised costs. The A Loan Notes are held by the ultimate controlling party, Mayfair Equity Partners, and other shareholders. The A Loan Notes are listed on The International Stock Exchange ('TISE'). The A Loan Notes are repayable on 30 June 2026, are unsecured and interest is charged at 10% p.a. which is accrued daily and compounded annually. The fair value of the A Loan Notes on inception were £12,050k with an effective interest rate of 24.67%. This represents a fair value loss on inception of £15,008k.

- Complex financial instruments held at fair value through the Profit and loss account

The Company entered into a loan agreement in February 2020 for £18,863k with Mayfair Equity Partners, Arcmont and other individuals resulting in issuance of certain loan notes ("C Loan Notes") with a maturity date of 30 June 2026 to finance the acquisition of Nasstar Plc as well as its operational and capital expenditure requirements. An additional investment of £500k was made in October 2020.

The C Loan Notes issued in 2020 accrue interest at a 10% coupon, and on redemption a six times principal redemption premium (less interest paid to date). As the amount repayable on an early redemption arising on a change of control would include a six times premium (less interest paid to date), the Loan Notes are classified as a complex financial instrument on the basis the early repayment clause does not meet the criteria for basic financial instruments in FRS 102 Section 11. These Loan Notes are therefore classified as complex financial statements and are measured through at fair value with changes in fair value presented in the Profit and loss account. The fair value is based on the expected cash payable, which is in turn based on enterprise value of the Group calculated based on EBITDA used for valuation and market multiples for the Group at the balance sheet date. The fair value at inception of the C Loan Notes was £58,806k. This represents a fair value gain on inception of £39,944k. The fair value movement to 31 December 2020 is £6,344k and the fair value movement to 31 December 2021 is £2,765k.

19. Loans

In the financial 2020 year, the Group amended its agreement for a term loan facility of £90,000k, a term capex facility of £60,000k and a revolving facility of £2,500k, along with other Group companies. As part of this agreement the facility lender holds a cross-Group guarantee across all Group companies and a debenture over the company including a fixed charge over all present leasehold property: first fixed charge over book and debts, chattels, goodwill, and uncalled capital, both present and future: and first floating charge over all assets and undertaking both present and future dated 4 May 2018.

An additional £35,000k was drawn down on 3 February 2020 with the same conditions as above.

An additional £33,000k was drawn down on 30 July 2021 with the same conditions as above. At the same time the Group increased our Revolving Credit Facility to £15,000k (currently undrawn) maturing on 4th November 2024.

As at 31 December 2021, £173,500k (2020 - £140,500k) facility had been drawn down by the Group. The balances below are offset by prepaid arrangement fees of £2,372k (2020 - £2,793k).

Loans repayable, included within creditors, are analysed as follows:

	Group 2021 £000's	Group 2020 Restated (note 33) £000's	**Company 2021 £000's**	Company 2020 Restated (note 33) £000's
Wholly repayable within five years	**391,364**	338,792	**220,236**	201,084
Not wholly repayable within five years	-	-	-	-
	391,364	338,792	**220,236**	201,084

Note: Included within the section "Wholly repayable within five years" are the loan notes classified as complex financial instruments and measured at fair value. Refer to section 18 above.

20. Finance leases

Minimum lease payments under hire purchase fall due as follows:

	Group 2021 £000's	Group 2020 £000's
Within one year	**13**	153
Between 1-5 years	**-**	13
	13	166

Finance lease liabilities in relation to core network hardware were acquired through the Nasstar Plc acquisition.

21. Deferred taxation

Group

	2021 £000's
At beginning of year	**(11,539)**
Charged to Profit and loss account (Note 10)	**(2,734)**
Acquisition of subsidiary undertaking (Note 26)	**(2,900)**
At end of year	**(17,173)**

The provision for deferred taxation is made up as follows:

	Group 2021 £000's	Group 2020 £000's
Fixed asset timing differences	**(1,824)**	1,261
Short term timing differences	**109**	37
Losses and other deductions	**343**	304
Acquired intangibles	**(15,801)**	(13,141)
	(17,173)	(11,539)

21. Deferred taxation (continued)

The amount of the net reversal of deferred tax expected to occur next year is £1,587k, at 25%, (2020 - £1,660k) relating to the reversal of existing timing differences on tangible and intangible fixed assets.

The Group has unrecognised a deferred tax asset of £631k (2020 - £578k) in relation to non-trading losses of £2,500k (2020 - £3,000k) on the basis that these are not expected to be utilised in the foreseeable future.

The Group has £6,700k (£2020 - £4,100k) of unpaid interest carried forward on which a deferred tax asset of £1,671k (2020 - £779k) has not been recognised due to the uncertainty of the timing of reversal.

Factors that may affect future tax charges

The UK Budget 2021 announcements on 3 March 2021 included an increase to the UK's main corporation tax rate from 19% to 25%, effective from 1 April 2023. These changes were substantively enacted by the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end.

22. Provisions

Provisions for Liabilities	Trading and licensing £000's	Telco. £000's	Disputed liabilities £000's	Onerous lease £000's	Onerous contract £000's	Dilapidations £000's	Total £000's
At 1 January 2021	622	566	1,511	359	-	-	3,058
Utilised during the year	(602)	(250)	(40)	(326)	-	-	(1,218)
Arising during the year	-	-	537	-	-	445	982
On acquisition (note 26)	-	-	-	-	6,840	3,745	10,585
Released during the year	-	-	(677)	-	-	-	(677)
At 31 December 2021	**20**	**316**	**1,331**	**33**	**6,840**	**4,190**	**12,730**

Trading and licensing provisions relate wholly to those suppliers for which we are obliged to undertake a regular audit assessment through which we agree full and final settlement in respect of any additional compliance costs. The amounts stated were settled during 2021, leaving a balance provided, of £20k, for future audits.

Telecommunication (Telco.) provisions relates to a settlement of disputed costs with one of our preferred suppliers, and also includes full cover for outstanding liabilities relating to as yet unsettled disputed costs following restructuring of one of our wholly owned subsidiaries. The remaining balance is uncertain but is expected to be complete within 24 months.

The provision for disputed liabilities relate to; (a) Four separate claims by customers against provision of services, under contract, by Nasstar Group. These were raised as counter claims to the Group seeking to recover outstanding receivables arising on the provision of contracted services; (b) Three supplier claims for provision of services. In all 5 new claims were provided for in 2021 and 1 from 2020 was settled. The claims brought forward relate to events that date prior to Mayfair's acquisition of the GCI Group in April 2018. These claims were secured under the acquisition agreement in April 2018, by named Covenantors. During 2020, pursuant to the acquisition agreement, the Group made a claim against the Covenantors, in satisfaction of which the Covenantors converted a corresponding portion of their preference shares and their associated share premium to create a provision for these claims. The Directors are of the opinion that the provision, as yet not utilised or released, remains necessary, and they expect the provision to be dealt with within the next 24 months.

Due to the transition to more remote working, the Directors made a decision to exit a number of properties and their associated leases which arose from acquisitions in the year. The Directors expect full utilisation of this provision no later than December 2022.

Prior to the acquisition of National Business from KCOM three long-standing customers that were transferred to Nasstar had either issued a termination notice or, had stated an intention to move services away. HMRC, Citizens Advice Bureau, and BUPA, with a combined annual revenue of £25,200k. The customers consume a mixture of services which include contact centre, unified communications, and voice services. The services provided to both HMRC and BUPA consume a legacy technology platform, Cisco Workplaces, which is a private cloud service and is end-of of-life technology.

The terminations by these customers led to two onerous customer contracts, The Link & NHS BSA. Under the terms of the Government Contract Framework (Crown Commercial Services ('CCS')), the business must provide services to the customer until the end of the individual contracts. These customer contracts are now loss making and the excess of the unavoidable costs of fulfilling the contracts over and above the benefits. A separate provision has been created per these onerous contracts (£928k).

An onerous supplier contract in respect of an unused datacentre with Global Switch after the termination of the customer contract has also been created. The provision of £4,500k is for the unavoidable costs of decommissioning work.

Provisions (continued)

The provision for dilapidations of £4,191k includes £3,744k arising from the acquisition of National Business. This provision is part of pre-acquisition balance sheet number and based upon the most up to date market available at the time. In all the provisions for dilapidations relate to 23 properties in use across the Group.

Whilst some of the settlement timings above are still under negotiation, the amounts provided for are in the Directors opinion reasonably and fairly stated and are assessed on a regular basis.

23. Share capital

Group and Company	**2021 £000's**	2020 £000's
Allotted, called up and fully paid		
1 (2020 - 1) Ordinary share of £1.00	-	-

24. Reserves

Retained earnings

The retained earnings are all other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Losses are retained in the business to offset against future profits.

All amounts are attributable to the equity holders of the company.

25. Analysis of net debt

	At 1 January 2021 Restated (note 33) £000's	**Acquisition of subsidiary £000's**	**Non-Cash Movements £000's**	**Cash flows £000's**	**At 31 December 2021 £000's**
Cash at bank and in hand	**12,914**	**-**	**-**	**12,865**	**25,779**
Debt due after 1 year	**(338,792)**	**(33,000)**	**(28,146)**	**8,574**	**(391,364)**
Debt due within 1 year	**(260)**	**-**	**(950)**	**260**	**(950)**
Finance leases	**(166)**	**-**	**-**	**153**	**(13)**
	(326,304)	**(33,000)**	**(29,096)**	**21,852**	**(366,548)**

Note: Included within the section "Debt due after 1 year" are the loan notes. Refer to section 18 above

26. Business combinations

On 31 July 2021, the Group via one of its subsidiary company, acquired 100% of the customer list and network infrastructure of the National Business from KCOM in a cash transaction.

Recognised amounts of identifiable assets acquired and liabilities assumed

	Book value £000's	Fair value adjustment £000's	Fair value £000's
Tangible	13,345	(5,352)	7,993
Intangible	-	16,321	16,321
	13,345	10,969	24,314
Stocks	117	-	117
Trade debtors	13,536	-	13,536
Accrued income	4,866	-	4,866
Prepayments	7,712	-	7,712
Other debtors	1,388	-	1,388
Total assets	40,964	10,969	51,933
Trade creditors	(5,920)	-	(5,920)
Accruals	(7,214)	-	(7,214)
Deferred income	(9,346)	-	(9,346)
Other liabilities	(1,084)	-	(1,084)
Dilapidation provision	(3,745)	-	(3,745)
Deferred taxation on acquisition	(180)	(2,720)	(2,900)
Onerous contract provision	(6,840)	-	(6,840)
Total identifiable net assets	6,635	8,249	14,884
Goodwill			18,230
Total purchase consideration			33,114

Cash outflow on acquisition

	£
Purchase consideration settled in cash	29,398
Directly attributable costs	2,490
Net cash outflow on acquisition	31,888
Deferred consideration – included in Other creditors (note 17)	2,000
Completion accounts repayment by KCOM - (Note 16)	(774)
Total purchase consideration	33,114

27. Contingent liabilities

Bank loans

The Group amended its agreement in the financial year 2020 to a term loan facility of £90,000k, a term capex facility of £60,000k and a revolving facility of £2,500k, along with other Group companies. As part of this agreement the facility lender holds a cross-Group guarantee across all Group companies and a debenture over the company including a fixed charge over all present leasehold property: first fixed charge over book and debts, chattels, goodwill, and uncalled capital, both present and future: and first floating charge over all assets and undertaking both present and future dated 4 May 2018.

An additional £35,000k was drawn down on 3 February 2020 with the same conditions as above.

An additional £33,000k was drawn down on 30 July 2021 with the same conditions as above. At the same time we increased our Revolving Credit Facility to £15,000k (currently undrawn).

As at 31 December 2021, £173,500k (2020 - £140,500k) facility had been drawn down by the Group. The balances below are offset by prepaid arrangement fees of £2,372k (2020 - £2,793k).

28. Pension commitments

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £3,218k (2020 - £1,996k). Contributions totalling £417k (2020 - £83k) were payable to the fund at the reporting date and are included in other creditors.

29. Commitments under operating leases

At 31 December 2021, the Group had future minimum lease payments under non-cancellable operating leases as follows:

Group	**2021** **£000's**	2020 £000's
Not later than 1 year	**1,280**	415
Later than 1 year and not later than 5 years	**5,339**	889
Later than 5 years	**19**	57
	6,638	1,361

30. Related party transactions

The Company has taken advantage of the exemption conferred by FRS 102 section 33.1 'Related party disclosure' not to disclose transactions with its wholly owned subsidiaries.

The notes to the consolidated financial statements include all dormant subsidiaries that are exempt from preparing and filing individual accounts by virtue of s394A of Companies Act 2006.

During the period sales of £0 (2020 - £0) and purchases of £44k (2020 - £233k) were made to/from an entity owned by a previous Director of the Company and current shareholder of the immediate controlling party. At the period end, £1.9k (2020 - £1.8k) was owed by the entity which is included within trade debtors and £0 (2020 - £117k) was owed to the entity which is included within trade creditors.

Included within other loans are loan notes totalling £294k (2020 - £294k) owned by a Director of the company and a shareholder of the immediate controlling party. Interest accrued of £126k (2020 - £87k) is included in the period end balance. No interest was paid on these notes during the period.

- Liabilities at amortised cost

The Company has A Loan Notes in issue measured at amortised costs. The A Loan Notes are held by the ultimate controlling party, Mayfair Equity Partners, and other shareholders. The A Loan Notes are listed on The International Stock Exchange ('TISE'). The A Loan Notes are repayable on 30 June 2026, are unsecured and interest is charged at 10% p.a. which is accrued daily and compounded annually. The fair value of the A Loan Notes on inception were £12,050k with an effective interest rate of 24.67%. This represents a fair value loss on inception of £15,007k.

- Complex financial instruments held at fair value through the Profit and loss account

The Company entered into a loan agreement in February 2020 for £18,863k with Mayfair Equity Partners, Arcmont and other individuals resulting in issuance of certain loan notes ("C Loan Notes") with a maturity date of 30 June 2026 to finance the acquisition of Nasstar Plc as well as its operational and capital expenditure requirements. An additional investment of £500k was made in October 2020.

The C Loan Notes issued in 2020 accrue interest at a 10% coupon, and on redemption a six times principal redemption premium (less interest paid to date). As the amount repayable on an early redemption arising on a change of control would include six times premium (less interest paid to date), the Loan Notes are classified as a complex financial instrument on the basis the early repayment clause does not meet the criteria for basic financial instruments in FRS 102 Section 11. These Loan Notes are therefore classified as complex financial statements and are measured through at fair value with changes in fair value presented in the Profit and loss account. The fair value is based on the expected cash payable, which is in turn based on enterprise value of the Group calculated based on EBITDA used for valuation and market multiples for the Group at the balance sheet date. The fair value at inception of the C Loan Notes was £58,806k. This represents a fair value gain on inception of £39,944k. The fair value movement to 31 December 2020 is £6,345k and the fair value movement to 31 December 2021 is £2,745k.

During the period the Group paid £133k (2020 - £103k) to Mayfair Equity Partners LLP, who own the majority of the share capital of the Group, in respect of monitoring fees. Loan notes of £75,050k were issued by Mayfair Equity Partners LLP to the Group in 2018, with an additional £28,047k being issued during the year. At the end of the period, £166,747k (2020 restated - £152,749k) was outstanding. Interest accrued of £63,650k (2020 restated - £49,652k) is included in the period end balance. No interest was paid on these notes during the period.

During 2020 the Group were issued loan notes of £14,873k by Arcmont Asset Management Limited, who are shareholders of the Group. At the end of the period, £20,350k (2020 restated - £18,313k) was outstanding. Interest accrued of £5,477k (2020 restated - £3,440) is included in the period end balance. No interest was paid on these notes during the period.

Management Loan notes of £19,659k were issued during 2018, with an additional £3,000k being issued during in 2020. Interest of £10,480k (2020 restated - £7,364k) was accrued therefore £33,139k (2020 restated - £30,023k) was outstanding at the period end. No interest was paid on these notes during the period.

31. Post balance sheet events

The Group considered how the Russia/Ukraine war affected management's evaluation of disclosure controls and procedures, management's assessment of the effectiveness over financial reporting, and the role of the board of Directors in risk oversight of any action or inaction related to Russia's invasion of Ukraine, including consideration of whether to continue or to halt interactions with customer and suppliers. A review was undertaken throughout the business and there was no known direct or indirect Russian/Belarus connections in our supply chain or customer basis. The conflict has heightened our constant upgrading of cybersecurity and volatility related to trading prices of commodities, including power charges.

On the 16 February 2023, the Group acquired 100% of the equity of Colibri Limited for a consideration of £13,100k, which was funded by £6,250k cash and £6,850k of Loan Notes. The loan notes carry a fixed interest rate of 10% per annum and have redemption date of 30 June 2026. These loan notes contain a redemption premium equating to once times the subscription value of the instrument. Colibri is a technology consultancy which focuses on assisting customers to transition to cloud-based solutions.

32. Controlling party

The Company's immediate controlling party is Nasstar Holdings Limited (formerly Divitias Holdco Limited). The registered office of the Parent Company is Cambridge House, Le Truchot St, Peter Port, Guernsey, GY1 4BF.

The largest and smallest Group in which the Company's results are consolidated is that for the Group headed by Nasstar Group Limited (formerly Divitias Midco Limited), i.e. these financial statements.

The ultimate controlling party is Mayfair Equity Partners LLP through its fund Mayfair Nominees.

33. Restatement of prior year results and position

On 3 February 2020, the Company issued a new tranche of existing loan notes ("A Loan Notes") and a new class of loan notes ("C Loan Notes") to fund the acquisition of Nasstar Plc. As part of this transaction, the Company issued £27,057k of A Loan Notes and £18,863k of C Loan Notes both of which mature on 30 June 2026 and accrue interest at a rate of 10% per annum and compounded on an annual basis. The C Loan Notes also have a redemption premium (less interest paid) of £113,178k equating to six times the subscription value of the instrument.

Both of these loan notes were recorded at their respective nominal values (i.e. proceeds received) at inception in the Report and Financial Statements for the year ended 31 December 2020, as well as interest accrued on the nominal value. Following a further review of the documentation in respect of the loan notes, certain adjustments have been required to restate relevant figures for the year ended 31 December 2020. These adjustments related to:

The Group and the Company had determined that new tranche of A Loan Notes should be classified as a basic financial instrument (in line with the existing class of A Loan Notes) in accordance with Section 11 of FRS 102.This is due to the fact that these loan notes are basic fixed rate instruments and do not have any features that would lead to their classification as a complex instrument. However, the Group and the Company should have recorded the new tranche of A Loan Notes at fair value at the time of their issuance and not nominal value. As a result, adjustments have been made to restate figures for year ended 31 December 2020 based on recording the new tranche of A Loan Notes at fair value at issuance, adjusting the interest accrued using the effective interest rate method.

The Group and the Company had similarly determined that the new class of C Loan Notes should be classified as a basic financial instrument (in line with the treatment of the A Loan Notes); however the C Loan Notes should have been classified as complex financial instruments in accordance with Section 12 of FRS 102. This is due to the fact that these loan notes have a redemption premium equating to six times the subscription price which would be repayable on an early redemption arising on a change of control event, and are therefore considered to be a complex financial instrument on the basis that the early repayment clause stipulates that the entire redemption premium is due which is not a reasonable compensation for early termination and therefore does not meet the criteria for basic financial instruments in FRS 102 Section 11. As the C Loan Notes should have been classified as complex financial instruments adjustments have been made to restate figures at issuance and 31 December 2020 based on recording the C Loan Notes at fair value at the relevant dates, with no separate interest accrued on the nominal amount.

The fair value of the loan notes is estimated as at the date of issuance based on the expected cashflows, taking into account the enterprise value of the Group and the likely timing of redemption together with the terms and conditions upon which the loan notes were granted. No other features of the loan notes were incorporated into the measurement of fair value. With respect to the A Loan Notes, they are subsequently measured at amortised cost with interest recorded based on the effective interest rate. With respect to C Loan Notes, they are measured at fair value at each reporting period with changes in fair value presented in the Profit and loss account.

Notes to the Financial Statements
For the Year Ended 31 December 2021

Nasstar Group Limited (formerly Divitias Midco Limited)

Group Consolidated Income Statement

For the period ended 31 December 2020

	Note	Reported £000's	Restatement £000's	Restated £000's
Operating loss		(27,794)	-	(27,794)
Interest receivable and similar income		12	-	12
Fair Value difference on inception	1	-	(24,936)	(24,936)
Interest payable and similar expenses	2	(27,584)	1,391	(26,193)
Movement on liabilities at fair value through Profit and loss account	3	-	(6,344)	(6,344)
Loss before tax		(55,366)	(29,889)	(85,255)
Tax on loss		(80)	-	(80)
Loss for the financial year		**(55,446)**	**(29,889)**	**(85,335)**

1. The fair value difference on inception relates to the difference between cash received and the fair value of the A & C Loan Notes on inception.

2. The decrease in interest payable (£1,391k) reflects the reversal of interest on C Loan notes of £1,672k (which is now included the in the fair value movement through the Profit and loss account), offset by the adjustment to interest on A loans (£281) using the effective interest method arising from the restatement on fair value.

3. Movement on liabilities at fair value through the Profit and loss account, relates to the difference between fair value of the C Loan Notes on inception and the balance sheet date.

Nasstar Group Limited (formerly Divitias Midco Limited)

Group Statement of Financial Position
As at 31 December 2020

	Note	Reported £000's	Restatement £000's	Restated £000's
Fixed assets				
Intangible assets		212,038	-	212,038
Tangible assets		10,145	-	10,145
		222,183	-	222,183
Current assets				
Stocks		859	-	859
Debtors: amounts falling due within one year		31,435	-	31,435
Cash at bank and in hand		12,914	-	12,914
		45,208	-	45,208
Creditors: amounts falling due within one year		(54,958)	-	(54,958)
Net current (liabilities)		(9,750)	-	(9,750)
Total assets less current liabilities		212,433	-	212,433
Creditors: amounts falling due after more than one year	4	(308,903)	(29,889)	(338,792)
Provisions for liabilities				
Deferred tax		(11,539)	-	(11,539)
Other provisions		(3,058)	-	(3,058)
Net liabilities	4	(111,067)	(29,889)	(140,956)

	Note	Reported £000's	Restatement £000's	Restated £000's
Capital and reserves				
Called up share capital		-	-	-
Retained earnings		(111,067)	(29,889)	(140,956)
		(111,067)	(29,889)	(140,956)

4. The increase in creditors falling due after more than one year relates to an increase in C Loan Note liabilities from £20,556k to £65,151k and a decrease in A Loan Note liabilities from £29,488k to £14,754k as shown in the note below.

Creditors: amounts falling due after more than one year

	Group 2020 Reported £000's	Group 2020 Restated £000's	Company 2020 Reported £000's	Company 2020 Restated £000's
Liabilities at amortised cost				
Bank loans	137,708	137,708	-	-
Amounts owed to controlling parent	25,499	25,499	25,499	25,499
Amounts owed to ultimate controlling party	125,452	102,108	125,452	102,108
Amounts owed to other shareholders	20,244	8,326	20,244	8,326
Liabilities at fair value through the Profit and loss account				
Amounts owed to ultimate controlling party	-	50,641	-	50,641
Amounts owed to other shareholders	-	14,510	-	14,510
	308,903	338,792	171,195	201,084

Notes to the Financial Statements
For the Year Ended 31 December 2021

Company Statement of Financial Position
As at 31 December 2020

	Note	Reported £000's	Restatement £000's	Restated £000's
Fixed assets				
Investment		-	-	-
		-	-	-
Current assets				
Debtors: amounts falling due after more than one year		25,499	-	25,499
Debtors: amounts falling due within one year		174,862	-	174,862
		200,361	-	200,361
Creditors: amounts falling due within one year		(30,214)	-	(30,214)
Net current assets		170,147	-	170,147
Total assets less current liabilities		170,147	-	170,147
Creditors: amounts falling due after more than one year	4	(171,195)	(29,889)	(201,084)
Net liabilities	4	(1,048)	(29,889)	(30,937)

	Note	Reported £000's	Restatement £000's	Restated £000's
Capital and reserves				
Called up share capital		-	-	-
Retained earnings		(1,048)	(29,889)	(30,936)
		(1,048)	(29,889)	(30,936)

Loss for the company previously reported was £310k, and is now restated by £29,889k to £30,199k in line with adjustment.