

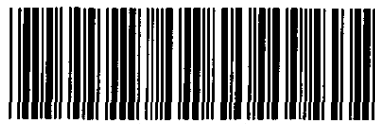
Registered number: 10756735

THEO MIDCO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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THEO MIDCO LIMITED

COMPANY INFORMATION

Directors	Simon Drew (appointed 1 April 2021) Simon Thompson
Registered number	10756735
Registered office	Baines House Midgery Court Pittman Way Fulwood Preston PR2 9ZH
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors No 1 Spinningfields 1 Hardman Square Manchester M3 3EB

THEO MIDCO LIMITED

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THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Introduction

The Directors present their strategic report for the year ended 31 December 2021.

Business review

Theo Midco Limited Group ("the Group") undertakes two related principal activities, the provision of financial products and services to both UK customers who are either approaching or are in retirement and to businesses that provide similar services to these customers. The Group has three main operating divisions – Key Advice, Manufacturing and Air Group.

Key Advice specialises in providing financial advice and information to UK residents in or approaching retirement. This advice principally relates to later life lending and estate planning (wills and lasting powers of attorney) as well as information on retirement income products.

Manufacturing includes both More 2 Life (M2L) and Standard Life Home Finance as specialist lenders that originate and administer later life lending products. Standard Life Home Finance was established during the year in collaboration with Phoenix Group PLC to bring a new range of later life lending products to market under the Standard Life brand. Key Advice, More 2 Life and Standard Life Home Finance are authorised and regulated by the Financial Conduct Authority (FCA).

Air Group provides a product sourcing tool (Air Sourcing), allowing brokers to search products for their customers based on their needs. Air Group also runs the Air Academy, providing the London Institute of Banking and Finance ("LIBF") endorsed training on how to provide good advice to customers requiring equity release solutions and the Air Mortgage Club, providing ongoing support to members as well as access to market leading product deals with lenders.

Results and performance

"The Group has performed well during 2021 despite the impact of the Covid-19 pandemic on the business. Revenues were up 18.1%, from 2020 and operating profit excluding amortisation and depreciation was up 18.5% in the year. In addition, the business generated £30m cash from its operations which is an increase of £20m from the prior year."

The statutory results for the Group show revenue of £113,021k (2020: £95,666k) up 18.1%, operating profit of £4,314k (2020: £2,656k) up 62.4% and a loss before tax of £11,146k (2020: £13,212k) down 15.6%.

The Group trading metric of "Operating profit before amortisation, depreciation, impairment, profit/loss on disposal of fixed assets and share based payment charge", which is considered by the Board to be a measure of the operating performance for the Group, was £16,971k (2020: £13,973) up 21.5% on the prior year.

The Group loss before tax of £11,146k (2020: £13,212k) despite the 15.6% improvement, continues to be impacted by £6,758k (2020: £6,758k) of amortisation on 'other intangible assets' recognised on acquisition (with no recognition of post-acquisition internally generated intangibles or goodwill) and £15,460k (2020: £15,868k) of finance costs, which includes £7,311k (2020: £6,831k) of interest due on loan notes held by the Group's shareholders.

Net cash generated from operating activities for the Group was £29,916k (2020: £9,562k) up 212.9%. The increase was partly due to £10,000k (2020: £nil) of deferred revenue received during the year in relation to the new business venture, Standard Life Home Finance.

THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Results and performance (continued)

The Company loss after tax for the year ended 31 December 2021 was £3,065k (2020: £2,905k). The Company operates as a holding company within the Group and generates losses as a result of the borrowings it holds on behalf of the Group to fund the Group's operations. The Directors do not propose the payment of a dividend.

During the year the Group and Company adopted International Accounting Standards (IAS) and as a result the prior year numbers have been restated where applicable. The impact of the restatement is disclosed in note 24 of the financial statements.

Financial position

"The financial position of the Group has improved during the year, with £25m of bank borrowings being repaid early, net debt reducing by £6m/3.1%, improved levels of headroom on the bank covenants and over £22m of liquidity being available."

At the year end the Group had net liabilities of £39,643k (2020: £25,341k) up 56.4%, however this included £60,111k (2020: £55,658k) of borrowings due to its parent undertaking. The increase in net liabilities is primarily due to the £11,146k (2020: £13,212k) loss before tax during the year described in the previous section and a £2,333k (2020: £559k) loss on the deferred tax liability largely due to the upcoming change in headline corporation tax rates.

Net debt at the year end was £195,674k (2020: £202,036k) down 3.1%. Net debt includes £53,900k (2020: £78,900k) of bank loans, which have reduced by £25,000k during the year as the Group took the decision to make an early repayment of the loan and repay its £5,000k revolving credit facility. The bank loan is repayable in 2024 and the revolving credit facility is available to August 2023.

At the year end the Group had £22,109k (2020: £24,312k) of available liquidity, which comprised £17,109k (2020: £24,312k) cash and cash equivalents and £5,000k (2020: £nil) of undrawn committed borrowing facilities.

In relation to the bank loan, the Group is required to comply with certain financial covenants that are tested on a quarterly basis. At the year end, the Group had improved levels of headroom on its covenant basis net debt leverage ratio (Net debt/adjusted EBITDA) of x1.1 and its covenant basis interest cover ratio (Adjusted cash flow/bank loan interest) of x5.0.

During the year the Group and Company adopted International Accounting Standards (IAS) and as a result the prior year numbers have been restated where applicable. The impact of the restatement is disclosed in note 24 of the financial statements.

THEO MIDCO LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

Key performance indicators

Key Performance Indicator	31 December 2021	31 December 2020	Definition and rationale
Revenue	£113,021k	£95,666k	Revenue is considered by the board to be a Key measure of the Group's future development plan to grow the business
Operating profit before amortisation, depreciation, impairment, profit/loss on disposal of property, plant & equipment and share based payment charge	£16,971k	£13,973k	Operating profit before amortisation, depreciation, impairment, profit/loss on disposal of property, plant & equipment, and share based payment charge is considered by the Board to be a measure of the operating performance of the Group. This measure also forms the basis of an underlying performance measure used by the Board which is adjusted for certain items not considered recurring, and which includes those items listed in the commentary in note 3 of the financial statements.
Operating Cost/ Income ratio	85.0%	85.4%	Cost of sales and operating administrative expenses (excluding amortisation, depreciation and impairment) as a percentage of revenue. Considered by the Board to be an indicator of the efficiency of the business.
Profit/(Loss) after tax	(£14,302k)	(£13,766k)	Profit/(Loss) after tax is considered to be an indicator of business performance by the Board.
Complaints as a percentage of written cases - Key	1.45%	1.53%	All complaints are tracked and investigated by the Compliance function. The level of upheld complaints received by the Group is minimal.
Complaints as a percentage of completed cases - M2L	1.46%	0.49%	All complaints are tracked and investigated by the Compliance function. The level of upheld complaints received by the Group still remains minimal, however these have increased in the year due to the operational challenges of the Covid-19 pandemic.
Total Group Complaints Upheld *	63	16	The level of complaints upheld by the Group still remains minimal, however these have increased in the year due to the operational challenges of the Covid-19 pandemic.

* The levels of complaints upheld by the Group still remains minimal, however there has been an increase in complaint volumes in the year. This has been driven by a number of factors, notably Covid-19 related operational challenges across the supply chain, leading to delays in the valuation and conveyancing processes, in particular. The Group is taking steps to address rising levels by increasing its oversight of third party suppliers, boosting levels of recruitment activity, making additional investment in process improvements, as well as the launch of new training and coaching initiatives.

During the year the Group and Company adopted International Accounting Standards (IAS) and as a result the prior year numbers have been restated where applicable. The impact of the restatement is disclosed in note 24 of the financial statements.

THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Strategy and business environment

"We are bringing together our services to develop a more comprehensive later life finance brand, which builds upon our strengths and deep understanding of our customers, with a single-minded focus on financially empowering those in later life, so they can live a better retirement."

Despite the challenges, the later life lending market has proven its resilience throughout the Covid-19 pandemic through value growth and innovation with the Group being at the forefront of development. During the year we consolidated our position as the market leader across the equity release market.

Our lender, M2L is positioned as the number one lender in the market with an average 25.8%¹ market share (by value) during the year. The milestone of over £5bn of loans under management was surpassed during the year and we are proud that we were instrumental in keeping the market open as the first provider to introduce remote valuations when Covid-19 restrictions were first imposed.

Our expertise and success in operating across the entire later life lending market has also brought new opportunities. We are delighted to have been chosen to partner with Phoenix Group PLC in relaunching the Standard Life brand as they seek to access the later life lending market. Bringing together our advice and distribution capabilities, product development and lending, as well as wider Group services such as marketing and compliance, we have enabled them to enter the market place with a comprehensive proposition that launched in Q3 2021. Together M2L and Standard Life Home Finance now form our Manufacturing division, as originators of later life lending products.

Led by the Key brand, our advice delivery we believe maintained its number one position in the market with an average 16.0%¹ market share (by value) during the year. Our whole of market proposition continued to grow under The Equity Release Expert brand and its referral partnerships, while we continued to offer a tied service to Aviva customers through the Home Equity Release Service.

The advisor services business (Air Group) has also seen exceptional levels of growth, with a 10.1% rise in the number of completions on the prior year. In addition, the Air Club saw strong development, with 16.0% more Club members on the prior year.

In terms of structural economic drivers for the market, there continues to be a growing need for those in or approaching later life to finance their futures, due to low pension provisions and longer life expectancy. Whilst the current market expectations around future interest rate increases remain modest and the relatively high levels of price inflation being expected to return back to more normal levels within the short-term, clearly uncertainty still exists for the economy particularly with regard to the global impact of the war in Ukraine. Over time these factors, particularly if they significantly deteriorate or become longer term, could impact on consumer confidence and demand from those customers seeking to do more with their retirements, however, these same factors would increase demand from those customers who need to access later life finance to meet the essentials as the cost of living becomes more challenging.

It is both this strength of depth in the market and the structural drivers for the market that mean the future prospects for the Group remain strong. In March 2022, we evolved our Key brand to Key Later Life Finance as we bring together all our strengths and services to broaden a more comprehensive later life lending product range, with the ultimate aim of helping our customers take control of their finances so they can live a better retirement.

¹ Source: The Equity Release Council quarterly market share data release.

THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Our stakeholders

Section 172 of the 2006 Companies Act requires that the Directors act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole. In undertaking this responsibility, the Directors should have regard to the likely consequences of any decision in the long-term; the interests of employees; the need to foster relationships with suppliers, customers and others; the impact of its operations on the community and the environment; the maintaining of a reputation for high standards or business conduct; and the need to act fairly as between members of the Company.

The Board considers its main stakeholder groups to be Customers, Funders, Lenders, Partners, Colleagues, Suppliers and Investors, however it also considers the needs of other stakeholders such as the Government and the Community when making decisions.

The Board has continued to act in a way that promotes the long-term success of the Company and that of its stakeholders, ensuring that it is acting fairly and with integrity with these stakeholders in the decisions that it makes.

Customers

We pride ourselves on being able to support our customers taking control of their finances to enable them to live the later life they deserve. A competitive advantage of ours is the deep understanding we have of our customers and what really matters to them. *This understanding in part comes from our extensive experience in this market and the data we obtain from listening to our customers. This data comes from a multitude of sources ranging from face to face meetings with customers, through to our unique proprietary systems, partnerships and industry intelligence.*

During the year we have expanded our product range with the launch of a new suite of products under the well-respected "Standard Life" brand name which is proving popular with our customers. In addition, we are currently broadening our range and the flexibility of later life lending products, to help those approaching later life make the transition into later life. We are also examining the impact of Net Zero on our customers and whether we can introduce and advise on financial products to assist customers in the transition.

We are a FCA regulated business and a member of the Equity Release Council which sets the industry standards by which we must operate and as such, we consider the impact on our customers of everything we do. The way in which we operate has enabled us to become market leaders in the services we provide to our customers which is in part evidenced by our Key and M2L businesses being number one in terms of market share, our 5-star Trustpilot rating and having relatively low levels of customer complaints within the industry.

Funders

Our funders are also considered to be customers of our business and they are at the heart of our business in terms of funding our later life lending products. Our funders, many of which are insurers or pension funds, look for high quality, long-term debt instruments in which to invest their funds and as such we have a close relationship with them in developing and originating attractive products. One of the many ways in which we engage with our funders is through "Joint management committees" which regularly meet to discuss products and operational matters.

During the year we entered into a new collaboration with one of our existing funders to enable them to enter the later life lending market under their own "Standard Life" brand name.

THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Our stakeholders (continued)

Lenders

The Board recognises that its lenders are a key stakeholder of the Group. In order to keep our lenders informed of our progress we share management information with them on a monthly basis. The Board regularly monitors the Group's position against key lender covenants to ensure that the business continues to operate within these set parameters. We also certify our position to our lenders in relation to these covenants. All Board decisions that are taken consider the effect the decision will have on the covenant requirement.

Partners

An important part of the success of our business lies in our many partnerships supporting other businesses and advisors to enter into and operate in the later life lending market. These partnerships range from supporting Independent Financial Advisors, Mortgage clubs and networks, through to large corporates. Air Group plays an important part in this business to business relationship, through its various services it supports these businesses with everything they need to provide later life lending products to their customers.

Colleagues

Our colleagues are an integral part of the success of our business and we recognise the impact that the Group has on their lives and the lives of their families. We have continued to support our colleagues through the Covid-19 pandemic enabling them to operate effectively and safely from home during this period. We are proud of the fact that we avoided the need to place any colleagues on furlough during the pandemic, instead providing them with a degree of normality and stability during what was an extremely difficult period for many.

As the country started to come out of the pandemic we supported our colleagues in making the transition back to the office in August/September 2021. At this time one of the changes made was to enable many who were not customer facing to return to the office under the flexibility of a hybrid working arrangement enabling them to choose to work up to two days from home.

We believe it is important that all our colleagues receive a fair level of pay for the work they do and as such, we are proud of the fact that everyone receives at least the National Living Wage, regardless of their age. A comprehensive review of pay was undertaken during the year which resulted in the decision being made to invest a further £2.5m in the pay of our colleagues particularly those on lower pay scales and to standardise the Company pension contribution such that from April 2022, all colleagues can receive up to a minimum 8% employer pension contribution.

We continue to engage with and listen to our colleagues through multiple channels, and our regular Town hall meetings continue to keep our colleagues updated on developments within the business from our leadership team.

Suppliers

We have agreed fair payment terms with each of our individual suppliers and recognise the importance of paying each of these suppliers within the agreed terms. A conscious decision has been taken by the Board to ensure that frequency of supplier payment runs is high and that suppliers are paid on a timely basis so as not to place any unnecessary cash flow strains on those suppliers.

THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Our stakeholders (continued)

Investors

We are in regular discussion with the majority of our investors in terms of equity share, with these having a seat on the monthly Board. These investors are actively engaged in the strategy and key decisions made by the Board and are engaged in the formation and approval of the annual budget and plan. Other minority investors are typically employees of the business but are invited to participate in shareholder meetings during the year, where the management team present on the recent performance of the business and the plans ahead.

Community

We are passionate about supporting our local communities, particularly those which are some of the most deprived areas in the country. In addition to providing employment opportunities in the Preston area we support our local communities through donations of funds, food, resource and time. For example, we have been supporting "The Boathouse Youth" charity in Blackpool for a number of years, which offers young people, many of whom are living in pretty difficult circumstances, the opportunity to learn new skills, have new experiences and providing them with a safe haven in which they can have fun. In addition, all our colleagues are provided with a charity day each year with which they can support various community initiatives.

Energy and carbon reporting

We understand the importance and urgency of the environment challenge we all face and we know we must play our part in helping the country meet its carbon reduction commitments. Since 2020 we have been Carbon Neutral in relation to our scope 1 & 2 emissions and scope 3 business travel. This has been achieved through the purchase of carbon offsets.

Our business has a relatively small carbon footprint with Gross Greenhouse Gas (GHG) emissions associated with our combined business operations being 198 tonnes of carbon dioxide equivalents (tCO₂e) for 2021. This represents a 23.6% reduction year-on-year, driven by a reduction in business travel by our advisers. This was in part impacted by lockdown restrictions in the first part of the year but has been predominantly driven by changes in business practices post Covid-19 with advisers reducing the number of face to face visits with customers and instead utilising video conferencing technology where appropriate. As a result, a higher proportion of our Gross GHG emissions was attributable to our offices in 2021. Our office energy consumption increased year-on-year as a result of returning to office working post Covid-19 restrictions during the year.

We are committed to year-on-year improvements in our operational energy efficiency and have compiled a register of energy efficiency measures available to us. Throughout 2021 occupancy timers and sensors for lighting were installed across all buildings to help reduce out of hours consumption of electricity as well as replacing lighting with energy efficient LED fittings as and when maintenance replacements were required.

In 2022 we will continue to replace lighting with LED fittings and all new offices will be installed with the newest most energy efficient LED fittings. We are investigating the opportunity to install EV chargers across our Preston head office campus. We have engaged with energy consultants to undertake a full review of our scope 3 emissions and the output of this exercise will form the basis of our net zero strategy to achieve net zero GHG emissions.

THEO MIDCO LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

Energy and carbon reporting (continued)

The below table provides more detail on the Gross GHG emissions associated with our combined business operations during 2021.

Element	Detail	Units	2021	2021 Proportion %	2020	2020 Proportion %
Energy consumption used to calculate emissions	Electricity	kWh	599,466	66	502,904	45
	Gas	kWh	46,203	5	36,752	3
	Transport Fuel	kWh	266,511	29	585,421	52
Total energy consumption	Total	kWh	912,180	100	1,125,077	100
Emissions from combustion of gas (Scope 1)	Gas	tCO ₂ e	8	4	7	3
Emissions from grey fleet business travel (Scope 3)	Transport Fuel	tCO ₂ e	63	32	135	52
Emissions from purchased electricity (Scope 2 – location based)	Grid Electricity	tCO ₂ e	127	64	117	45
Total gross carbon emissions	Total	tCO₂e	198	100	259	100
Intensity ratio	Revenue	tCO ₂ e / £100,000	0.18		0.26	
Additional intensity ratios	Site Energy	kWh / m ²	172		157	
	Site Carbon	tCO ₂ e / m ²	0.05		0.08	
	Employee Carbon	tCO ₂ e / FTE	0.35		0.64	

Our core business operations have been measured and verified in accordance with Streamlined Energy and Carbon Reporting (SECR) category guidance; Scope 1 (direct resource use), Scope 2 (bought resources for use in our direct operations) and specific Scope 3 emissions (indirect emissions due to business activities). These categories have been measured in a consistent way with the prior year. Scope 3 emissions relate to activities from assets not owned or controlled by the Group, but that the Group indirectly impact from its business operations. The disclosure of scope 3 emissions is currently voluntary due to the challenges in defining and measuring these, however the Group reports limited scope 3 emissions being those relating to grey fleet business travel, which represents the emissions of employees business travel.

We have identified intensity ratios which divide our energy and carbon emissions by appropriate normalising factors to enable performance tracking over time and comparison against organisations operating in equivalent sectors. We also hope to use the employee base indices to promote employee engagement with our Company mission to minimise our impact on the environment.

The energy consumption of our core business operations has been calculated using proprietary software to process utility bills for our site and fleet data. Our carbon emissions have been calculated in accordance with the 2019 UK Government environmental reporting guidance.

As this, our second SECR reporting year, also occurred during a lockdown/Covid-19 period it will not be a suitable year to assign as a baseline year against which future energy saving measures are evaluated. We will therefore continue to monitor the baseline in future years and will develop a suitable baseline calculation methodology to account for business as usual levels of productivity.

THEO MIDCO LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

Energy and carbon reporting (continued)

The below table includes more detail on the carbon offset projects used.

Reporting Year	Total Emissions (Scope 1,2 and 3 business travel) tCO ₂ e	Offset %	Project	Certification
2020	259	100	Solar Renewable Power Project in the Andhra Pradesh state of India	Verified Carbon Standard
2021	198	100	Amazonia Project in state of Acre in Brazil protecting 200,000 hectares of tropical rainforest	Verified Carbon Standard

Principal risks, including financial risks and uncertainties

Our overarching Risk Management Framework is a set of processes, tools and mitigation strategies that assists us in identifying, assessing, measuring, managing and reporting risk. The overall framework ensures that risks are managed in a manner which is proportionate to the size and nature of Group's operations; is aligned to regulatory requirements; and reflects best practice. Compliance with regulation, legal and ethical standards is a high priority, and the Compliance team, Risk team and Finance department take on an important oversight role in this regard, with the Audit, Risk and Compliance Committee (ARCC) providing Group level oversight. This position has been strengthened further into 2022 with the implementation of a new independent Internal Audit function established at the end of 2021. As a result the Group is now operating a full Three Line of Defence Framework.

The ARCC annually reviews and approves the Risk Management Framework and regularly reviews risk management activities to ensure focus on managing not only existing risks but also on identifying emerging risk areas.

The Directors are responsible for the financial risk management process and ensuring that the Group has sufficient capital to meet its regulatory responsibilities. Suitable policies and procedures have been adopted in order to ensure an appropriate level of risk management is directed at the relevant elements of the business.

In order to effectively manage its risks the Board has identified key (or principal) risk categories for the business and has defined its residual risk appetite in relation to each. All risks reported within the business sit within one of these categories, and are defined within the Risk Registers. The principal risks to which the Group is exposed are considered to be:

Operational risk

The risk that the Group's internal processes and systems do not function properly. This risk was visible throughout the year as the majority of the workforce continued to work from home, with colleagues beginning to return to the office from August/September 2021, and the adoption of hybrid working models. This also demonstrated the effectiveness and adaptability of our business continuity plans, which are subject to regular review and testing in order to demonstrate the resilience of the business to unplanned events. In addition, we have experienced ongoing resourcing challenges in a number of roles in the present market post Covid-19. This has placed increased demand on existing colleagues and has had some impact on service standards. The Board is managing this risk by exploring opportunities for further automation of processes and progressing various initiatives to attract and retain staff.

THEO MIDCO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Principal risks, including financial risks and uncertainties (continued)

Regulatory risk

The risk that changes in laws or regulations, have an adverse impact on the later life lending market in which we operate and the risk that we fail to comply with requirements laid down by the regulator, the Financial Conduct Authority (FCA). The Board awaits further output from the FCA in relation to *their Later Life Lending Review* as well as the policy statement for the FCA *Consumer Duty* which is expected in 2022. In order to manage any uncertainty around this, the Group's dedicated compliance department will continue to proactively monitor any regulatory changes in order to ensure compliance and support the implementation of any required changes within regulatory timeframes.

Economic risk

The risk that changes in the economy, e.g. property prices, interest rate changes or government interventions, such as the pension market reforms, impact market conditions and reduce the Group's ability to compete. Economic risk continued to be apparent this year as the environment continued to suffer as a result of the Covid-19 pandemic. Uncertainty still remains in the later life lending market as the wider UK economy continues to face challenges coming out of the Covid-19 pandemic and with the ongoing war in Ukraine, such as issues with high price inflation and the supply of certain goods. Whilst this uncertainty is not having a direct adverse impact on the later life lending market at the present time, it could have an indirect impact on factors such as overall consumer confidence or the relative returns of later life mortgages compared to other fixed income investments for our funders.

Strategic risk

The risk that the Board pursues an inappropriate strategy or that the risks associated with its implementation are not fully recognised, which in turn may expose the business to Reputational risk. The Board does not believe that there has been a significant increase in Strategic risk during the year, however, it continues to monitor this area given the expansion into a new brand during the year, and the planned product expansion in 2022. The inherent uncertainty associated with Strategic risk is partly mitigated by the industry and business expertise contained in the composition of the members of the Board. In addition to this the Board regularly seeks advice from a number of professional advisors when necessary.

Liquidity risk

The risk that the Group is unable to meet its financial obligations as they fall due. The Group held a healthy level of liquidity of £22m at the year end and continues to be operationally cash generative and with no debt maturity until 2024, it is able to meet its operational and financial obligations as they fall due over at least the next 12 months. In order to manage future uncertainties regarding liquidity the Group regularly produces forecasts to ensure that Lender covenants, which include liquidity requirements, are being met and are forecast to be met in the future.

Interest rate risk

The risk that increasing interest rates impact the affordability of the Group's debt package. Uncertainty regarding this risk is managed by the Board via the adoption of fixed rate, fixed term lending as well as hedging instruments where necessary, to offset movements in variable lending.

THEO MIDCO LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

Principal risks, including financial risks and uncertainties (continued)

Emerging risks

The Board considers the following to be emerging risks:

Cyber Security risk

The increasing reliance the business places on technology in order to maximise operational efficiencies does expose the Group to an emerging Cyber Security risk as cyber-attacks become more sophisticated and complex. We have taken steps to mitigate much of this risk via the implementation of additional controls and utilising advice from specialist third parties, however, we continue to closely monitor exposure. This has been a key consideration in the development of the Operational Resilience self-assessment strategy of the Group.

ESG risk

This relates to the impact of not identifying and responding to ESG risks appropriately, leading to ineffective governance arrangements, failure to deliver a reduced environmental footprint and/or a failure to positively impact colleagues and the surrounding community. The Board have initiated an exercise to review the ESG strategy for the Group with Executive sponsors for each element. In relation to Climate change, our carbon footprint and the costs of reducing these emissions is relatively small, however in terms of our products, we will have a part to play in supporting our customers make the transition to reduce their climate impact and in providing attractive investments for our funders which meet their ESG agendas.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of signing the financial statements. For further details see note 1.3.

Future developments

The longer term trends supporting the later life lending sector remain strong, despite the economic uncertainty which remains particularly in relation to the war in Ukraine. The population continues to age, house price wealth is continuing to increase and pension savings are likely to be inadequate for many. In addition, re-mortgaging later life mortgages which is relatively new but has been hugely popular in the residential mortgage market for the past 20 years, grew considerably during the year and is expected to continue to do so going forward.

Over the coming year, with the continued support of colleagues from across the business, the Group has plans in place to grow the business with a broader range of later life lending products to help even more customers lead the life they want to lead in later life.

This report was approved by the board on 29 April 2022 and signed on its behalf.


S Drew
Director

THEO MIDCO LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2021.

Matters covered in the Strategic report

The Directors have chosen to present certain requirements of the Directors' report within the Strategic report, including principal activities, business review, declaration of dividends, future development, section 172 disclosure, energy and carbon reporting and principal risks facing the business.

Directors

The directors who served during the year and up to the date of signing of the financial statements were:

Simon Drew (appointed 1 April 2021)
Robert Scott (resigned 31 March 2021)
Simon Thompson

Directors' and officers' insurance

The Group maintains cover with respect to Directors' and officers' indemnity insurance. This insurance covers them in their roles as Directors of this Company and was in force during the financial year ended 31 December 2021 and also at the date of approval of the financial statements.

Colleague involvement

The Company has no employees, however the Group maintains a policy of regular consultation and discussion with its colleagues on a wide range of issues that are likely to affect their interests. The Group ensures that all colleagues are given regular updates on the performance of their business units and of the Group as a whole. Colleague involvement is facilitated through staff committee meetings, regular communication briefings and an annual colleague survey.

Diversity, inclusion and equal opportunities for all

We value diversity among our colleagues and strive to provide equal opportunities to all regardless of sex, race, nationality, colour, religion, marital status, disability, sexual orientation or age. All applicants and colleagues are treated equally in respect of recruitment, pay, training, promotional opportunities and other employment matters, with all decisions being based on merit. Reasonable adjustments are made to accommodate those with additional needs. Under no circumstances will discrimination against any individual or group be tolerated, and where there is evidence that this may have occurred, the matter will be promptly investigated in full with any disciplinary action taken where necessary.

Financial risk management

The financial risk management and policies of the Group are discussed in note 19 of the financial statements.

Existence of branches outside of the United Kingdom

The Group and Company have no branches outside of the United Kingdom.

THEO MIDCO LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Political donations

There were no political donations for the year (2020: none) and the Group did not incur any political expenditure (2020: £nil).

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 law and regulation.

Company law requires directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements for the first time in accordance with UK-adopted International Accounting Standards (IAS) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable International Accounting Standards as adopted in the UK have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

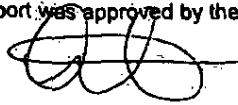
Independent auditors

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

THEO MIDCO LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

This report was approved by the Board on 29 April 2022 and signed on its behalf



S Drew
Director

THEO MIDCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED

Independent auditors' report to the members of Theo Midco Limited

Report on the audit of the financial statements

Opinion

In our opinion, Theo Midco Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: consolidated and company statements of financial position as at 31 December 2021; consolidated income statement, consolidated and company statements of changes in equity and group and consolidated and company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

The scope of our audit and the nature, timing and extent of audit procedures were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error). We performed audit procedures over components considered to be financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of significant account balances).

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual report and financial statements.
- The scope of our audit and the nature, timing and extent of our audit procedures were determined with consideration of our risk assessment, the financial significance of account balances and other qualitative factors.
- Audit procedures were performed over all account balances and disclosures which are considered material and/or represent a risk of material misstatement to the annual report and financial statements.

THEO MIDCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED

Key audit matters

- Goodwill and other intangible assets, excluding software may be impaired (group)

Materiality

- Overall group materiality: £414,000 (2020: £444,000) based on 2.5% of last three years average earnings before interest, tax, depreciation and amortisation.
- Overall company materiality: £1,783,000 (2020: £1,490,000) based on 1% of total assets.
- Performance materiality: £310,000 (2020: £333,000) (group) and £1,337,000 (2020: £1,117,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Considerations of the impact of COVID-19 (group and parent), which was a key audit matter last year, is no longer included because of our consideration of the pandemic in the current year is adequately captured by the 'goodwill and other intangible assets, excluding software may be impaired (group)' key audit matter and it does not represent an area of increased audit focus in its own right. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Goodwill and other intangible assets, excluding software may be impaired (group)</i></p> <p>On consolidation, the group recognises a goodwill balance which originated in August 2017 when Key Group and related entities in the group were acquired by funds advised by Partners Group. Intangible assets which are separately identifiable from the goodwill were also recognised, specifically the relationships with lenders and brand name which were acquired.</p> <p>At the year end, the carrying value of the goodwill recognised was £97.5m (2020: £97.5m), with other intangibles (excluding software) being £71.5m (2020: £78.2m).</p> <p>Under UK-adopted international accounting standards (IAS), goodwill and other intangibles assets are assessed for impairment on an annual basis. In order to perform impairment assessment, the carrying value of assets is compared to the value in use of the business. The carrying value of goodwill and other intangible assets are contingent upon future cash flows, the value of which may be impacted by market and operating conditions. The equity release market is competitive with higher risk of estimation uncertainty in the current macroeconomic environment.</p> <p>Management has determined that there are three cash-generating units to which goodwill and other assets are assigned, these being Key Advice,</p>	<p>To address the risk of impairment of the group goodwill and other intangibles balances, we performed a number of audit procedures over the assessment performed by management.</p> <p>We challenged and tested the reasonableness of management's methodology and key assumptions.</p> <p>We tested the mathematical accuracy of the impairment model.</p> <p>We performed comparison of the performance of the business in recent years to the budgets for the equivalent periods and for the observable period post year end to assess the accuracy of the budgeting and forecasting progress including understanding the impact of Covid-19.</p> <p>We agreed the cash flow forecasts to the Board approved budget for 2022 and tested the reasonableness of assumptions in the budget included in the value in use model.</p> <p>We reviewed the budget, identified the key assumptions and assessed these for reasonableness using our understanding of the Group gathered from our audit work. This included considering the historical performance of the group and evaluating whether this supported management's assumptions around revenue, cost and profitability (EBITDA margin) incorporated within the value in use model.</p>

THEO MIDCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED

Manufacturing and Air Group and concluded that no impairment existed at 31 December 2021.

On adoption of IAS during the year ended 31 December 2021, the transitional requirements require the impairment assessment to be reperformed at the date of transition to IAS that being 1 January 2020, and for the comparative year ended 31 December 2020. The cash flows used for the impairment tests are those used at these dates and split into three CGUs on transition to IAS.

The impairment assessment is complex and involves subjective assumptions, including estimates for:

- the discount rate applied to discount the future cashflows to their current values;
- the revenue growth rate; and
- the EBITDA margin.

Due to the magnitude of the goodwill and other intangibles balance (excluding software) and the nature of these assumptions, the impairment assessment represents a key audit matter. This relates only to the group consolidated financial statements as it relates to assets which only arise on consolidation.

Refer to note 1.13 for accounting policies, note 1.6 for judgements in applying accounting policies and key sources of estimation uncertainty and note 8 for detailed disclosures around goodwill and other intangible assets.

We tested the existence of pipeline data which includes applications, offers and cancellations which is a key input into management's budget.

We considered the appropriateness of the methodology by which the terminal cash flows were calculated and assessed the reasonableness of the discount rate using our internal experts.

We assessed the allocation of goodwill and cash flows to individual CGUs and involved our internal experts. We noted revisions that should be applied though, when adjusted, these did not impact the conclusion reached by management.

We have assessed the impairment as at the IAS transition date and prior year end to ensure the same cash flows as in previous years were used which are allocated to individual CGUs.

We performed additional individual and combined sensitivities on management's assumptions to assess the robustness of the impairment model; and

We assessed the disclosures made in the financial statements.

Based on the procedures performed we were satisfied with management's conclusion that the goodwill and intangible assets were not impaired and that the disclosures provided are appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group constitutes two significant trading entities More 2 Life Ltd and Key Retirement Solutions Limited, these are assessed as significant components for the group financial statements. Audit procedures were performed over all material account balances and financial information of these entities.

There are twenty four subsidiaries in the group. The entities in the group which constitute balances material to the group financial statements include KRS Services Limited, KRS Finance Ltd, Key Group Bidco Limited, Home Equity Release Service Limited, The Retirement Lending Advisers Limited, Primetime Retirement Limited, Later Life Guidance Limited, Theo Bidco Limited and Standard Life Home Finance Limited. Audit procedures are performed on material balances scoped in for these subsidiaries due to their significance to the group's financial performance and position.

All of the group's activities are undertaken in the United Kingdom. The accounting records for all entities within the group are located at the group's principal office in Preston, with consolidation of the group annual accounts being performed from this location. We did not require the involvement of any component auditors.

THEO MIDCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED

All audit procedures were conducted from the group's head office in Preston, performed by a single audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
<i>Overall materiality</i>	£414,000 (2020: £444,000).	£1,763,000 (2020: £1,490,000).
<i>How we determined it</i>	2.5% of last three years average earnings before interest, tax, depreciation and amortisation	1% of total assets
<i>Rationale for benchmark applied</i>	Based on the benchmarks used in the annual report and financial statements, earnings before interest, tax depreciation and amortisation is the primary measure used to assess the performance of the group by investors and lenders.	We consider that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £169,000 and £369,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £310,000 (2020: £333,000) for the group financial statements and £1,337,000 (2020: £1,117,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £20,000 (group audit) (2020: £22,000) and £89,000 (company audit) (2020: £74,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including current and forecast financial performance;
- Evaluation of the reasonableness of the group and company's latest forecasts and the downside scenario prepared by management to support the going concern assessment, including testing the mathematical accuracy of forecasts;
- Considering and testing the key assumptions including revenue growth, EBITDA margin and the conversion rate of the mortgage pipeline; and
- Considering whether the disclosures on going concern in Note 1.3 of financial statements give an accurate description of Directors' assessment of going concern, including the identified risks, uncertainties and related sensitivities.

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's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

THEO MIDCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

THEO MIDCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified the principal risks of non-compliance with laws and regulations related to breaches of Financial Conduct Authority's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in assumptions used in critical accounting estimates and posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Review of key correspondence with and reports to regulators;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud; and
- Testing of journal entries which contained unusual account combinations back to corroborating evidence.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 18 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

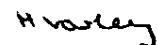
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.


Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
29 April 2022

THEO MIDCO LIMITED

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £'000	2020 £'000
Revenue	2	113,021	95,666
Cost of sales		(28,536)	(20,401)
Gross Profit		84,485	75,265
Administrative expenses		(80,171)	(72,609)
Operating profit	3	4,314	2,656
Finance costs	6	(15,460)	(15,868)
Loss before tax		(11,146)	(13,212)
Tax	7	(3,156)	(554)
Loss after tax		(14,302)	(13,766)
Loss after tax attributable to:			
Owners of the company		(14,861)	(13,935)
Non-controlling interests		559	169
		(14,302)	(13,766)

All of the results above relate to continuing operations.

There were no items of other comprehensive income in the current or prior year.

THEO MIDCO LIMITED

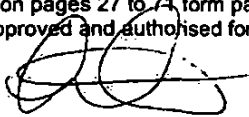
**CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021**

	Note	Group 2021 £'000	Group 2020 £'000	Group 1 Jan 2020 £'000	Company 2021 £'000	Company 2020 £'000
ASSETS						
Non-current assets						
Intangible assets	8	184,494	188,393	192,913	-	-
Property, plant and equipment	9	1,905	2,034	1,992	-	-
Right-of-use assets	10	2,450	2,975	3,259	-	-
Investments	11	-	-	-	57,925	57,925
Trade and other receivables	12	-	-	77	117,564	108,856
		188,849	193,402	198,241	175,489	166,781
Current assets						
Trade and other receivables	12	8,966	8,254	7,141	2,841	2,810
Current tax asset		605	1,338	1,011	-	-
Derivative financial instruments		292	20	-	-	-
Cash and cash equivalents	13	17,109	24,312	22,042	-	-
		26,972	33,924	30,194	2,841	2,810
Total assets		215,821	227,326	228,435	178,330	169,591
LIABILITIES						
Current liabilities						
Trade and other payables	14	(16,498)	(10,331)	(13,042)	(2,813)	(2,747)
Lease liabilities	16	(493)	(472)	(430)	-	-
		(16,991)	(10,803)	(13,472)	(2,813)	(2,747)
Non-current liabilities						
Trade and other payables	14	(7,500)	-	-	-	-
Borrowings	15	(210,364)	(223,186)	(207,967)	(157,574)	(145,836)
Lease liabilities	16	(2,218)	(2,710)	(2,940)	-	-
Provisions	17	(1,191)	(1,101)	(1,193)	-	-
Deferred tax		(17,200)	(14,867)	(14,308)	-	-
Derivative financial instruments		-	-	(130)	-	-
		(238,473)	(241,864)	(226,538)	(157,574)	(145,836)
Total liabilities		(255,464)	(252,667)	(240,010)	(160,387)	(148,583)
Net (liabilities)/assets		(39,643)	(25,341)	(11,575)	17,943	21,008
EQUITY						
Share Capital	21	-	-	-	-	-
Share premium		-	-	-	-	-
Capital Contribution		29,613	29,613	29,613	29,613	29,613
Accumulated losses		(69,234)	(54,373)	(40,438)	(11,670)	(8,605)
Total equity attributable to owners of the company		(39,621)	(24,760)	(10,825)	17,943	21,008
Non-controlling interests		(22)	(581)	(750)	-	-
Total equity		(39,643)	(25,341)	(11,575)	17,943	21,008

THEO MIDCO LIMITED

**CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021**

The notes on pages 27 to 71 form part of these financial statements. The financial statements on pages 21 to 71 were approved and authorised for issue by the board and were signed on its behalf on 29 April 2022.



S Draw
Director
Company Number: 10756735

THEO MIDCO LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share capital	Share premium	Capital contribution	Accumulated losses	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	-	-	29,613	(54,373)	(581)	(25,341)
(Loss)/Profit after tax	-	-	-	(14,861)	559	(14,302)
Total comprehensive (expense)/income	-	-	-	(14,861)	559	(14,302)
At 31 December 2021	-	-	29,613	(69,234)	(22)	(39,643)

	Share capital	Share premium	Capital contribution	Accumulated losses	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	-	-	29,613	(40,438)	(750)	(11,575)
(Loss)/Profit after tax	-	-	-	(13,935)	169	(13,766)
Total comprehensive (expense)/income	-	-	-	(13,935)	169	(13,766)
At 31 December 2020	-	-	29,613	(54,373)	(581)	(25,341)

THEO MIDCO LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share capital £'000	Share premium £'000	Capital contribution £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2021	-	-	29,613	(8,605)	21,008
Loss after tax	-	-	-	(3,065)	(3,065)
Total comprehensive expense	-	-	-	(3,065)	(3,065)
At 31 December 2021	-	-	29,613	(11,670)	17,943

The Company loss for the year ended 31 December 2021 was £3,065k (2020: £2,905k). The Company has taken advantage of the exemption of section 408 of the Companies Act 2006 from presenting its own Income statement.

	Share capital £'000	Share premium £'000	Capital contribution £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2020	-	-	29,613	(5,700)	23,913
Loss after tax	-	-	-	(2,905)	(2,905)
Total comprehensive expense	-	-	-	(2,905)	(2,905)
At 31 December 2020	-	-	29,613	(8,605)	21,008

THEO MIDCO LIMITED

**CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Operating activities					
Cash generated from operations	18	29,820	9,874	26	-
Tax received/(paid)		96	(312)	-	-
Net cash generated from operating activities		29,916	9,562	26	-
Investing activities					
Purchase of non-current assets		(8,127)	(6,375)	-	-
Interest received		-	8	-	-
Net cash used in investing activities		(8,127)	(6,367)	-	-
Financing activities					
Proceeds from borrowings		18	5,000	18	-
Repayment of borrowings		(25,033)	(1,100)	(33)	-
Repayment of lease obligations		(471)	(446)	-	-
Interest paid		(3,508)	(4,379)	(11)	-
Net cash used in financing activities		(28,992)	(925)	(26)	-
Net (decrease)/ increase in cash and cash equivalents		(7,203)	2,270	-	-
Cash and cash equivalents at beginning of year		24,312	22,042	-	-
Cash and cash equivalents at end of year		17,109	24,312	-	-

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies

1.1 General information

Theo Midco Limited is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom and the address of its registered office is given on the contents page. The nature of the Group's operations and its principal activities are set out in the Strategic report.

1.2 Basis of preparation

The Consolidated and Company financial statements have been prepared for the first time in accordance with UK-adopted International Accounting Standards (IAS) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The results for the comparative periods have been restated under UK-adopted international accounting standards on the same basis.

The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies set out within these financial statements.

The preparation of financial statements, in conformity with UK-adopted International Accounting Standards, requires management to make judgements, estimates and assumptions that affect the carrying value of assets and liabilities at the reporting date and the amount of revenues and expenses for the reporting periods presented.

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006, not to present its own Income Statement in these financial statements.

The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from Financial Reporting Standard 102 to IAS are provided in note 24.

1.3 Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and Company has adequate resources for a period of at least 12 months from the date of signing the financial statements. There were no material uncertainties to disclose.

Whilst the Covid-19 pandemic continued to impact on business performance during the year ended 31 December 2021, the second half of the year saw the business emerging from this with both a strong financial performance and financial position. Revenue was £113,021k in the year, which was 18.1% up on the prior year and operating cash flow was £29,820k, which was £19,946k up on the prior year. As a result, net debt reduced by £6,362k and the Group was able to settle £25,000k of its bank borrowings during the year.

The Directors' assessment of the Group's ability to continue as a going concern considered a number of qualitative factors such as the growing demand for later life lending products, the Group's leading position in the equity release market, the potential of its new business venture Standard Life Home Finance, the relatively small short-term impacts of climate change and the plans in place to expand the product range within the later life lending market. In addition to this, the Directors' assessment considered the budget cash flow and covenant projections, and the modelling of a number of severe downside scenarios and the impact of these on Group liquidity and its financial covenants.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1.3 Going concern (continued)

At the 31 December 2021, the Group had a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities as set out in note 19, to meet its needs over at least the next 12 months. In addition to this, the business is forecast to remain cash generative over this period providing a further source of liquidity. At the 31 December 2021, the Group had headroom on its covenant basis net debt leverage ratio (Net debt/adjusted EBITDA) of x1.1 and its covenant basis interest cover ratio (Adjusted cash flow/bank loan interest) of x5.0. The extreme scenarios modelled demonstrate sufficient liquidity and financial covenant headroom being available.

Whilst not a key factor in the Director's going concern assessment, the Group does also have a number of significant potential mitigations at its disposal to improve both its short-term liquidity position and financial covenant performance should the need arise, such as (but not limited to) reducing marketing spend, scaling back recruitment and certain salary costs, reducing capital expenditure and the ability to refinance its senior facilities agreement.

1.4 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 acquisition method. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the Income statement in the year of acquisition. The results of acquired operations are included in the Consolidated income statement from the date on which control is obtained. They are deconsolidated from the date control ceases.

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. In the Company financial statements, investments are held at cost less provision for impairment.

Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated income statement, Consolidated statement of financial position and Consolidated statement of changes in equity. The Group has recognised non-controlling interests in subsidiaries at the non-controlling interest's proportionate share of the subsidiaries net identifiable assets. Non-controlling interest is initially measured at cost on acquisition and adjusted thereafter to recognize the non-controlling interest's share of the post-acquisition profits or losses of the subsidiaries, and the non-controlling interest's share of movements in other comprehensive income. Dividends received are recognised as a reduction in the carrying amount of the non-controlling interest.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1.4 Basis of consolidation (continued)

Adoption of new and revised standards

In preparing its first UK-adopted International Accounting Standards (IAS) financial statements, a first time adopter applies those standards and interpretations that are effective as at the first annual IAS reporting date. Generally these are applied consistently at the date of transition to IAS to fully restate on a retrospective basis the opening statement of financial position, and in each of the periods presented in the first IAS financial statements, subject to a number of exceptions. For further details as to how standards have been applied at the date of transition to IAS, see note 24.

The following standards, interpretations and amendments, effective for the year ended 31 December 2021, are relevant to the Group:

- Interest Rate Benchmark Reform Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The Group utilised the practical expedient for modifications to amortised cost instruments which allows the benchmark rate change to be reflected prospectively by updating the effective rate of the instrument.

1.5 New accounting standards, amendments and interpretations in issue but not yet effective

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting year.

Of these new standards, amendments and interpretations, there are none that are expected to have a material impact on the Consolidated and Company financial statements.

1.6 Critical accounting judgements and key sources of estimation uncertainty

Certain reported amounts of assets and liabilities are subject to estimates and assumptions. Estimates and judgements by management are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following section details the estimates and judgements management believes to have the most significant impact on the annual results under IAS.

Impairment of intangible assets including goodwill and other intangible assets

The carrying amounts of intangible assets are reviewed on an annual basis to determine whether they have suffered any impairment. An impairment loss is the amount by which the carrying amount of an asset or group of assets allocated to a cash-generating unit exceed their recoverable amount. The recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs of disposal and its value in use.

Under IAS 36 *Impairment of Assets* for the purpose of impairment testing, goodwill should be allocated to each cash-generating unit from the date of acquisition and each unit should represent the lowest level within the entity at which goodwill is monitored for internal management purposes and must not be larger than an operating segment as defined by IFRS 8 *Operating Segments*.

In addition to the annual impairment review, on adoption of IAS during the year ended 31 December 2021, the transitional requirements are that impairment testing must be re-performed under IAS at the date of transition to IAS that being 1 January 2020, and for the comparative year ended 31 December 2020.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Cash-generating units

On adopting IAS, management have determined that there are three cash-generating units to which goodwill and other assets can be assigned for the purpose of impairment testing, these being Key Advice, Manufacturing and Air Group. In previous years, impairment tests had been performed based on the Group being one CGU. Goodwill in relation to the Key Advice and Manufacturing CGUs was recognised on acquisition in 2017 and has been allocated based on the proportion of forecast EBITDA for each CGU at that point in time, whilst other intangible assets were allocated specifically to the CGU's to which they relate. The Air Group business was later acquired in 2018 and as such, the related goodwill could be directly attributed in full to Air Group.

Value in use

The value in use of the assets was calculated using discounted cash flows taken from budgets available at the time of each of the impairment tests and an assumed terminal value. The cash flows used for the impairment tests as at 1 January 2020 and 31 December 2020, were largely the same as those used and reported upon previously, albeit for the tests on transition to IAS the value in use has been determined in relation to each of the three CGU's.

For the year ended 31 December 2021, the baseline cash flows were based upon the budget for the first four years. The terminal value was calculated using the Gordon growth model and assuming a 2.5% growth factor. A Weighted Average Cost of Capital (WACC) of 8.54% on a pre-tax basis was used to discount the cash flows and as an input to the terminal value calculation.

The impairment testing based upon the baseline cash flows for the three test periods demonstrated a good degree of headroom against the carrying values of the intangible assets for the three CGU's.

To provide further comfort management applied a number of downside scenarios to each impairment test, assuming a flat 2.5% income growth into perpetuity, a flat EBITDA margin into perpetuity and also a combination of the two. Under each of the three scenarios, there was sufficient headroom in each test period across the Manufacturing and Air Group CGU's, with the exception being the Key Advice in the year ended 31 December 2021, which would have resulted in an impairment being required in relation to Key Advice.

The assumptions to which the value-in-use calculation is most sensitive are the revenue growth rate, EBITDA margin and the WACC. The Group has estimated that a reasonably possible change of a 10% reduction in the long-term, average revenue growth rate or EBITDA margin, or a 1% increase in the WACC assumed in the baseline case, would not have resulted in an impairment due to the headroom available, however in relation to Key Advice this was particularly sensitive to the assumed 2.5% growth factor.

Share classification

A priority shareholders are deemed to be acting as part of the entity therefore the A priority shares are classed as equity in the financial statements.

B priority shareholders (Management) act as part of the entity as such the B priority shares are classed as equity in the financial statements.

A, B & C ordinary shares are classed as equity in the financial statements. A bad leaver provision had been recognised in the prior year in relation to the B & C ordinary shares. Management have reassessed the basis of this provision and have released it during the year on the basis that the employees that hold the shares are unlikely to leave the business ahead of a future sale of the business.

There are further leaver provisions attached to the B & C ordinary shares, however none of the current shareholders are expected to fall within the definition of good leavers and the redemption method would be considered on a case by case basis hence making this an equity settled scheme.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1.7 Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled from contracts with customers and excludes amounts collected on behalf of third parties, value added tax and any cashback provided. The Group recognises revenue when it satisfies the performance obligations within the contract which is when it transfers control of a product or service to a customer. The Group does not adjust its consideration for the time value of money as settlement is typically shortly after the satisfaction of the performance obligation.

Revenue is recognised in relation to the Group's main activities being: the provision of financial advice in relation to equity release; the origination and ongoing servicing of equity release products; sourcing of equity release products; and through the provision of estate planning products.

Advice fees paid by borrowers in relation to the provision of certain financial advice is contingent on the successful provision of an equity release product. As such, these advice fees are fully recognised on completion of the underlying product.

Origination income paid by funders on equity release products is recognised on completion of each equity release loan arrangement. Origination income represents a percentage of the amount of funds provided under each loan arrangement.

Servicing fees paid by funders for the ongoing servicing of equity release products is recognised over time on a monthly basis, in line with how the Group provides this service and its contractual arrangements. Servicing fees represent a percentage of the loan book under management each month.

Commission income from the sourcing of equity release products on behalf of borrowers is received from the product provider on completion of the equity release loan arrangement. As such, commission income is recognised on completion of each equity release loan arrangement and represents a percentage of the amount of funds provided under each loan arrangement. Commission income earned on certain products includes an element of variable consideration to the extent that further funds could be advanced under existing equity release arrangements. Variable revenue is only recognised once any significant uncertainties associated with its recognition are resolved and as such, variable revenue is only recognised at the point where further funds are advanced under existing equity release arrangements.

Fees paid for the provision of in-house estate planning products are recognised as revenue when the customer receives the products purchased. Where a customer pays the fees in advance a contract liability is recognised in relation to these amounts.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1.8 Cost of sales

Cost of sales represent the cost of introducer fees paid to third party brokers, legal fees incurred in the completion of a loan and other sundry fees. These costs are recognised on completion.

1.9 Pension costs

Contributions to the Group's defined contribution pension schemes are charged to the Income Statement in the year in which they become payable. The assets of the schemes are held separately in independently administered funds.

1.10 Finance costs

Interest payable is charged to the Income Statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Direct issuance costs are initially included in the fair value of the debt instrument and are subsequently amortised over the term of the instrument through the effective interest method.

Interest on lease liabilities is charged to the Income Statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to the Income Statement.

1.11 Dividends

Interim dividends are recognised when they are paid to shareholders. Final equity dividends are recognised when approved by the shareholders.

1.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting 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.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1.13 Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Subsequent to initial recognition, goodwill is not amortised, but is reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less impairment losses.

Previously under FRS 102, goodwill had been amortised over its useful economic life of 10 years on a straight line basis. On transition to IAS, the Group has taken the optional exemption permitted by Appendix C to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which allows the carrying value of goodwill at the date of transition to be retained rather than applying IFRS 3 retrospectively. See note 24 for more details on the impact of adopting IAS.

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.

At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

All intangible assets are considered to have a finite useful life.

Amortisation is calculated, using the straight line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Computer software; 20%
- Customer lists; 20%

Amortisation is included in administrative expenses in the income statement.

Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use it;
- there is an ability to use the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs where appropriate. Capitalised development costs are amortised from the point at which the asset is ready for use.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1.14 Property, plant and equipment

Property, plant and equipment 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.

At each reporting date the Group assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following straight line basis:

- Fixtures, fittings and equipment; 20%
- Tenant improvements; 10% or the remaining lease term, whichever is shorter
- Computer hardware; 20%

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 Income Statement.

1.15 Right-of-use assets

Right-of-use assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical costs includes the initial amount of the lease liability and any initial direct costs incurred. Also included are the costs of lease payments made, less any lease incentives received, at or before the commencement date.

At each reporting date the Group assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Subsequent to initial measurement, the right-of-use asset is also adjusted for certain remeasurements of the associated lease liability, details of which are provided in note 16.

Depreciation is charged on a straight line basis so as to allocate the cost of assets over the lease term or their useful economic life if shorter.

1.16 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1.17 Mortgage assets

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred substantially all of the risks and rewards of ownership. The risks and rewards of ownership in relation to lifetime mortgages originated by the Group is immediately transferred to a third party upon completion of the loan arrangement. The loans meet the de-recognition criteria of IFRS 9 and therefore are recognised and immediately derecognised at the point of sale.

1.18 Trade and other receivables

Trade and other receivables are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost.

A provision for impairment of trade receivables is recognised based on lifetime expected credit losses at each reporting date.

Accrued income relates to amounts earned at the balance sheet date which have not yet been invoiced.

1.19 Cash and cash equivalents

Cash and cash equivalents includes cash-in-hand, cash-at-bank, bank overdrafts and deposits readily convertible to known amounts of cash and that have an original maturity of three months or less. In the statement of financial position, bank overdrafts that do not have right of offset are presented within current liabilities.

1.20 Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are measured subsequently at amortised cost.

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the date of the Statement of Financial Position, and carried forward to future years. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the date of the Statement of Financial Position.

1.21 Financial liabilities and equity

Financial liabilities and equity instruments are initially measured at the amount of the net proceeds received. Financial liabilities and equity are classified according to the substance of the financial instruments' contractual obligations, rather than the financial instruments' legal form.

Financial liabilities are subsequently measured at amortised cost applying the effective interest rate method. The difference between the net proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the liability.

1.22 Derivative financial instruments

Derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense. The Group enters into financial derivatives to manage its exposure to changes in market interest rates and does not undertake speculative activities. The Group has no financial instruments designated in hedge relationships under IFRS 9 *Financial Instruments*.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1.23 Lease liabilities

For leases where the Group is a lessee, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

Lease liabilities are initially measured at the present value of the lease payments due during the lease term but that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and applicable variable lease payments (which depend on an index or a rate). The lease term includes periods covered by extension and break options if the Group is reasonably certain to extend the lease or to not exercise the break.

The discount rates applied in the measurement of the lease liabilities represent the Group's incremental borrowing rates. The incremental borrowing rates are determined through a build-up approach, starting with swap rates specific to the term and economic environment of the lease, then adjusted for the credit risk of the lessee. The inputs used to determine the rates are regularly reassessed, based on historical experience and other factors which the Directors believe to be reasonable.

Each lease payment is allocated between the capital repayment of the liability and the finance cost element. The finance cost is charged to the Income Statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. In the Statement of cash flows the finance cost element is reported within interest paid and the capital repayment of the liability is reported within Repayment of lease obligations.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index, rate or a lease modification. When extension or break options are exercised (or not exercised) in a way inconsistent with the prior assessments of those options, or if those assessments are changed, then lease liabilities will also be remeasured.

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months (short-term leases) or less and lease contracts for which the underlying asset is of low value (low value leases). Lease payments on short-term leases and those on low value leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

1.24 Share-based payment

The Group provides share-based payment arrangements to certain employees.

Equity-settled arrangements are measured at fair value (excluding the effect on non-market based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the Income statement.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1.25 Reserves

The Group's reserves are as follows:

- Share capital reserve represents the nominal value of the shares issued.
- Share premium account represents the premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium.
- Capital contribution reserve represents capital contributions made from the Group's parent, Theo Topco Limited.
- Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Revenue

Revenue is wholly attributable to the principal activity of the Group and arises solely within the United Kingdom.

	2021 £'000	2020 £'000
Origination income	78,840	65,060
Commission income	19,489	15,891
Advice charges	5,588	5,469
Servicing fees	4,315	3,398
Estate planning fees	2,075	2,429
Other revenue	2,714	3,419
Total revenue	113,021	95,666

3. Operating profit

	2021 £'000	2020 £'000
Operating profit has been derived after charging/(crediting):		
Depreciation		
Property, plant and equipment (note 9)	451	438
Right-of-use assets (note 10)	525	542
Profit on disposal of Property, plant and equipment	-	(3)
Amortisation intangible assets	11,270	10,340
Impairment of intangible assets	411	-

Group operating profit for the year ended 31 December 2021, includes £809k start-up costs in relation to Standard Life Home Finance Limited, £309k of redundancy costs, £416k of ad hoc legal and professional fees, £124k of Group reorganisation costs and £107k in relation to brand development.

Group operating profit for the year ended 31 December 2020, includes £1,152k of start-up losses in relation to TERE Advisors Limited, £686k of ad hoc legal and professional fees, £193k of Covid-19 related costs, £157k relating to the launch of a new business proposition, £142k of redundancy costs and £95k of consultancy fees.

Auditors' remuneration	2021 £'000	2020 £'000
Audit services:		
Fees payable to the Group's auditors for the audit of the Consolidated and Company financial statements	40	30
Audit of the Company's subsidiaries	146	159
Non-audit services:		
Covenants reporting	5	5
Grant claims reporting	10	-
Total amount payable to the Group's auditors	201	194

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

4. Employee numbers and expense

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

	2021	2020
	No.	No.
Advice Delivery	214	223
Manufacturing	180	160
Central Services	164	154
Key Management Personnel	11	11
	<u>569</u>	<u>548</u>

Group

2021	2020
£'000	£'000

The aggregate employee benefit expense of these persons were as follows:

Wages and salaries	24,086	23,708
Social security costs	2,563	2,565
Pension costs	888	782
	<u>27,537</u>	<u>27,055</u>

The Company has no employees in the year or prior year.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

5. Directors and key management personnel

Directors' remuneration	2021	2020
	£'000	£'000
Short-term employee benefits	519	578
Company pension contributions to money purchase schemes	29	10
Termination benefits	207	-
	755	588
Highest Paid Director		
Short-term employee benefits	321	321
Company pension contributions to money purchase schemes	-	-
	321	321

There was one director (2020: one) accruing benefits under a money purchase pension scheme during the year.

Remuneration of key management personnel	2021	2020
	£'000	£'000
Short-term employee benefits	2,304	2,427
Company pension contributions to money purchase schemes	46	20
Termination benefits	207	-
	2,557	2,447

Key management personnel comprises all directors and certain senior managers who are members of the Executive Committee.

6. Finance costs

	2021	2020
	£'000	£'000
Interest payable on bank loans held at amortised cost	3,818	4,867
Interest payable on loan notes held at amortised cost	7,311	6,831
Interest payable on loans from parent undertaking, held at amortised cost	4,453	4,123
Interest on lease liabilities	150	165
Fair value gains on derivative financial instruments	(272)	(110)
Interest receivable	-	(8)
	15,460	15,868

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

7. Tax

	2021 £'000	2021 £'000	2020 £'000	2020 £'000
<i>Current tax</i>				
UK corporation tax	824		21	
Adjustments in respect of prior years	<u>(1)</u>		<u>(26)</u>	
Total current tax charge/(credit)		823		(5)
<i>Deferred tax</i>				
Origination and reversal of timing differences	(1,560)		60	
Adjustments in respect of prior years	71		63	
Effect of tax rate change	<u>3,822</u>		<u>436</u>	
Total deferred tax charge		<u>2,333</u>		<u>559</u>
Tax		<u>3,156</u>		<u>554</u>

Factors affecting tax charge for year

	2021 £'000	2020 £'000
Loss before tax	<u>(11,146)</u>	<u>(13,212)</u>
Tax on loss at the standard rate of corporation tax in the UK of 19% (2020: 19%)	(2,118)	(2,511)
Effects of:		
Fixed asset differences	4	-
Expenses not deductible for tax purposes	3,492	8,603
Income not taxable for tax purposes	(1,007)	(6,059)
R&D expenditure credits	9	-
Group income	(6)	-
Group relief (claimed)/surrendered	(214)	500
Adjustments to tax charge in respect of previous years	(1)	37
Effects of rate change	3,472	5
Adjustments to tax charge in respect of previous years - deferred	71	-
Timing differences	(792)	(21)
Deferred tax not recognised	246	-
Total tax charge	<u>3,156</u>	<u>554</u>

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

7. Tax (continued)

Tax rate changes

During the year there was a £3,472k (2020: £nil) deferred tax charge recognised following legislation being enacted to increase the standard rate of corporation tax from 19% to 25% from 1 April 2023.

Deferred tax liability

The deferred tax liability at year end of £17,200k (2020: £14,867k) primarily relates to capital allowances on fixed assets. Of the deferred tax liability, £1,284k (2020: £1,284k) represents a current liability

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

8. Intangible assets

Group	Goodwill £'000	Other £'000	Computer Software £'000	Customer Lists £'000	Total £'000
Cost					
At 1 January 2021	128,508	101,374	20,374	250	250,506
Additions	-	-	7,782	-	7,782
At 31 December 2021	128,508	101,374	28,156	250	258,288
Accumulated amortisation					
At 1 January 2021	30,983	23,091	8,022	17	62,113
Charge for the year	-	6,758	4,462	50	11,270
Impairment	-	-	411	-	411
At 31 December 2021	30,983	29,849	12,895	67	73,794
Net book value					
At 31 December 2021	97,525	71,525	15,261	183	184,494
At 31 December 2020	97,525	78,283	12,352	233	188,393

Other:	Net book value		Remaining amortisation period (years)	
	2021 £'000	2020 £'000	2021	2020
Lender relationships- More 2 Life Ltd	57,349	62,768	10.5	11.5
Lender relationships- Key Retirement Solutions Limited	6,643	7,270	10.5	11.5
Brand- Key Retirement Solutions Limited	7,533	8,245	10.5	11.5
	<u>71,525</u>	<u>78,283</u>		

The Group has performed its annual assessment of its amortisation policies and asset lives and deemed them to be appropriate. The Group has undertaken its annual impairment review as set out in notes 1.6 and 1.13.

At the 31 December 2021, the Group had contractual commitments for the acquisition of intangible assets amounting to £2,646k (2020: £2,568k)

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

8. Intangible assets (continued)

Prior year

Group	Goodwill £'000	Other £'000	Computer Software £'000	Customer Lists £'000	Total £'000
Cost					
At 1 January 2020	128,508	101,374	14,490	-	244,372
Adjustments	-	-	(41)	-	(41)
Additions	-	-	5,831	250	6,081
Reclass	-	-	94	-	94
At 31 December 2020	128,508	101,374	20,374	250	250,506
Accumulated amortisation					
At 1 January 2020	30,983	16,333	4,143	-	51,459
Adjustments	-	-	314	-	314
Charge for the year	-	6,758	3,565	17	10,340
At 31 December 2020	30,983	23,091	8,022	17	62,113
Net book value					
At 31 December 2020	97,525	78,283	12,352	233	188,393
At 31 December 2019	97,525	85,041	10,347	-	192,913

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

9. Property, plant and equipment

Group	Tenant Improvements £'000	Computer Hardware £'000	Fixtures, Fittings and Equipment £'000	Total £'000
Cost				
At 1 January 2021	1,275	1,702	259	3,236
Additions	94	215	13	322
At 31 December 2021	1,369	1,917	272	3,558
Accumulated amortisation				
At 1 January 2021	260	740	202	1,202
Charge for the year	131	299	21	451
At 31 December 2021	391	1,039	223	1,653
Net book value				
At 31 December 2021	978	878	49	1,905
At 31 December 2020	1,015	962	57	2,034

The Group has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. The Group has undertaken its annual impairment review as set out in note 1.14.

At the 31 December 2021, the Group had no (2020: none) contractual commitments for the acquisition of property, plant and equipment.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

9. Property, plant and equipment (continued)

Prior year

Group	Tenant Improvements £'000	Computer Hardware £'000	Fixtures, Fittings and Equipment £'000	Total £'000
Cost				
At 1 January 2020	1,122	1,497	227	2,846
Adjustments	57	(12)	(4)	41
Additions	96	192	6	294
Disposals	-	25	30	55
At 31 December 2020	1,275	1,702	259	3,236
Accumulated amortisation				
At 1 January 2020	136	580	138	854
Adjustments	-	(145)	-	(145)
Charge for the year	124	280	34	438
On disposals	-	25	30	55
At 31 December 2020	260	740	202	1,202
Net book value				
At 31 December 2020	1,015	962	57	2,034
At 31 December 2019	986	917	89	1,992

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

10. Right-of-use assets

Group	Property £'000	Other £'000	Total £'000
Cost			
At 1 January 2021	3,361	156	3,517
Additions	-	-	-
At 31 December 2021	3,361	156	3,517
Accumulated depreciation			
At 1 January 2021	477	65	542
Charge for the year	480	45	525
At 31 December 2021	957	110	1,067
Net book value			
At 31 December 2021	2,404	46	2,450
At 31 December 2020	2,884	91	2,975

The Group has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. The Group has undertaken its annual impairment review as set out in note 1.15.

Prior year

Group	Property £'000	Other £'000	Total £'000
Cost			
At 1 January 2020	3,103	156	3,259
Additions	258	-	258
At 31 December 2020	3,361	156	3,517
Accumulated depreciation			
At 1 January 2020	-	-	-
Charge for the year	477	65	542
At 31 December 2020	477	65	542
Net book value			
At 31 December 2020	2,884	91	2,975
At 31 December 2019	3,103	156	3,259

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

11. Investments

Company	Group undertakings £'000
Cost	
At 1 January 2021 and 1 January 2020	57,925
Additions	-
At 31 December 2021 and 31 December 2020	<u>57,925</u>
Net book value	
At 31 December 2021	<u>57,925</u>
At 31 December 2020	<u>57,925</u>

The Group has undertaken its annual impairment review as set out in note 1.6.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

11. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Place of business/ country of incorporation	Class of shares	Holding
Theo Bidco Limited (b)	Great Britain	Ordinary	100%
Key Group Topco Limited (a) (b)	Great Britain	Ordinary	100%
Key Group Midco 1 Limited (a) (b)	Great Britain	Ordinary	100%
Key Group Midco 2 Limited (a) (b)	Great Britain	Ordinary	100%
Key Group Bidco Limited (a) (b)	Great Britain	Ordinary	100%
Key Retirement Group Limited (a) (b)	Great Britain	Ordinary	100%
KRS Finance Limited (a) (b)	Great Britain	Ordinary	100%
KRS Group Limited (a)	Great Britain	Ordinary	100%
Key Retirement Solutions Limited (a)	Great Britain	A Ordinary B Ordinary	100%
Key Partnerships Limited (a)	Great Britain	Ordinary	100%
More 2 Life Ltd (a)	Great Britain	Ordinary	100%
More 2 Life SPV 1 Limited (a)	Great Britain	Ordinary	100%
More 2 Life Asset SPV 2 Limited (a)	Great Britain	Ordinary	100%
KRS Services Limited (a) (b)	Great Britain	Ordinary	100%
Equity Release Assured Limited (a) (b)	Great Britain	Ordinary	100%
Retirement People Limited (a)	Great Britain	Ordinary	100%
Modern Lending Advisers Limited (a) (b)	Great Britain	Ordinary	100%
Home Equity Release Service Limited (a) (b)	Great Britain	Ordinary	100%
Key Money Limited (a)	Great Britain	Ordinary	100%
Primetime Retirement Group Limited (a) (b)	Great Britain	A Ordinary	79%
Primetime Retirement Limited (a) (b)	Great Britain	Ordinary	79%
Key Secured Lending Limited (a)	Great Britain	Ordinary	100%
More 2 Life Retirement Income Limited (a)	Great Britain	Ordinary	100%
The Retirement Lending Advisers Limited (a) (b)	Great Britain	Ordinary	100%
Equity Release Club Holdings Limited (a) (b)	Great Britain	Ordinary	51%
Answers in Retirement Limited (a) (b)	Great Britain	Ordinary	51%
Later Life Guidance Limited (a) (b)	Great Britain	Ordinary	51%
Key Later Life Services Limited (a) (b)	Great Britain	Ordinary	100%
Key Legal Trustees Limited (a) (b)	Great Britain	Ordinary	100%
TERE Advisers Limited (a) (b)	Great Britain	Ordinary	51%
Key Group Asset Management Limited (a)	Great Britain	Ordinary	100%
Sunrise Bidco Limited (a) (b)	Great Britain	Ordinary	100%
Standard Life Home Finance Limited (a)	Great Britain	Ordinary	100%

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

11. Investments (continued)

(a) The investment in these companies is held indirectly. The proportion held is the effective interest at the year end.

The registered office of all subsidiary undertakings excluding Answers in Retirement Limited and Later Life Guidance Limited is Baines House, Midgery Court, Pittman Way, Fulwood, Preston, PR2 9ZH. The registered office of Answers in Retirement Limited and Later Life Guidance Limited is Southgate House, Southgate Street, Gloucester, Gloucestershire, GL1 1UD.

(b) As permitted by section 479A of the Companies Act 2006, the Company intends to take advantage of the audit exemption in relation to the individual accounts and financial statements of these companies.

Dormant subsidiaries are exempt from the requirement to prepare individual financial statements under section 394A of the Companies Act 2006.

Standard Life Home Finance Limited was established during the year ended 31 December 2021, in collaboration with Phoenix Group PLC to launch later life lending products into the market under the Standard Life brand. The Company is wholly owned by the Group and is recognised as a subsidiary undertaking on the basis that the Group has ultimate control over the entity and has rights to the economic risk and returns of the business.

Call options exist in relation to a small number of subsidiaries, which either allow the Group to purchase back minority interests or enable a third party to acquire the equity of a company in certain limited circumstances at fair value. These arrangements are protectionary in nature and at each reporting year end, management assess the value of these instruments, with these being recognised at fair value through the Income statement. As at the 31 December 2021 and 31 December 2020, these instruments were assessed as having either no or negligible fair value and as such, there were no amounts recognised at the balance sheet date.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

12. Trade and other receivables

	Group 2021 £'000	Group 2020 £'000	Group 1 Jan 2020 £'000	Company 2021 £'000	Company 2020 £'000
<i>Current</i>					
Trade receivables	1,385	1,728	1,908	-	-
Other receivables	2,194	1,250	1,237	-	-
Prepayments and accrued income	2,239	2,467	1,392	4	1
Amounts owed by Parent/Group undertakings	3,148	2,809	2,604	2,837	2,809
	8,966	8,254	7,141	2,841	2,810
					<i>Represent ed*</i>
	Group 2021 £'000	Group 2020 £'000	Group 1 Jan 2020 £'000	Company 2021 £'000	Company 2020 £'000
<i>Non-current</i>					
Amounts owed by Group undertakings - 8.00% loan August 2025	-	-	-	95,379	88,315
Amounts owed by Group undertakings - 8.00% loan notes August 2025	-	-	-	22,185	20,541
Other receivables - Mortgage assets	-	-	77	-	-
	-	-	77	117,564	108,856

*The Company represented its 'Amounts owed by/to Group undertaking' balances for the year ended 31 December 2020, to provide additional information with regard to the nature of these balances and to accurately reflect the extent to which these balances have the right to offset. 'Loan notes' payable of £79,792k reported previously included a net amount owed by Group undertakings of £10,386k. The net amount owed by Group undertakings of £10,386k has been restated as, 'Amounts owed by Group undertakings – loan notes' of £20,541k, 'Amounts owed to Group undertakings – loan notes' of £10,510k and an adjustment made to reduce 'Amounts owed to Group undertakings' by £355k.

The carrying amounts of trade and other receivables approximates to their fair value at 31 December 2021 and 31 December 2020.

Trade receivables do not carry interest and are stated net of £65k (2020: £28k) of expected credit losses. The following table provides the ageing of net trade receivables that were past due and individually impaired.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

12. Trade and other receivables (continued)

2021	Current % / £'000	More than 30 days past due % / £'000	More than 60 days past due % / £'000	More than 120 days past due % / £'000	Total £'000
Expected credit loss rate	0.3%	4.6%	14.2%	20.0%	
Gross carrying amount	999	170	29	252	1,450
Expected credit loss	3	8	4	50	65

2020	Current % / £'000	More than 30 days past due % / £'000	More than 60 days past due % / £'000	More than 120 days past due % / £'000	Total £'000
Expected credit loss rate	0.1%	1.2%	1.7%	9.1%	
Gross carrying amount	1,127	270	142	217	1,756
Expected credit loss	2	3	3	20	28

At the 31 December 2021 and 31 December 2020, the Group had no trade receivables that were past due and not individually impaired.

Amounts owed by Parent/Group undertakings are unsecured, interest free and are repayable on demand unless stated otherwise. Interest where applicable on amounts owed by Parent/Group undertakings is accrued for each year and included in their respective carrying values. The Company expects to be able to recover the outstanding balances if demanded or as they fall due and as such, no provision has been recognised as the credit risk is assessed to be immaterial.

The Company is an Obligor under the Group Senior Facility Agreement, which governs the £75,000k senior loan (£53.9m outstanding at year end) and £5,000k revolving credit facility (undrawn at year end). This means that the Company has given security over its assets and, in conjunction with the rest of the Group, is responsible for maintaining compliance with its covenants.

13. Cash and cash equivalents

	2021 £'000	2020 £'000	1 Jan 2020 £'000
Cash at bank and in hand	17,109	24,312	22,042
	17,109	24,312	22,042

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

14. Trade and other payables

Current	Group	Group	Group	Company	Represented*
	2021	2020	1 Jan 2020	2021	Company
	£'000	£'000	£'000	£'000	2020
					£'000
Trade payables	2,504	2,059	1,785	-	-
Other taxation and social security	1,293	1,227	794	-	-
Other payables	534	185	300	-	-
Accruals and deferred income	12,167	6,860	10,163	-	-
Amounts owed to Group undertakings	-	-	-	2,813	2,747
	16,498	10,331	13,042	2,813	2,747
Non-Current					
Accruals and deferred income	7,500	-	-	-	-
	7,500	-	-	-	-

*The Company represented its 'Amounts owed by/to Group undertaking' balances for the year ended 31 December 2020, to provide additional information with regard to the nature of these balances and to accurately reflect the extent to which these balances have the right to offset. 'Loan notes' payable of £79,792k reported previously included a net amount owed by Group undertakings of £10,386k. The net amount owed by Group undertakings of £10,386k has been restated as, 'Amounts owed by Group undertakings – loan notes' of £20,541k, 'Amounts owed to Group undertakings – loan notes' of £10,510k and an adjustment made to reduce 'Amounts owed to Group undertakings' by £355k.

Included within accruals and deferred income is £10,000k (2020: £nil); £7,500k due after one year and £2,500k due within one year. This balance represents revenue received in advance in relation to the new business venture, to bring Standard Life branded equity release products to market. This deferred income will be gradually recognised as revenue in each financial year through until the year ending 31 December 2025, at which point it will be fully amortised. The amount of deferred revenue recognised each year represents a significant accounting judgement and is determined by the level of equity release funding originated in each financial year as set out in the Collaboration agreement. The £10,000k of cash received during the year has been recognised within Cash generated from operations in the Consolidated statement of cash flows.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

15. Borrowings

	Group 2021	Group 2020	Group 1 Jan 2020	Company 2021	Represented* Company 2020
	£'000	£'000	£'000	£'000	£'000
Borrowings measured at amortised cost					
£53,900k LIBOR+1.25% bank loan August 2024	52,790	72,350	73,007	-	-
Sterling 8.00% A loan notes August 2025	87,084	80,559	74,524	87,084	80,559
Sterling 8.00% B loan notes August 2025	10,379	9,619	8,900	10,379	9,619
Revolving credit facility	-	5,000	-	-	-
Amounts owed to Parent/Group undertakings:					
Sterling 8.00% loan notes August 2025	11,351	10,510	9,732	11,351	10,510
Sterling 8.00% loan August 2025	48,760	45,148	41,804	48,760	45,148
	210,364	223,186	207,967	157,574	145,836

Group

In relation to the bank loan, security has been taken on the assets of the major trading subsidiaries of the Group. The syndicate of lenders as at 31 December 2021 comprise Credit Suisse (Switzerland) Limited, National Westminster Bank Plc, Hermes Direct Lending Fund I S.à r.l., EMMPD (Investment) S.à r.l. and EMMPD (ABR) S.à r.l. On the 5 March 2021, the FCA announced the cessation of sterling LIBOR with effect from 31 December 2021 and as such, the Group reached an agreement with its lenders during the year that with effect from the 1 January 2022 the bank loan would reference the SONIA (sterling overnight index average) rate plus a fixed CAS (Credit adjustment spread) rate of 0.1193% based on an interest period of up to 3 months.

Interest on the loan notes and amounts owed to Parent undertakings is accrued for each year and included in their respective carrying values.

Information in relation to the Group's revolving credit facilities are detailed in note 19.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

15. Borrowings (continued)

Company

The Company is an Obligor under the Group Senior Facility Agreement, which governs the £75,000k senior loan (£53,900k outstanding at year end (2020: £73,900k)) and £5,000k revolving credit facility (undrawn at year end (2020: £5,000k drawn)). This means that the Company has given security over its assets and, in conjunction with the rest of the Group, is responsible for maintaining compliance with its covenants.

Interest on the loan notes and amounts owed to Group undertakings is accrued for each year and included in their respective carrying values.

The carrying amount of borrowings for the Group and Company approximate to their fair values at 31 December 2021 and 31 December 2020.

Maturity of borrowings

The table below summarises the maturity profile of the Group's borrowings based on contractual, undiscounted payments, which include future interest payments. As a result, amounts shown below do not agree to the amounts disclosed in the Statement of financial position for borrowings, which exclude future interest payments.

	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Less than one year	2,459	3,352	-	-
One to two years	2,459	3,352	-	-
Two to three years	55,334	8,273	-	-
Three to four years	208,093	75,745	208,093	-
Four to five years	-	208,132	-	208,132

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

16. Lease liabilities

Group	2021	2020	1 Jan 2020
	£'000	£'000	£'000
Current lease liabilities	493	472	430
Non-current lease liabilities	2,218	2,710	2,940
	<u>2,711</u>	<u>3,182</u>	<u>3,370</u>

The table below summarises the maturity profile of the Group's lease liabilities on contractual, undiscounted payments.

Group	2021	2020
	£'000	£'000
Less than one year	618	622
One to two years	462	618
Two to three years	518	462
Three to four years	493	518
Four to five years	472	493
More than five years	590	1,062

The vast majority of the lease liabilities relate to property (see note 10). Property leases typically include rent review terms that require rents to be adjusted on a periodic basis, following market rent increase. Lease liabilities include periods beyond extension and break option dates if the Group is reasonably certain to extend or continue the lease.

The interest expense on lease liabilities is shown in note 6. The depreciation expense for leased assets during the year is shown in note 3 and note 10. The total cash outflow for leases was £621k (2020: £611k), of this £150k (2020: £165k) was payment of interest and £471k (2020: £446k) payment of principal.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

17. Provisions

Group	Bad Leaver Provision £'000	Loan sale premium £'000	Total £'000
At 1 January 2021	965	136	1,101
Amounts utilised	-	(97)	(97)
Charge for the year	-	187	187
Released in the year	-	-	-
At 31 December 2021	965	226	1,191

Loan Sale Premium claw back provision

Under Mortgage Purchase Agreements between More 2 Life Ltd and the Funders, there are scenarios which create a liability for the More 2 Life Ltd. The Company tracks historical voluntary redemptions and business volumes to arrive at an estimation of the potential loan sale premium liability.

18. Cash generated from operations

	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Loss for the financial year	(14,302)	(13,766)	(3,085)	(2,905)
Tax	3,156	554	-	-
Loss before tax	(11,146)	(13,212)	(3,085)	(2,905)
Adjustments for:				
Depreciation of property, plant and equipment	451	438	-	-
Amortisation of intangible assets	11,270	10,340	-	-
Depreciation on ROU assets	525	542	-	-
Impairment of intangible assets	411	-	-	-
Profit on disposal of assets	-	(3)	-	-
Finance costs	15,460	15,868	3,056	2,814
Other non-cash items	(209)	(368)	-	-
Working capital movements:				
Increase in debtors	(712)	(927)	(31)	(201)
Increase/(decrease) in payables	13,770	(2,804)	66	292
Cash generated from operations	29,820	9,874	28	-

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

18. Cash generated from operations (continued)

Net debt reconciliation

Net debt comprises borrowings and lease liabilities, net of cash and cash equivalents and derivatives. The table below should be read in conjunction with the consolidated statement of cash flows.

	Liabilities from financing activities						Other		
	Loan notes	Bank loans	Leases	Derivatives	Loan from parent undertaking	Loan notes from parent undertaking	Subtotal	Cash	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net debt at									
1 January 2020	83,424	73,007	3,370	130	41,804	9,732	211,467	(22,042)	189,425
Cash flows	-	126	(611)	(40)	-	-	(525)	(2,270)	(2,795)
New leases	-	-	258	-	-	-	258	-	258
Accrued interest	6,712	3,788	165	-	3,344	778	14,787	-	14,787
Fair value movements	-	-	-	(110)	-	-	(110)	-	(110)
Other changes*	42	429	-	-	-	-	471	-	471
Net debt at									
31 December 2020	90,178	77,350	3,182	(20)	45,148	10,510	226,348	(24,312)	202,036
Cash flows	(26)	(28,345)	(621)	-	-	-	(28,992)	7,203	(21,789)
New leases	-	-	-	-	-	-	-	-	-
Accrued interest	7,245	3,354	150	-	3,612	841	15,202	-	15,202
Fair value movements	-	-	-	(272)	-	-	(272)	-	(272)
Other changes*	66	431	-	-	-	-	497	-	497
Net debt at									
31 December 2021	97,463	52,790	2,711	(292)	48,760	11,351	212,783	(17,109)	195,674

* Other changes include non-cash movements, including accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

19. Financial risk management

The Group Board manages funding, liquidity and other financial risks to mitigate the risk of an adverse impact on the performance of the Group as a result of its exposure to financial risks arising from the Group's operations and its sources of finance. As well as managing the exposure to these risks, the Board ensures compliance with relevant financial covenants which are in place in relation to its bank borrowings and which include interest cover and net leverage metrics. The day to day monitoring and monthly reporting of these risks is undertaken by the Group's Treasury function. It is the Group's policy not to engage in speculative trading of financial instruments.

Liquidity risk

Group

Liquidity is actively monitored by the Group's treasury function and is reported to the board through the monthly management accounts. The Group policy is to maintain a sufficient level of cash and committed facilities to meet its obligations as they fall due.

At the 31 December 2021, the Group had £22,109k (2020: £24,312k) of available liquidity, which comprised £17,109k (2020: £24,312k) cash and cash equivalents and £5,000k (2020: £nil) of undrawn committed borrowing facilities.

The Group has a committed revolving credit facility of £5,000k with a maturity date of August 2023. At the 31 December 2021, £5,000k (2020: fully drawn) was undrawn against this facility. The revolving credit facility incurs commitment fees and interest charges at a spread above LIBOR.

The maturity profiles set out in notes 15 and 16 represent the forecast future contractual principal and interest cash flows in relation the Group's financial liabilities on an undiscounted basis.

Company

The Company had no committed facilities available at 31 December 2021 or 31 December 2020.

Interest rate risk

Group

The Group seeks to protect itself against adverse movements in interest rates by holding a significant proportion of its total borrowings at fixed interest rates. At the reporting date, 74.9% (2020: 65.3%) of the Group's borrowings are at a fixed interest rate.

In addition to this, the Group may enter into derivative instruments such as floating-to-fixed interest rate swaps and interest rate caps to reduce its exposure to interest rate risk. As at the 31 December 2021 and 31 December 2020 the Group held an interest rate cap with a fair value of £292k (2020: £20k). The notional amount of the interest rate cap was £73,900k with a strike price of 0.5%, maturing 31 December 2022. This interest rate cap provides a full economic hedge against the Group's exposure to floating interest rates on its bank loan to the extent that LIBOR exceeds the strike price. As a result the Group has no material net exposure to movements in interest rates. The interest rate cap has not been designated in an accounting hedge relationship under IFRS 9 *Financial Instruments*.

In relation to the interest rate cap, transitional arrangements have been made during the year such that the derivative will reference the SONIA (sterling overnight index average) rate plus a fixed CAS (Credit adjustment spread) rate of 0.1193% with effect from the 1 January 2022. See note 15 for more details in relation to LIBOR transition.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

19. Financial risk management (continued)

The derivative is categorised as a level 2 instrument, as its fair value is calculated by using benchmark observable market interest rates to determine and discount future cash flows.

Company

The Company had no exposure to interest rate risk at 31 December 2021 or 31 December 2020 as all its borrowings were at a fixed rate of interest.

Credit risk

Group

Credit risk arises from cash and cash equivalents held at the bank, and exposures from sources of revenue. The credit risk exposure in relation to the Group's trade receivables is considered to be relatively low. The majority of the Group's revenue is received the day after completion from its large third party funders. In addition, fees due from equity release customers are generally deducted from the loan proceeds managed by solicitors and which are then paid across from the solicitors.

The majority of the Group's cash and cash equivalents are held in current accounts with National Westminster Bank Plc which has a long-term credit rating of A1 stable/ A stable with Moody's and S&P respectively, and is majority owned by the UK Government.

Company

Trade and other receivables relates to amounts due from group undertakings.

At the 31 December 2021, the maximum exposure to credit risk for the Group and Company is represented by the carrying value of the following financial assets:

	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Cash and cash equivalents	17,109	24,312	-	-
Trade and other receivables	8,966	8,254	120,405	111,666
Derivative financial asset	292	20	-	-
	26,367	32,586	120,405	111,666

Capital risk management

The Group manages its capital structure to ensure the long term viability of the business whilst maximising shareholder returns.

The capital structure of the Group consists of net debt (borrowings and derivatives less cash and cash equivalents) and equity (issued share capital, reserves and accumulated losses).

The Board manages the Group's capital structure through the arrangement of appropriate borrowing facilities, managing the generation of free cash flow and determining how and to what extent this free cash flow is reinvested in the business or used to settle outstanding debt obligations and through monitoring its performance against banking covenants.

The banking covenants include an interest cover and net leverage metric. These covenants not only provide a minimum condition of the banking facilities, but also determine the margin applied in calculating the interest rate applied to both the bank loan and RCF. There have been no breaches of financial covenants in the year ended 31 December 2021 or 31 December 2020.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

20. Share based payments

The Group provides share-based payment arrangements to certain employees, which are subject to leaver provisions detailed in the articles. The fair value was recognised as at the grant date and in line with the accounting policy there is no change to the fair value within the year and there are no movements/expenses that have been recognised in the financial statements during the year.

21. Share capital

2021	2020	1 Jan 2020
£'000	£'000	£'000

1 (2020: 1) Ordinary shares of £1.00 each

-	-	-
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All issued shares are fully paid. The Directors do not propose a dividend in respect of the financial year ended 31 December 2021.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

22. Related party transactions

Group

The following Directors of Group Companies are also shareholders of the Group; S Thompson, S Groves, D Young, S Drew, G Kent, D Harris, W Hale and C Bibby. These individuals have interests in the B loan notes, which accrue interest at 8.00%. This interest rate mirrors the A loan note interest rate as part of the acquisition of Key Group by funds advised by Partners Group.

The remuneration and benefits for the Executive directors has been reviewed by the Group remuneration committee and represent a normal market remuneration package for each individual given their role in the Group.

The Non-executive directors negotiated their remuneration with Partners Group prior to joining the Board in 2017. The Group believes their remuneration reflects market rates for directors of their experience.

The funds advised by Partners Group, which own shares in the Company, also have an interest in the A loan notes.

During the year, the Group entered into transactions, in the ordinary course of business, with these related parties. The transactions entered into, and the balances outstanding at 31 December are as follows:

	2021 £'000	2020 £'000
Partners Group		
Payable in relation to A loan notes at 1 January	81,025	75,023
Charges from related party:		
Interest accruing on A loan notes	6,482	6,002
Payable in relation to A loan notes at 31 December	<u>87,507</u>	<u>81,025</u>
	2021 £'000	2020 £'000
Directors' Interest on loan notes		
Payable in relation to B loan notes at 1 January	9,590	8,880
Amounts issued	18	-
Repayment	(44)	-
Charges from related party:		
Interest accruing on B loan notes	763	710
Payable in relation to B loan notes at 31 December	<u>10,327</u>	<u>9,590</u>
Advisory fee	<u>1,265</u>	<u>1,265</u>

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

22. Related party transactions (continued)

Company

The Company receives interest on borrowings from a subsidiary undertaking in the normal course of business. The total interest receivable during the year was £8,708k (2020: £8,063k). The Company pays interest on borrowings to its parent in the normal course of business. The total interest payable during the year was £4,453k (2020: £4,123k). Amounts outstanding at 31 December 2021 and 31 December 2020 between the Company and subsidiary undertakings are disclosed in notes 12 and 14.

23. Ultimate parent company

The Company's immediate and ultimate parent company is Theo Topco Limited.

Theo Midco Limited is the parent of the smallest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the consolidated financial statements can be obtained from its registered office at Baines House, Midgery Court, Pittman Way, Fulwood, Preston, PR2 9ZH.

Theo Topco Limited is the parent of the largest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the consolidated financial statements can be obtained from its registered office at Baines House, Midgery Court, Pittman Way, Fulwood, Preston, PR2 9ZH.

There is no ultimate controlling party by virtue of a majority shareholding of Theo Topco Limited, although Partners Group have de facto control of the Group due to the constraints imposed on the Group and Executive directors through the investment agreement.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

24. Adoption of International Accounting Standards

The Group and Company Annual report and financial statements have been prepared for the first time in accordance with UK-adopted International Accounting Standards (IAS) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The results for the comparative periods have been restated under UK-adopted IAS on the same basis, with the date of transition being 1 January 2020.

Group

The main areas of impact of adopting IAS are summarised below:

Goodwill

Under FRS 102 goodwill is amortised over its useful economic life and as such, the Group was amortising its goodwill balance over a 10 year period resulting in an annual charge of £12,851k to the Consolidated income statement.

Under IFRS 3 *Business Combinations* and IAS 38 *Intangible Assets* there is no amortisation of goodwill, with goodwill being held at cost less provision for impairment. On transition to IAS, the Group has taken the optional exemption permitted by Appendix C to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which allows the carrying value of goodwill at the date of transition to be retained rather than applying IFRS 3 retrospectively.

Impairment testing has been undertaken at the date of transition and the 31 December 2020, with no impairment being recognised.

Leases

The Group has lease contracts where it is lessee for property and equipment. Under FRS 102, leases in which substantially all the risks and rewards of ownership were retained by the lessor are classified as operating leases, otherwise they are classified as finance leases. On transition to IAS, the Group only had operating leases. Rental costs on operating leases were expensed in the income statement and there was no recognition of the associated assets or liabilities in the Statement of financial position. The Group does not have any lease contracts where it acts as a lessor.

Under IFRS 16, the Group has recognised a right-of-use asset and a lease liability in relation to these leases, in its statement of financial position. The income statement includes depreciation in relation to the right-of-use assets and a finance charge in relation to the lease liabilities.

On transition to IFRS 16, the Group has adopted the modified retrospective approach permitted by the standard in which both the right-of-use assets and lease liabilities were based on the present value of future lease payments at the 1 January 2020 using the appropriate discount rate as at that date. The weighted average incremental borrowing rate applied to lease liabilities at the date of transition was 5.2%. Following the date of transition, lease liabilities and right-of-use assets for new leases are based on the appropriate discount rate at the date the new contract is entered into.

As part of the Group's adoption of IFRS 16 an exercise was undertaken to assess whether contracts contain leases as defined by the standard. This has resulted in no changes to the population of contracts identified previously as leases under FRS 102.

The Group has applied the recognition exemptions permitted by IFRS 16 in relation to short-term leases and low value leases.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

24. Adoption of International Accounting Standards (continued)

Reclassification

These largely represent a number of presentational reclassifications to meet the additional disclosure requirements of IAS, but have no overall impact on net assets or reserves reported.

Other - Estate planning revenue recognition

Under IFRS 15, revenue is only recognised when the performance obligations within a contract are satisfied through the transfer of goods or services to a customer. An adjustment has been made in relation to Estate Planning fees received from customers in advance of the performance obligations being satisfied.

At the date of transition to IAS, a £754k deferred income liability has been recognised in relation to outstanding performance obligations, with a corresponding adjustment made to accumulated losses.

In the year ending 31 December 2020, £539k of additional revenue was recognised with a corresponding decrease in the deferred income liability outstanding.

Other - Expected credit loss provision

Under FRS 102, provisions for credit losses on financial instrument assets are measured in accordance with an incurred loss model. As a result, credit losses are recognised only when there has been an incurred loss event.

Under IFRS 9 *Financial Instruments*, credit losses are measured applying a forward looking, expected credit loss model. The 'simplified approach' prescribed under IFRS 9 has been applied to trade receivables to assess the lifetime expected credit losses on the position at the balance sheet date.

At the date of transition to IAS, the credit loss provision was reduced by £80k, with a corresponding adjustment made to accumulated losses.

In the year ended 31 December 2020, the credit loss provision was increased by £17k with a corresponding expense in the Income Statement.

Other - Cash flow hedge accounting

Under FRS 102, the Group had applied cash flow hedge accounting for transactions entered into to manage the cash flow exposures of its borrowings. Changes in the fair value of derivatives designated as cash flow hedges, which were deemed to be effective, were recognised directly in equity within a cash flow hedging reserve.

Under IFRS 9, such derivatives can also be designated as cash flow hedges in a similar manner, however the hedge documentation required is more extensive and this documentation as per IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be in place as at the date of transition to IAS. As such documentation was not in place at the 1 January 2020, these hedges are considered to have terminated as at the date of transition.

As such, at the date of transition the £108k Cash flow hedging reserve was fully transferred to accumulated losses. In the year ended 31 December 2020, £110k of fair value movements have been reallocated in the Consolidated income statement to Finance costs.

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. Adoption of International Accounting Standards (continued)

Other - Borrowings reclassification

At the date of transition £207,967k and at the year ended 31 December 2020 £223,186k of debt financial instruments, were reclassified from Trade & other payables to be separately disclosed as Borrowings. This reclassification has been made to provide an enhanced presentation of the Group's indebtedness.

Other - Tax

At the date of transition, there was a £128k credit to accumulated losses in relation to deferred tax on the transitional adjustments to IAS. In the year ended 31 December 2020, there was a £77k tax charge in relation to deferred tax on the transitional adjustment to IAS in that year.

THEO MIDCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

24. Adoption of International Accounting Standards (continued)

Reconciliation of Consolidated statement of financial position at 1 January 2020

Group	FRS 102 £'000	Leases £'000	Reclass £'000	Other £'000	IAS £'000
ASSETS					
Non-current assets					
Intangible assets	192,913	-	-	-	192,913
Property, plant and equipment	1,992	-	-	-	1,992
Right-of-use assets	-	3,259	-	-	3,259
Trade and other receivables	77	-	-	-	77
	<u>194,982</u>	<u>3,259</u>	<u>-</u>	<u>-</u>	<u>198,241</u>
Current assets					
Trade and other receivables	5,550	(82)	1,593	80	7,141
Current tax asset	-	-	1,011	-	1,011
Cash and cash equivalents	22,042	-	-	-	22,042
	<u>27,592</u>	<u>(82)</u>	<u>2,604</u>	<u>80</u>	<u>30,194</u>
Total assets	<u>222,574</u>	<u>3,177</u>	<u>2,604</u>	<u>80</u>	<u>228,435</u>
LIABILITIES					
Current liabilities					
Trade and other payables	(12,481)	193	-	(754)	(13,042)
Lease liabilities	-	(430)	-	-	(430)
	<u>(12,481)</u>	<u>(237)</u>	<u>-</u>	<u>(754)</u>	<u>(13,472)</u>
Non-current liabilities					
Trade and other payables	(205,493)	-	(2,474)	207,967	-
Borrowings	-	-	-	(207,967)	(207,967)
Lease liabilities	-	(2,940)	-	-	(2,940)
Provisions	(15,629)	-	14,436	-	(1,193)
Deferred tax	-	-	(14,436)	128	(14,308)
Derivatives	-	-	(130)	-	(130)
	<u>(221,122)</u>	<u>(2,940)</u>	<u>(2,604)</u>	<u>128</u>	<u>(226,538)</u>
Total liabilities	<u>(233,603)</u>	<u>(3,177)</u>	<u>(2,604)</u>	<u>(626)</u>	<u>(240,010)</u>
Net liabilities	<u>(11,029)</u>	<u>-</u>	<u>-</u>	<u>(546)</u>	<u>(11,575)</u>
EQUITY					
Share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Cash flow hedging reserve	(108)	-	-	108	-
Capital contribution	29,613	-	-	-	29,613
Accumulated losses	(39,784)	-	-	(654)	(40,438)
Total equity attributable to owners of the company	<u>(10,279)</u>	<u>-</u>	<u>-</u>	<u>(546)</u>	<u>(10,825)</u>
Non-controlling interests	(750)	-	-	-	(750)
Total equity	<u>(11,029)</u>	<u>-</u>	<u>-</u>	<u>(546)</u>	<u>(11,575)</u>

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. Adoption of International Accounting Standards (continued)

Reconciliation of Consolidated statement of financial position at 31 December 2020

Group	FRS 102 £'000	Goodwill £'000	Leases £'000	Reclass £'000	Other £'000	IAS £'000
ASSETS						
Non-current assets						
Intangible assets	175,542	12,851	-	-	-	188,393
Property, plant and equipment	2,034	-	-	-	-	2,034
Right-of-use assets	-	-	2,975	-	-	2,975
	<u>177,576</u>	<u>12,851</u>	<u>2,975</u>	<u>-</u>	<u>-</u>	<u>193,402</u>
Current assets						
Trade and other receivables	6,867	-	(128)	1,452	63	8,254
Current tax asset	-	-	-	1,338	-	1,338
Derivative financial instruments	-	-	-	20	-	20
Cash and cash equivalents	24,312	-	-	-	-	24,312
	<u>31,179</u>	<u>-</u>	<u>(128)</u>	<u>2,810</u>	<u>63</u>	<u>33,924</u>
Total assets	<u>208,755</u>	<u>12,851</u>	<u>2,847</u>	<u>2,810</u>	<u>63</u>	<u>227,326</u>
LIABILITIES						
Current liabilities						
Trade and other payables	(10,332)	-	216	-	(215)	(10,331)
Lease liabilities	-	-	(472)	-	-	(472)
	<u>(10,332)</u>	<u>-</u>	<u>(256)</u>	<u>-</u>	<u>(215)</u>	<u>(10,803)</u>
Non-current liabilities						
Trade and other payables	(220,376)	-	-	(2,810)	223,186	-
Borrowings	-	-	-	-	(223,186)	(223,186)
Lease liabilities	-	-	(2,710)	-	-	(2,710)
Provisions	(16,019)	-	-	14,918	-	(1,101)
Deferred tax	-	-	-	(14,918)	51	(14,867)
	<u>(236,395)</u>	<u>-</u>	<u>(2,710)</u>	<u>(2,810)</u>	<u>51</u>	<u>(241,864)</u>
Total liabilities	<u>(246,727)</u>	<u>-</u>	<u>(2,966)</u>	<u>(2,810)</u>	<u>(164)</u>	<u>(252,687)</u>
Net assets	<u>(37,972)</u>	<u>12,851</u>	<u>(119)</u>	<u>-</u>	<u>(101)</u>	<u>(25,341)</u>
EQUITY						
Share capital	-	-	-	-	-	-
Share premium	-	-	-	-	-	-
Cash flow hedging reserve	2	-	-	-	(2)	-
Capital redemption reserve	29,613	-	-	-	-	29,613
Accumulated losses	(67,022)	12,851	(109)	-	(93)	(54,373)
Total equity attributable to owners of the company	<u>(37,407)</u>	<u>12,851</u>	<u>(109)</u>	<u>-</u>	<u>(95)</u>	<u>(24,760)</u>
Non-controlling interests	(565)	-	(10)	-	(6)	(581)
Total equity	<u>(37,972)</u>	<u>12,851</u>	<u>(119)</u>	<u>-</u>	<u>(101)</u>	<u>(25,341)</u>

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. Adoption of International Accounting Standards (continued)

Reconciliation of Consolidated Income statement for the year ended 31 December 2020

Group	FRS 102 £'000	Goodwill £'000	Leases £'000	Other £'000	IAS £'000
Revenue	95,127	-	-	539	95,666
Cost of sales	(20,401)	-	-	-	(20,401)
Gross Profit	74,726	-	-	539	75,265
Administrative expenses	(85,489)	12,851	46	(17)	(72,609)
Operating (loss)/profit	(10,763)	12,851	46	522	2,656
Finance costs	(15,813)	-	(165)	110	(15,868)
Loss before tax	(26,576)	12,851	(119)	632	(13,212)
Tax	(477)	-	-	(77)	(554)
Loss after tax	(27,053)	12,851	(119)	555	(13,766)
Movement in interest rate cap	(20)	-	-	20	-
Movement in cash flow hedging reserve	130	-	-	(130)	-
Total loss for the financial year	(26,943)	12,851	(119)	445	(13,766)
Total loss attributable to:					
Owners of the company	(27,128)	12,851	(109)	451	(13,935)
Non-controlling interests	185	-	(10)	(6)	169
	(26,943)	12,851	(119)	445	(13,766)

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. Adoption of International Accounting Standards (continued)

Reconciliation of Cash generated from operations for the year ended 31 December 2020

Group	FRS 102 £'000	Goodwill £'000	Leases £'000	Other £'000	IAS £'000
Loss after tax	(27,053)	12,851	(119)	555	(13,766)
Tax	477	-	-	77	554
Loss before tax	(26,576)	12,851	(119)	632	(13,212)
Adjustments for:					
Depreciation of property, plant and equipment	438	-	-	-	438
Amortisation of intangibles	23,191	(12,851)	-	-	10,340
Depreciation of ROU asset	-	-	542	-	542
Profit on disposal of assets	(3)	-	-	-	(3)
Finance costs	15,813	-	165	(110)	15,868
Other non-cash items	(368)	-	-	-	(368)
Working capital movements:					
Increase in debtors	(990)	-	46	17	(927)
Decrease in payables	(2,242)	-	(23)	(539)	(2,804)
Cash generated from operations	9,263	-	611	-	9,874

THEO MIDCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. Adoption of International Accounting Standards (continued)

Reconciliation of Consolidated statement of cash flows for the year ended 31 December 2020

Group	FRS 102 £'000	Leases £'000	IAS £'000
Operating activities			
Cash generated from operations	9,263	611	9,874
Tax paid	(312)	-	(312)
Net cash generated from operating activities	8,951	611	9,562
Investing activities			
Purchase of non-current assets	(6,375)	-	(6,375)
Interest received	8	-	8
Net cash used in investing activities	(6,367)	-	(6,367)
Financing activities			
Proceeds from borrowings	5,000	-	5,000
Repayment of bank borrowings	(1,100)	-	(1,100)
Repayment of lease obligations	-	(446)	(446)
Interest paid	(4,214)	(165)	(4,379)
Net cash used in financing activities	(314)	(611)	(925)
Net increase in cash and cash equivalents	2,270	-	2,270
Cash and cash equivalents at beginning of year	22,042	-	22,042
Cash and cash equivalents at end of year	24,312	-	24,312

Company

The Company transition to IAS has not had an impact on its financial statements, as a result the Statement of financial position as at transition date has not been presented in these financial statements.