CLOUDCOCO
THE FUTURE STARTS NOW

Annual Report

CloudCoCo Group plc

2024

CLOUDCOCO
THE FUTURE STARTS NOW

CloudCoCo believes in the transformative power of cloud computing, cybersecurity, and digital innovation. We are dedicated to helping businesses navigate the complexities of the digital landscape, ensuring efficiency, security, and scalability.

Since 2006, we've been helping UK businesses of all sizes and industries succeed by providing enterprise grade managed IT services that work harder for your business.

Connectivity

Cloud/Data Centres

Collaboration

Cyber Security

IT Support

Microsoft

Professional Services

Hardware & Software

Bright ideas

We're powered by some of the brightest minds in business IT, who are passionate about using technology to help people and to drive lasting change.

Focussed on you

We work closely with you to learn your business and deliver best-in-class solutions and services that help you live your values, execute your strategy and achieve your mission and vision

Best in breed

We help our customers use best-in-breed technology and work alongside you as a partner, not a supplier. We endeavour to constantly develop our team member's skills and knowledge to help support you.

Strategic report

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Overview

I am pleased to report our annual results for the year ended 30 September 2023.

We approached the year with a focus on three key areas:

- to accelerate sales;
- to maintain excellent support levels; and
- to drive efficiencies and strengthen financial position.

In the face of a challenging economic environment, we have steadfastly pursued our strategic objectives, achieving a commendable financial performance. Our focus on connectivity, multi-cloud, collaboration, and cyber security has fortified our market position, driving both revenue and Trading Group EBITDA[1] growth.

Whilst much of the year was spent looking at options to refinance the legacy loan notes, which were due for repayment in October 2024, we were unable to secure suitable terms in the current climate. Our loan note holder, MXC Guernsey Limited, has agreed that the repayment date for the loan notes will be extended to 31 August 2026. Further details of the loan note extension can be found in the Financial Review and in Note 21 and Note 27. We thank MXC Guernsey Limited for its continued support and flexibility.

As announced this morning, Mark Halpin has stepped down from the Board and his position as Chief Executive Officer ("CEO") with immediate effect. Mark was an original founder of the CloudCoCo Limited business, which was acquired into the Group in October 2019. We would like to thank Mark for his service to the business during a period of both organic and acquisitive growth and wish him well with his future endeavours. Ian Smith (CEO of MXC Capital Limited, the parent of MXC Guernsey Limited) will join CloudCoCo, initially as a consultant to the Board, acting as Interim CEO of the Group's trading entities.

This report outlines the Group's solid performance in FY23 amidst economic challenges, with growth in revenue and a significant increase in Trading Group EBITDA[1]. It details the Group's focus on growth through customer engagement and expansion in key areas like Connectivity, Multi-Cloud, Collaboration, and Cyber Security. The Group's efforts in rebranding assets, forming strategic partnerships, and enhancing e-commerce platforms are highlighted. Despite market challenges, we have made notable progress in sales, customer base expansion, and operational efficiencies, setting a strong foundation for future growth.

Our innovative approach and strategic investments in key technology areas position us well for sustained growth in the evolving IT landscape.

People

Following the successful novation of the dedicated outsourced service desk contract back to the customer in May 2023, CloudCoCo now comprises over 90 talented people.

We were pleased to be able to recruit some experienced industry specialists into the Multi-Cloud and Cyber Security pillars during the year and we have already seen some notable success from this investment. We have encouraged our specialists to build an expert practice within our business, and actively engage with our existing customer base. This activity has seen our pipeline of sales orders increase and a number of new multi-year recurring contracts. We expect this to continue in what is fast becoming an area of significant potential for the business.

Our confidence in reaching our long-term growth ambitions rest on our ability to develop our existing pool of talented people as well as attracting new talent to the organisation. We have invested in expanding and optimising our teams during the year, including a number of important hires in key strategic areas including sales, new business and technical support. These hires complement our existing team and will help shape the direction of the Group as we continue to grow.

Outlook for the current financial year

While conscious of the prevailing economic headwinds and the impact on some of our customers, we are well placed to continue to navigate them and are confident of making continued steady strategic and commercial progress in the current financial year.

Simon Duckworth

Chairman
29 April 2024

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

Trading Review

Introduction

Despite a challenging macroeconomic climate, the Group delivered an FY23 performance in line with market expectations. Revenue for the period was £26.0 million and Trading Group EBITDA[1], a core KPI for the Group, increased 19% to £1.9 million.

Our proposition

Our proposition remains built around four principal areas: Connectivity, Multi-Cloud, Collaboration and Cyber Security.

Connectivity: following the acquisitions, we have an extraordinary set of network assets at our disposal that are not being used to their fullest potential. It is our intention to rebrand these and leverage them to create new revenue streams and win contracts with much larger, multisite organisations where speed and secure access to data centres around the UK are essential.

Multi-Cloud: we are committed to building CloudCoCo into a northern, multi-cloud powerhouse; a truly agnostic partner able to offer customers the solution that best suits their business needs. This will be a key area of investment.

Collaboration: telephony is in CloudCoCo's DNA. We have most of the building blocks to accelerate growth in this area and are actively exploring strategic partnerships that will take us to the next level.

Cyber Security: CloudCoCo has built a reputation for its cyber security offering, centred around our relationships with industry giants such as Fortinet. It is our intention to continue in a similar vein, bolstering our capabilities and accreditations through new and extended partnerships.

Our aim is to help transform our customers' operations by supplying and supporting technologies that deliver greater efficiency, connectivity, and innovation to help them achieve their own objectives.

Trading Performance

Now that the acquisitions completed in 2021 have been fully integrated, we have an expanded platform to drive organic growth. Trading performance in the year was driven by a focus on sales across our four core pillars, supported by growth in e-commerce revenues. We bolstered our sales function during the year and reorganised our teams to ensure a cohesive, unified sales approach across the Group.

During the latter part of the year, we focussed our marketing efforts on multi-cloud and cyber security opportunities and this has seen an increase in both areas of the business, attracting a number of new logo customers and securing new revenue streams into our existing customer base. To this end we made several key appointments across each of our four pillars of our proposition and are excited about the value they will bring.

We are also pleased to report growth in the number of new logo customers acquired this year, while exceeding expectations in existing customer contract renewals in the year. This is a particular highlight and testament to the investments we have made in delivering high quality customer service over the last few years.

Whilst the general increase in UK energy prices and the resulting inflationary increases across all sectors puts pressure on our customers' own operations, we recognise that this can lead to some cancellations, but we have been able to deliver overall customer retention of 88% in the year to February 2024.

Progress against FY 2023 objectives

Accelerate sales
We achieved revenues of £26.0 million in the 12 months to 30 September 2023, compared to £24.2 million in the year prior.

Revenues	**2023 £'000**	2022 £'000
Managed IT Services	**17,977**	17,056
Value added resale	**7,976**	7,137
Total Revenue	**25,953**	24,193

We took the decision in the latter part of FY22 to invest and re-organise our sales and marketing functions. The acquisitions we made in 2021 enhanced the offerings available from the Group, introducing e-commerce sales, data centre and colocation sites and a core fibre network. This complemented our existing Managed IT services, collaboration and cyber security revenue streams. We continue to attract new logo customers and build our new business pipeline at a healthy rate despite these headwinds posed to organisations across the UK.

Total contract value, the measure used to reflect the total revenue that we can expect to generate from new customer contracts signed in the year over their contractual term was £13.7m, just under three times the same figure in 2021 but a reduction in the figure achieved during FY22 of £15.7m, mainly as a result of the economic backdrop. Our sales teams continue to prioritise larger, multi-year contracts and we added 42 new customers in the year across a range of sectors.

Trading Review (continued)

MoreCoCo

MoreCoCo, our scalable e-commerce technology business, has been a particular success following a rebrand and improvements made to the site. We saw impressive growth during the year in MoreCoCo which saw sales from the site increasing 85% to £3.7m (FY22: £2.0m). This is in line with the demand across the wider e-commerce industry for technology goods.

In H2, we announced a partnership with a global leader in the purchase, restoration and sale of refurbished IT hardware. This partnership has further supported the growth of MoreCoCo through the supply of more than 15,000 products, while also improving our sustainability credentials.

We have continued to see increased demand from businesses and consumers who want to purchase IT hardware and consumables online. MoreCoCo gives us a crucial competitive advantage in today's business environment and enables us to deliver choice and convenience 24/7 with next day delivery and tracking assured for a reliable customer experience.

Maintain excellent support levels

We retain our commitment to delivering a best-in-class customer service to our customers, ensuring the best possible response times. With this in mind, as previously reported, we restructured our customer services function in H1 in order to unify our technical support operations, alongside investment into new talent.

We also took steps to re-organise and optimise our sales and support functions to enable a greater focus and collaboration across our teams. This came hand-in-hand with investment in new talent and resources and has led to further cost savings in the business. As a result, the Group has ended the year as a significantly leaner and more efficient operation.

We remain focused on making every interaction our customers have with us a delight and, reflecting this, our current customer satisfaction levels are exceptional. These have been enhanced by a change to our customer service structure in H1 2023, which unified our technical support operations, as well as investments into new talent. As a result, we are pleased to report customer satisfaction levels in excess of 95% in February 2024.

Drive efficiencies and strengthen financial position

A key focus for management during the period was the continued reduction of costs and improving of efficiencies across the Group. Our proactive cost reduction measures have continued through the review of supplier relationships, resulting in a reduction from 450 to 220 suppliers and identification of over £50,000 in ongoing monthly savings, enhancing the Group's profitability into FY24.

However, this cost benefit was masked somewhat by the increases seen in the cost of power in our data centre locations and the flow of annual retail price index increases from connectivity and service providers. Our recurring contracts allow us to pass third-party price increases on to customers.

Whilst we increased investment in our sales and marketing activities throughout the year, we have continued to review and assess our supplier relationships with a view to achieving further reduction in costs.

Through these measures, alongside our continued positive trading performance, we remain confident in the Group's ability to drive growth as economic conditions improve.

<u>Dedicated outsourced IT helpdesk</u>
As part of the acquisition of CloudCoCo Connect in 2021, we inherited a dedicated outsourced IT helpdesk contract, which had been run exclusively for a UK health and leisure brand, seven days a week. In May 2023, we agreed to novate this service back to the customer in-house, so that the staff dedicated to this exclusive service could be employed directly by the customer. Whilst this reduced annual recurring revenues by £0.9m per annum, the net impact on trading profit was marginal as this freed up management resources to focus attention on delivering new sales and shared IT services for our wider business customer base.

<u>Strategic partnerships</u>
Strategic partnerships form another key area of the Group's strategy to expand our range of opportunities. In April 2023, we announced a partnership with Abstract Tech, a Leeds-based consultancy which specialises in the delivery of large scale, digital transformation projects. This partnership provides CloudCoCo with the talent and expertise of Abstract's 150 technicians, enabling the Group to take on a broader range of Multi-Cloud projects.

Alongside this, the Group also announced the signing of a partnership with Ingram Micro, the world's largest global business-to-business wholesale provider of technology products and supply chain management services, for the supply of Microsoft Azure and other cloud services. These beneficial partnerships allow us to punch above our weight in Multi-Cloud (the utilisation of Azure, AWS and Google Cloud platforms), an increasingly important requirement when pursuing larger and more complex Managed Services contracts. These partnerships open up a range of potential new revenue opportunities.

Trading Review (continued)

Current trading and outlook

The extension of the loan note term agreed with MXC Guernsey will allow the Group to focus on the development of its business. While the current economic climate will continue to present near-term challenges, the work that has been completed to streamline and focus the Group positions it well for continued progress in FY24, particularly in the areas of Cyber Security and Multi-cloud.

Darron Giddens
29 April 2024

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.
[2] Source: Mordor Intelligence (https://www.mordorintelligence.com/industry-reports/uk-cybersecurity-market)
[3] Multi Cloud Computing Market Size, Share, Growth 2032 (marketresearchfuture.com)

Financial review

Revenue and gross margin

Group revenue for the year to 30 September 2023 grew by 7% to £26.0 million (FY22 £24.2 million) during a challenging economic period for UK businesses. The impact of the increased cost of power and high inflation rates saw a rise in the wholesale price of IT services, which in turn also resulted in price increases to our customers.

Our revenues produced a total gross profit of £8.4 million (FY22: £7.9 million) representing a gross margin of 32.3% (FY22: 32.6%) reflecting the combination of services provided by our own people and the cost of software and services that we buy from third-party vendors to deliver our managed solutions.

The analysis of revenue from each of our operating segments is shown in note 3 to the accounts.

Managed IT Services

Managed IT Services, which comprises recurring services and ongoing IT support often utilising the data centre locations, core network or technical skills at our disposal, continues to dominate the profile of our revenues, representing 69% (2022: 70%) of group revenues during the year, adding significant value to our customers providing specialist IT skills on-demand, so that they can focus on their core business activities. This grew by £0.9 million to £18.0 million in the year, having produced £17.1 million of revenue in FY22.

In line with our objective to grow the recurring contracted revenue base, we increased such revenues to £16.7 million (2022: £16.2 million). 93% (2022: 95%) of all Managed IT Services revenues were provided under recurring contacts. In most instances, new customer contracts are sold for an initial period of 3 years, although existing recurring contracts allows customers to auto-renew on similar terms at each anniversary.

Providing a comprehensive service to our customers involves delivering the necessary technical expertise, project coordination, and equipment for a variety of IT projects that help support their business operations. Revenues generated from professional services increased by 44% in FY23 to £1.3 million having generated £0.9 million in the prior year. This significant increase reflects the increased demand we are seeing for digital transformation and cyber security projects.

Value added resale

Value added resale (“VAR”) is the resale of one-time solutions (hardware and software) from our leading technology partners, including revenues from the MoreCoCo e-commerce platform.

Revenues from VAR were £8.0 million in FY23, increasing by £0.9 million from £7.1 million achieved in FY22. In line with the continuing trend towards online buying and next day delivery, 46% of VAR revenues were fulfilled online via MoreCoCo, having represented 28% in the prior year.

One consequence of increasing sales from the highly competitive and price sensitive VAR e-commerce market are lower gross profit margins required in order to win business, although this is compensated by lower internal labour costs with no or low touch transactions. Where VAR products form part of an IT project, we are prepared to take a reduced profit margin on the hardware element to support the more profitable professional services revenues.

VAR generated a gross profit of £0.9 million (FY22: £1.4 million) and gross margin of 11% (FY22: 25%).

Operating costs and performance

Excluding plc costs of £0.9 million (FY22: £0.8 million), our operational trading overheads[2] increased to £6.5 million (FY22: 6.4 million) as a result of increased investment in sales and marketing,

As an employee led business, 91% (FY22: 93%) of our operational trading overheads relate to staff costs. Maintaining an optimal blend of talent and skills to serve our customers effectively is key, ensuring no talent remains underutilised. We are constantly exploring methods to enhance the value derived from our operational costs, focusing on strategic collaborations and leveraging automation.

Whilst revenue, gross profit and cash balances remain the primary measures, one of our main financial key performance indicators is our Trading Group EBITDA[1] – our operational trading performance before plc costs, depreciation and amortisation, share based payments and exceptional items. This is a key industry measure, reflecting the underlying trading profits before the costs of assets and liabilities. Our Trading Group EBITDA[1] increased by £0.3 million to £1.9 million in the year (2022: £1.6 million).

The acquisition of Connect in 2021 added 30 data centre locations to the Group. A number of these data centre contracts meet the IFRS 16 definition of right of use assets (see note 11). Thus, rather than recognising an operating expense in respect of the cost of these data centres, they are instead recognised as assets, with an associated lease liability, impacting profit or loss as depreciation and interest expenses and are therefore not recognised in Trading Group EBITDA.

Financial review (continued)

Plc costs

Plc costs in the year increased by £0.1 million to £0.9 million (2022: £0.8 million). These are non-trading costs, relating to the Board of Directors of the parent company, the costs of being listed on the AIM Market of the London Stock Exchange and relevant professional costs. Whilst this year includes a full-year of cost for the Executive Directors, the increase in costs relates primarily to insurances and financial audit fees for the acquired subsidiaries. Following the completion of the subsidiary accounts for the accounting periods ending in 2022, the Group undertook a review of its audit partner and appointed Barnes Roffe LLP as its new independent external auditors in November 2023.

Exceptional Items

During the year we incurred certain non-recurring costs which were not directly related to the generation of revenue and trading profits. Given their size and nature, they have been classified as exceptional items within the Consolidated Income Statement. These items totalled £0.3 million (2022: £0.6 million), of which £0.1 million (2022: £0.5 million) relates to restructure costs as we continue to right-size the business following the acquisitions made in 2021. Further details of the exceptional items are shown in note 4.

Net finance expenses, depreciation, amortisation and financial results for the full year

During the year the Group incurred net finance costs of £0.8 million (2022: £0.8 million). £0.7 million (2022: £0.6 million) of this was accrued interest on loan notes payable. The remaining £0.1 million (2022: £0.2 million) relates to £0.2 million of interest resulting from IFRS16 lease liabilities, less a credit of £0.1 million relating to the unwinding of the discount on provisions.

The Group incurred other costs including total amortisation and depreciation charges of £2.4 million (2022: £2.0 million) and recognised a credit against share-based payments charge of £119,000 (2022: £119,000). Depreciation includes £0.9 million relating to IFRS16 data centre right of use assets (2022: 0.5 million) and £0.2 million relating to tangible assets (2022: £0.2 million). After accounting for a deferred tax credit of £0.5 million (2022: £0.3 million credit) arising as part of business combinations, the reported loss for the year after tax was £2.1 million compared to a loss after tax for the year to 30 September 2022 of £2.3 million.

Statement of Financial Position and cash

The Group had positive net assets at 30 September 2023 totalling £1.0 million (2022: £3.0 million) and the cash position reduced by £0.7 million to £0.8 million (2022: £1.5 million). The requirement for us to amortise acquired customer bases over 10 years, despite having business relationships that have extended for over 20 years, causes net assets to deplete quicker than the underlying revenues that support the intangible assets.

The Group had a net cash outflow during the year of £0.7 million (2022: inflow £0.3 million), the main components being:

- Cash inflow generated from operating activities excluding the costs of acquisition of £0.8 million (2022: cash inflow of £1.0 million);
- Payments of deferred consideration for the acquisition of the Connect business of £50,000 during the period (2022: £25,000); and
- Investment in tangible assets of £0.3 million made up of £0.2 million for IT equipment to drive recurring revenues and £0.1 million investment in developing the new MoreCoCo e-commerce platform.
- Payments of lease liabilities of £1.0 million (2022: £0.8 million)

Current assets reduced by £1.3 million to £5.7 million, mainly as a result of the £0.7 reduction in cash balance but also as a result of other positive outcomes including of an improvement in trade receivable days and a reduction in stock and inventories held at year end. We also saw a reduction in contract assets held for work carried out but waiting to be invoiced at year end. We continue to operate an asset-light business and hold very little stock and work in progress relative to our revenues, preferring to ship-to-order direct from our vendor partners.

1 profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

Financial review (continued)

Statement of Financial Position and cash (continued)

Contract liabilities reduced by £0.4 million to £2.1 million (2022: increase £1.2 million) reflecting the fact that customers are consuming prepaid services during the year and that our new standard recurring contracts are generally being signed for 3 years with customers less inclined to signed 5+ year contracts, in the current economic climate. The prior year reflected the acquisition of multi-year recurring customers contracts with the Connect business.

In so far as possible, management look to balance movements in trade receivables and trade payables throughout the year to maintain a consistent bank balance. Notes 13 and 17 show the ageing profile of both trade receivables and trade payables.

Overall Net debt increased by £2.2 million to £6.3 million during the year. Net debt comprises cash balances of £0.8 million less the loan notes and rolled up interest of £5.3 million, together with £0.2 million deferred consideration owed for the acquisition of Connect and shown at fair value. A further £1.6 million is owed in lease liabilities and COVID-19 bounce back loans. The Trading Group EBITDA[1] of the business exceeded the loan note interest in the year by £1.2 million (FY22: £1.1 million).

Tangible assets at year-end increased by £0.2 million (2022: £0.2 million) and the costs of additional capex in the year of £346k (FY22: £115k), the majority of which were acquired to generate Managed IT services revenues from customers. We also channelled investment into the MoreCoCo e-commerce platform, which will deliver additional returns in FY24.

The acquisition of the Connect business came with a core fibre network and 30 data centre locations. The majority of data centres are leased from third-party suppliers on renewable contract terms of up to 5 years in duration. Many of these data centre leases can be auto-renewed, resized or terminated in the months leading up to the end of the term, creating new or modified leases in excess of twelve months, which then fall under IFRS16 as a right of use asset with associated lease. During the year, the Group entered into new or modified IFRS16 right of use leases of £1.1 million (see note 11). These leases, which had less than 12 months remaining on the date of acquisition, were treated as short-term leases up until the point at which they were renewed or modified. The acquisition also contained onerous contracts of £1.2 million over various terms up until November 2032 (see note 18). This is shown as a separate provision in the financial statements.

Further details on the financial position of the Group are contained in the going concern section of the Directors' Report on page 22.

Loan Notes

On 29 April 2024, MXC Guernsey Limited ("MXCG") agreed to extend the redemption date of the loan notes detailed in Note 21 from 21 October 2024 to 31 August 2026. Interest will continue to accrue on the loan notes at the current rate of 12% until redemption. All other terms of the loan notes remain the same.

As consideration for the extension, effective from 22 October 2024, MXCG will charge the Company a fee of £550,000 for providing the extension. Payment of this fee will be deferred until the redemption of the loan notes and it will accrue interest at the same rate as the loan notes. MXCG will also have the right to appoint a consultant to, or an Executive Director of, the Company's Board in addition to its current non-executive representative and will have the right at any time to increase its loan security in the form of a full debenture over all Group Companies.

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

[2] trading overheads are the group's administrative costs excluding depreciation and amortisation, plc costs, exceptional items and share-based payments

Risks and risk management

Principal risks and uncertainties

The Group is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Group operates. In addition, we have seen caution evident in some of our target markets due to the economic disruption over the past two years and short-term inflationary concerns.

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Responsibility for implementing sound and effective systems of internal control has been delegated by the Board to senior management. The purpose of the system of internal control is to manage and mitigate rather than entirely eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. Each of the trading entities share an effective leadership team with responsibility for sales, service, people and customer delight. There are clear procedures for capital investment appraisal and approval, contract risk appraisal and financial reporting within a comprehensive financial planning and accounting framework.

The Group's risk register is reviewed at least on an annual basis for additions, changes and mitigation strategies. This review is overseen by the Chief Financial Officer, who ensures the appropriate level of action and reports by exception to the Board.

Given the size of the Group it is not considered necessary to establish a full-time internal audit function, although internal audits are carried out by external consultants as part of our compliance processes for ISO9001, Cyber Essentials and ISO27001.

The key financial risks of the Group are detailed in note 26 to the consolidated financial statements. The key non-financial risks that the Group faces are listed below.

Non-financial risks

The key operational risk the Group faces is the general economic outlook. The Group has chosen to invest in a sector that has shown resilience through the economic cycle; however, there is no guarantee that this can continue and, should there be a reduction in demand in this sector, then revenues, margin, profitability and cash flow could all be affected adversely.

The following list highlights the key risks and uncertainties that the Group faces which it can seek to mitigate by a choice of appropriate strategies; however, this list is not intended to be exhaustive.

Overhang from the Pandemic

The economy continues to deal with the costs and challenges caused by the impacts of the COVID19 pandemic which had a significant impact on the global economy. Whilst many businesses, including our own, quickly developed remote working practices, this has changed the location and nature of the services that we provide. Since the pandemic, many businesses have continued to operate fully remote or hybrid working. This shift has impacted the use of office locations by businesses, particularly in sectors such as information and communication, professional, technical, and administrative sectors more likely to work from home.

The Office for National Statistics (ONS) data from February 2022 showed that 84% of workers who had to work from home due to the pandemic expressed a preference for a hybrid working model, combining home and office work. This trend has affected the demand for office space, which in turn has impacted the number of connectivity solutions being provided to office locations.

Internally the Group has already demonstrated that it can operate successfully in a hybrid-working mode, with most staff working from home for at least part of their working week. This flexibility was made possible as a result of our decision some years ago to transfer all operational systems to the Cloud. The Group was quick to facilitate home working for its staff and provided uninterrupted support for its customers.

Energy costs

An escalating risk since 2022 has been the impact that a surge in the rising cost of energy has placed on technology suppliers, which continues to impact energy-intensive industries such as technology services utilising data centres. The cost of power doubled towards the end of 2022 and we continue to see the impact of this today as suppliers seek to recoup losses incurred during 2023 through price increases. Despite rumours that business energy prices will start to decrease in 2024, we continue to receive supplier price increases who have been impacted by high prices.

The Group relies on public energy-intensive cloud service providers such as Microsoft Azure, Amazon Web Services and Google to deliver services to its customers. In addition, the Group has a number of private cloud customers of its own, who house their servers securely within CloudCoCo run data centres. Like many UK businesses we have been forced to pass on some or all the cost of increased power costs to our customers and this has an impact on cancellations and the affordability of our services.

The Group continues to monitor UK energy prices on a regular basis. Where possible, the Group looks to fix energy prices for its customers by signing up to a term agreement with energy providers, but the risk remains for its UK business customers within impacted industries. The customer contracts allow us to pass third-party cost increases on to the customers.

Risks and risk management (continued)

Non-financial risks (continued)

Cost of living crisis
The cost of living crisis has had a profound impact on the affordability of goods and services in the UK, exacerbating financial pressures on households across the country. The current rising costs of essential goods and services in the UK, such as housing, energy, and food is having negative social and economic implications on consumers and businesses and is expected to continue to adversely impact economic growth and productivity during 2024. Not only does this place additional financial pressure on the staff and customers of the Group but also reduces the level of disposable income available to support key industries that make up the customer base of the Group. The Group is committed to helping its employees by offering flexible remote working arrangements that reduce the costs of commuting and childcare and also by providing competitive salaries, health insurance plans, retirement and other benefits.

Reputational risk
The nature of the Group's business is such that it provides a service which its customers depend upon and any significant or lengthy period of service disruption would materially affect its customers and adversely impact upon the Group's reputation in the market.

The Group constantly monitors performance and availability and responds quickly to any service outages. Wherever possible it ensures that there are no single points of failure in its service delivery infrastructure and where there are, these are clearly reflected in service levels made available to customers.

Cyber Security risk
Like all technology related businesses, the Group is exposed to the risk of cyber security threats that could cause financial, reputational, and operational impacts if it or its customers were to suffer a cyber security attack. We seek to mitigate this risk ensuring that we have robust permitter defences in place and by consistently scanning network traffic for potential cyber security threats and vulnerabilities within the company's IT infrastructure, applications, and data.

We have a well-defined incident response plan in place that outlines the steps to be taken in the event of a suspected cyber security threat. This includes procedures for internal and external communication, containment, eradication, and recovery. Assessing and mitigating cyber security risks is an ongoing process. It requires a proactive approach, regular review, and adaptation to new threats and vulnerabilities amidst an increase in the number of cyber security incidents in the UK.

Commercial risk
The Group seeks to mitigate commercial and operational risks through operating policies, credit control procedures and strong relationships with customers and suppliers built on mutual trust.

The Group does have reliance on a number of suppliers for specific IT technologies. However, in such cases it seeks, where possible, to have alternative resellers open to it to purchase from and it also seeks to add value through its development capability which should reduce the risk of supplier loss.

Technology risk
The market in which the Group operates has the potential for significant technological change, which could undermine the Group's delivery capabilities.

The Group monitors technology developments through close links with suppliers and through a team with significant experience and expertise in this sector. This is augmented with the addition of product specialists, who are able to more readily identify new trends, product developments, etc. in their sphere of excellence, where deemed necessary.

Key resources
Commensurate with an organisation of the Group's size is the dependence placed upon certain key personnel, including executive and senior management who have significant experience within the Group and the IT sector and who would be difficult to replace.

The Group continues to seek to mitigate these risks through the continued strengthening of middle management in the key areas of finance, operations and technology and through the use of bonuses and employee share options to incentivise and reward key staff.

Risks and risk management (continued)

Non-financial risks (continued)

Contractual liabilities

In instances where the Group's services or products fail to meet agreed timescales or standards there is a risk that the Group will be exposed to claims for contractual liabilities as a result of failure.

The Group seeks to mitigate these risks through the following methods:

- contractual reviews prior to execution by legal advisers where the contract is material and differs from the Group's standard terms and conditions;
- where products or services are being resold, the Group seeks to take no additional risk by simply seeking to back terms and conditions from its suppliers; and
- only accepting a level of contractual liability which is commensurate with insurance policies and the value of the contract.

Regulatory compliance

The Group provides services, some of which are in regulated markets, such as telecommunications. The Group must maintain compliance with applicable regulations. Regulated services may also be affected by price changes. In both cases, there is risk of an adverse impact on the Group's business, financial and operational position.

The Group carefully monitors proposed or adopted regulatory changes to assess the impact that such changes have on its business operations or its customers.

Malicious activity and data protection

The Group operates in the technology and software sector and as a result has information assets that could be compromised, disrupted or lost as a result of malicious activity.

The Group operates protective equipment to defend against malicious attacks and has staff policies in place to enforce good practice on data security.

Acquisitions

Integrating acquisitions and the associated change management can take a period of time. The Group may lose existing customers or the customers of an acquired entity as a result of an acquisition. The Group also may lose key personnel, either from the acquired entity or from itself, as a result of an acquisition.

The Group has an experienced management team, with a proven track record of integrating businesses and managing change. Appropriate due diligence is undertaken by the Company and its advisers prior to the completion of an acquisition and appropriate incentive schemes are put in place for certain key personnel.

Directors' Duties – Section 172 Statement

The Directors acknowledge their duty under section 172(1) (a) to (f) of the Companies Act 2006 to promote the success of the Group. The Directors consider, in good faith, that they have both individually and collectively acted in such a way as to promote the success of the Group for the benefit of all stakeholders, and in doing so have regard (amongst other matters) to:

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

The Directors consider that the following are the Group's key stakeholders: employees, customers, suppliers, shareholders, debt providers and the community.

<u>Having regard to the consequences of strategic and long term decisions</u>
The Directors hold regular Board meetings which are held monthly on scheduled calendar dates. The Executive Directors prepare Board papers that cover a full review of the Group's financial performance, operational issues and plans and opportunities and threats in the external market. Each matter discussed considers the wide range of interests of stakeholders including customers, employees, shareholders, suppliers and competitors and ensures that the business complies with applicable laws and regulations. Board meetings are chaired by the Group's non-executive Chairman, and all issues on the agenda are covered with the opportunity for additional matters to be raised. Matters reviewed at Board meetings include annual budgets and forecasts as well as consideration and approval of the interim and annual report and annual accounts. The principal decisions that arose from the Board meetings during the year have been included in the Chairman's Statement (see page 2) and Financial review (see page 7).

<u>Having regard to maintaining high standards of business conduct</u>
The Directors recognise the importance of operating a robust corporate governance framework to safeguard the success and sustainability of the business. The Board ensures that the decisions taken are legally compliant and protect the interests of shareholders by clearly identifying risks and promoting transparency. The Corporate Governance Report on pages 15 to 18 demonstrates how the Board complies with the Quoted Companies Alliance Corporate Governance Code ("the QCA Code").

<u>Having regard to the interests of the employees</u>
The Group strives to create a diverse and inclusive working environment where every employee feels welcome and can do their best work. CloudCoCo believes in the benefits of diversity and the importance of bringing a wide range of skills, experience and perspectives into its business. The executive Directors continually work with senior management to promote the Group's values. One of the outcomes of the post pandemic era was the decision taken to offer employees the option to incorporate a remote/hybrid home-working model into their working week. The Group provide the necessary equipment to facilitate home working. The CEO regularly briefs employees on developments in the business and encourages suggestions from employees on how improvements to the business and working environment can be addressed. The Group operates a share options plan, providing qualifying employees with an aggregate of 55,029,500 performance-based share options to align colleague incentivisation with shareholders' interests.

<u>Having regard to the fostering of relationships with customers and suppliers</u>
Customers
CloudCoCo aims to delight its customers and this sentiment is at the heart of everything it does. The Group engages with its customers to understand and exceed their expectations. Updates and feedback from customers as well as operational statistics are regularly reported to the Board. Key achievements in the year were improved support help desk answering times and reduced number of open customer support tickets. We are currently investing in new technology to increase the number of ways that customers can contact us for support and service, including live chat and a client portal.

Suppliers
The Board takes a close interest in relations with key suppliers whose performance is crucial to our success. The Group is committed to ensuring the highest standards and quality across its operations and requires both its suppliers and partners to operate to the same high standards. The appointment of the Vendor Alliance Manager will help customers and staff gain access to the expertise and knowledge available from our suppliers.

<u>Having regard to the Company's operations on the community and the environment</u>
The Board is mindful of the potential social and environmental impacts of the Group's activities. The Board is committed to minimising the environmental effect of the Group's activities wherever possible. As a provider of energy intensive data centre services to business customers, the Board are committed to ensuring that where possible it uses energy-efficient equipment, adopts virtualisation technology, and utilises optimised cooling systems. Whilst we are reliant on third-party suppliers to provide much of the infrastructure, we are committed to using partners who have a strategy to support sustainable development of renewable energy sources such as wind, solar, and hydro to power their data centre locations. This reduces carbon footprint and helps us work towards carbon neutrality. Our data centre locations are monitored continuously and are regularly assessed to identify areas where energy efficiency can be improved and emissions reduced. The Group recycles paper and packaging and uses specialist recyclers of scrap telecommunications and IT equipment. The Group makes use of technologies to minimise the need to travel to meetings.

Directors' Duties – Section 172 Statement (continued)

Having regard to the need to act fairly between members of the Group

The Group's intention is to behave responsibly towards all of its shareholders and treat them fairly and equally. The Group's website has a section dedicated to investor matters which details amongst other things, all financial reports, press releases and other regulatory filings. The Board deliver trading updates to members and actively promote activities of the business using social media.

Strategic Report

This Strategic Report on pages 2 to 13 was approved by the Board of Directors on 29 April 2024 and signed on behalf of the Board of Directors by:

Darron Giddens
Chief Financial Officer

Board of Directors

Simon Duckworth OBE DL

Non-Executive Chairman

Simon has held a number of non-executive positions in the public and private sectors. He was Chairman of Baring's Targeted Return Fund for over a decade and also chaired the Association of Police and Crime Commissioners. He also served as a Non-Executive Director of Fidelity's flagship European Investment Trust, Fidelity European Values plc, for a decade, and has sat on the boards of a number of AIM-quoted companies as a non-executive director, including Accumuli plc from 2010 until its sale to NCC plc in 2015.

A Cambridge graduate, Simon is a former Chairman of the City of London Police Authority, who chaired the Economic Crime Board of the City of London Police and was the Senior Non-Executive Board Member at the Serious Fraud Office until December 2019. Simon has served on a number of Home Office committees and helped to design the National Crime Agency. Simon is a senior member of the City of London Corporation, and an active Army reservist.

Simon is Chair of the Remuneration Committee and a member of the Audit Committee.

Jill Collighan

Non-Executive Director

A Chartered Certified Accountant, Jill has over 20 years of operational experience at plc board level specialising in finance, human resources, investor relations and corporate finance. As well as her role with CloudCoCo, Jill is CFO of one of the Group's major shareholders, MXC Capital Limited, a technology-focused adviser and investor. From 2004 to 2014 Jill was Chief Financial Officer of the AIM-quoted mobile technology provider 2ergo Group plc.

Jill is the Chair of the Audit Committee and a member of the Remuneration Committee.

Andy Mills

Non-Executive Director

Andy Mills over the past 25 years has managed and helped to grow numerous technology businesses. Andy co-founded Intrinsic Networks which he sold to a buy and build IT services company and has held a number of senior leadership positions. He has worked successfully in the technology industry as sales director and managing director and was most recently the sales director of Tax Systems plc which was a successful public company until it was taken private in 2019 by a private equity company. Andy was the chairman of CloudCoCo Limited at the time of the acquisition by the Group.

Andy joined the Board on 21 October 2019.

Darron Giddens

Chief Financial Officer

Darron qualified as a Chartered Management Accountant with Gan Life & Pensions plc and has subsequently worked in the IT and Telecommunications industry for over 25 years and holds an MBA from Aston University. During his career, Darron has gained experience in corporate finance, IT systems and corporate strategy work. Prior to his appointment as CFO in June 2021 Darron was Finance Director for the various trading businesses within the Group for a number of years, and has overseen the acquisition and integration of ten companies into the Group, and the successful disposal of its Scottish based telephony division in 2016.

Darron joined the Board as Chief Financial Officer on 9 June 2021.

Corporate governance report

CloudCoCo Group plc (the "Company") is committed to operating proper standards of good corporate governance and has established a corporate governance model based on the key principles of the Quoted Companies Alliance Corporate Governance Code ("QCA Code"). The following outlines how the Company addresses the ten broad governing principles defined in the QCA Code. The Non-Executive Chairman is responsible for corporate governance and the overall leadership of the Board and ensuring its effectiveness.

The Company operates a business model and growth strategy that promotes the generation of shareholder value through the growth and retention of recurring revenue streams. The Company promotes professionalism, openness, honesty and integrity between its customers, staff, shareholders and suppliers.

<u>Principle 1 – Establish a strategy and business model which promote long-term value for shareholders.</u>

Goals:
As a public company we are focused on delivering value for both our shareholders and customers and have three goals that drive our business:

- Deliver shareholder value
- Provide high levels of customer satisfaction
- Differentiate our service through expertise, innovation and successful execution of solutions

Purpose:
The purpose of the business is to generate shareholder value and help our customers achieve their business goals and objectives through the profitable delivery of IT and communication solutions to provide customers with exactly the right amount of technology and support that they need, ensuring that they only pay for what they receive.

Strategy:
The Company currently delivers IT and communication solutions to business customers by leveraging strong partnerships and a single operating platform established from the integration of several businesses. Our strategy is to:

- Transform the way our customers use and pay for IT
- Leverage our expertise to provide all customers with a corporate IT department experience
- Lead our customers on their journey from on-premise to the cloud
- Partner with the best public cloud and application providers
- Cross-sell IT and telephony services to customers
- Focus on growing our recurring revenues through organic growth
- Develop and expand an innovative portfolio of solutions
- Stay close to the customer, small enough to care and large enough to cope

<u>Principle 2 – Seek to understand and meet shareholder needs and expectations.</u>

The Company is committed to open communication with all its shareholders. The Chief Executive Officer and Chief Financial Officer are primarily responsible for investor relations.

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management. The Company believes it is important to explain business developments and financial results to its shareholders, to understand shareholder concerns, and to ensure that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders.

The principal method of communication with private investors is via the Company's Annual Report and Accounts, Interim Reports, the Annual General Meeting and other relevant announcements that are maintained on the Group's investor website, www.cloudcoco.co.uk. As appropriate, business-related announcements may also be published there if the Group considers them to be of significant interest to shareholders. The Company promotes the activities and services of the group through regular updates via social media.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders. The Annual General Meeting is used to communicate with all shareholder and investor groups, and they are encouraged to participate. The Chairs of the Audit and Remuneration Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there are resolutions to receive the Annual Report and Accounts and the report on Directors' remuneration.

Meetings are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. The non-executive Directors are available to meet with major shareholders if such meetings are required. Feedback from such meetings with shareholders is provided to the Board to ensure that the Directors have a balanced understanding of the issues and concerns of major shareholders.

The Board receives share register analysis reports to monitor the Company's shareholder base and help identify the types of investors on the register.

Corporate governance report (continued)

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Company regards its shareholders, employees, customers, suppliers, advisors and others as the wider stakeholder group.

Management prioritises its relationships with customers and staff and effort is directed to ensuring they are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Company records and regularly reviews customer service levels. There is a feedback system in place representing customer success, the results of which are measured and acted upon to ensure the drive for constant improvement is met.

The Company's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining good relations with them. Employees receive regular updates from the Chief Executive Officer on the Company's progress and new initiatives via monthly staff updates and regular town hall meetings, which offers an opportunity for them to raise queries or issues. Employees are also surveyed on a regular basis to measure satisfaction and solicit feedback to improve the business.

As a result of feedback received during the year we have increased the availability of online training resources to staff members and offer personal development sessions to employees to help identify their strengths and weaknesses, set goals for their professional growth, and create a roadmap for achieving those goals.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board has established a risk register relating to the Company's business. At least annually, it meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical. The Company has ISO9001 and ISO27001 procedures in place and regularly manages and updates a Quality Management System to manage risks by providing a standardised framework for managing processes, identifying potential risks, implementing controls to mitigate risks, encouraging continuous improvement, and ensuring compliance with regulatory requirements.

For further details of the Company's approach to risk and its management, please refer to the Risks and Risk Management section of the Strategic Report as set out above.

The Board has also set out a policy defining the Group's compliance, procedures and position regarding the prevention of the facilitation of tax evasion as defined by the Criminal Finances Act 2017.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair.

The Board considers at least two executive directors and three non-executive directors to be the appropriate size, given the current performance and character of the Group. Following the resignation of March Halpin on 29 April 2024, the Board will initially appoint a consultant to the Board, who will also act as Interim CEO, whilst it seeks a permanent replacement. Each non-executive director is expected to devote a minimum of one day per month to the Company's business, plus any additional time which may be required to fulfil their duties.

The Chairman leads the meetings of the board and acts in a conciliatory role when members of the Board differ. The Board directs the Group's activities in an effective manner through regular monthly board meetings and monitors performance through timely and relevant reporting procedures which enable risks to be assessed and managed. During this financial year, 12 monthly board meetings were held with all Directors then in office present in person or via conference call.

Operational management of the Group is delegated to the Senior Management Team, who meet regularly with the Chief Executive Officer and Chief Financial Officer to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day to day activities.

Detailed Board packs include information on all revenue streams and financial performance and are circulated ahead of Board meetings. Key issues are highlighted and explained, providing Board members with sufficient information to enable a relevant discussion in the Board meeting. The Chief Executive Officer and Chief Financial Officer attends the Company's senior management meetings and updates the Board accordingly on any issues and developments.

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The Board members and their relevant experience and skills are detailed on page 15. The Non-Executive Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy.

The Board currently consists of one executive director, with a new CEO to be appointed and three non-executive directors, of whom Simon Duckworth is independent. The nature of the Company's business requires the Directors to keep their skillset up to date by, inter alia, attending seminars, conference and industry events. Directors seek feedback from their colleagues, employees, and other stakeholders in addition to reading industry publications and networking.

Corporate governance report (continued)

In addition to the support provided by the Company's retained professional advisers (Nominated Adviser, lawyers, auditor and M&A adviser), external consultants are engaged when needed to advise on any relevant matters. External advisers attend Board meetings or committee meetings as invited by the Non-Executive Chairman to report and/or discuss specific matters relevant to the Company.

Departure from the code

The Group recognises that since Tom Black stood down at the Annual General Meeting in March 2020, that there have not been two independent directors. However, with an experienced independent Chairman supported, where needed, by retained professional advisors, it is considered the current composition of the Board is appropriate.

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

Board performance effectiveness process
The Chairman is responsible for the regular evaluation of the Board's performance and that of its committees and individual Directors.

Board meetings are collaborative and inclusive environments where members are encouraged to participate in the meeting by asking questions, sharing opinions, challenging others and providing input. Board effectiveness is discussed and feedback is considered during regular monthly board-meetings across a number of parameters including:

- setting, guiding and monitoring group strategy;
- standard of internal reporting;
- channels of communication;
- support of management with appropriate challenge;
- structure and effectiveness of meetings;
- appropriate use of external advisors;
- quality debate and appropriate preparation;
- compliance with governance, legislation and regulation;
- focus on future vs past; and
- skills of board members.

The Board intend to carry out further internal evaluations during 2024.

Succession planning and Board appointments
The Remuneration Committee meets as and when necessary to consider the appointment of new executive and non-executive directors, although the Board as a whole takes responsibility for succession planning. Board members all have appropriate notice periods so that if a Board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external.

Each director is required to offer themselves for re-election at least once every three years as per the Company's Articles of Association.

Board appointments are made after consultation with advisers including the Nominated Adviser who undertakes due diligence on all new potential Board candidates.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours.

The Board recognises that core values provide a framework which influences every level of the Group. Under guidance from the Board, the Chief Executive Officer takes the lead in developing and promoting the corporate culture and ensures that employees understand the business values and behaviours required to ensure that we perform as one team to deliver our business goals and maintain good employee relations. Our values and behaviours are communicated to all employees throughout the year via its intranet and a series of company-wide meetings and briefings. Employee engagement and consultation is encouraged through surveys, polls and by providing feedback from colleagues and customers instantaneously. Our core values are reinforced regularly through various means, such as recognition, rewards, and promotions. Employees who exemplify the core values are acknowledged and celebrated. The senior management team are encouraged to lead by example and to demonstrate the core values when making decisions. Qualifying employees are also awarded incentive based share options.

The Company's environmental and health and safety policies are as follows:

Environmental policy
The Group acknowledges the importance of environmental matters and where possible uses environmentally friendly policies in its offices, such as recycling and energy-efficient practices.

Health and safety
The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant UK health and safety legislation. Health and safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, including the corporate risk register whose highest rated risks are reviewed periodically by the Board.

Corporate governance report (continued)

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

On behalf of the Board, the Chief Executive Officer has overall responsibility for managing the day to day operations of the Company and the Board as a whole is responsible for monitoring performance against the Company's goals and objectives. The individual Board members' specific responsibilities, contributions and skills are set out on page 14.

The Board has established two standing Committees, the Audit Committee and the Remuneration Committee. A nominations committee would be established should it be required. Simon Duckworth is Chair of the Remuneration Committee and Jill Collighan is Chair of the Audit Committee. Terms of reference for the Committees are available on the Company's website.

Departure from the code

The Group recognises that since Tom Black stood down at the Annual General Meeting in March 2020, that there have not been two independent directors in terms of the composition of its Board and Committees. However, the Chair of each Committee is considered experienced and capable of ensuring proper governance is maintained.

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company maintains a regular dialogue with key stakeholders including shareholders to enable interested parties to make informed decisions about the Group and its performance.

Historical annual reports and notices of general meetings can be found in the Financial Reports section of the Group's website.

The Board discloses the results of Annual General Meetings and these can be found in the Regulatory News section of the website.

The Audit Committee meets at least twice a year, although the Company's Auditors or any member of the Audit Committee may request a meeting at any time, should they consider that one is necessary. The role of the Audit Committee is to make recommendations to the directors and shareholders, in relation to the appointment, re-appointment and removal of the Company's Auditors and to approve their remuneration and terms of engagement. Prior to the commencement of each annual or interim audit, the Audit Committee will discuss and agree the nature and scope of the audit with the Auditors and in discussion with them, will monitor the integrity of the financial statements of the Group and approve any formal announcements relating to the Company's financial performance.

The Audit Committee develops and implements policies on the engagement of the Auditors to supply non-audit services and will report to the Directors, identifying any matters where the Audit Committee considers that action or improvement is needed, making recommendations as to the steps to be taken.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and may seek information it requires from any employee of the Company. The Audit Committee may seek outside professional advice at the cost of the Company, in order to secure any relevant experience or expertise it considers necessary to fulfil its duties.

The terms of reference of the Remuneration Committee and its report can be found below.

Remuneration report

As the Group is AIM registered it is not required by company law to prepare a Remuneration Report. The information in this report has been provided on a voluntary basis and has not been audited except where indicated.

Remuneration Committee
The Remuneration Committee determines, on behalf of the Board, the Group's policy for executive remuneration and the individual remuneration packages for the Executive Directors. In setting the Group's remuneration policy, the Remuneration Committee considers a number of factors, including the following:

- salaries and benefits available to Executive Directors of comparable companies;
- the need to attract and retain Executives of an appropriate calibre; and
- the need to ensure continued commitment of Executives to the Group's success through appropriate incentive schemes.

The Committee meets at least once a year.

Remuneration of Executive Directors
The fees paid to the Executive Directors are determined by the Board. Mark Halpin and Darron Giddens have service contracts with the Company terminable on six-months' notice. Mark Halpin resigned as a director on 29 April 2024.

Remuneration of Non-Executive Directors
The fees paid to the Non-Executive Directors are determined by the Board. They are not entitled to receive any bonus or other benefits. Non-Executive Directors' letters of appointment are on a three-month rolling basis.

Directors' remuneration (Audited information)
Details of individual Directors' emoluments for the year (excluding employer's National Insurance contributions) are as follows:

	Fees and salaries		Other benefits		Totals	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Non-Executive						
S Duckworth	**43**	39	**—**	—	**43**	39
J Collighan[1]	**39**	36	**—**	—	**39**	36
A Mills[2]	**43**	35	**—**	—	**43**	35
Executive						
M Halpin[3]	**160**	127	**13**	4	**173**	131
D Giddens	**105**	88	**5**	4	**110**	92
Total	**390**	325	**18**	8	**408**	333

Other benefits include £4,500 (FY22: £4,000) in respect of pension contributions for M Halpin and £3,000 (FY22: £3,000) in respect of pension contributions for D Giddens. Additional benefits for M Halpin relate to company car fees of £7,000 and private health insurance premiums of £1,149. Additional benefits for D Giddens relate to private health insurance premiums.

1. fees in relation to J Collighan are paid to MXC Capital Advisory Limited (see note 23).
2. A Mills fees includes £9,000 of payments relating to Group subsidiaries.
3. M Halpin resigned as a director on 29 April 2024.

Directors' interests in shares (Audited Information)
The interests of Directors (including connected parties) during the year in the Ordinary Shares of the Company at 30 September 2023 together with their interests as of 30 September 2023 were as follows:

Name of Director	**30 September 2023 Number**	30 September 2022 Number
S Duckworth and Lady C Duckworth	**25,850,000**	25,850,000
A Mills	**32,724,088**	32,724,088
M Halpin[2] and C Halpin	**140,713,578**	140,713,578
D Giddens	**2,946,150**	2,946,150

MXC Advisory Limited, who provides the services of Jill Collighan, is a wholly owned subsidiary of MXC Guernsey Limited, which had a 10.6% holding in the shares of the Company at 30 September 2023.

Remuneration report (continued)

Directors’ interests in share options (Audited information)

Two directors who held office during the period held options over the Ordinary Shares of the Company as follows:

	2023	2022
Mark Halpin – Chief Executive Officer (resigned 29 April 2024)	**22,200,000**	22,200,000
Darron Giddens – Chief Financial Officer	**7,000,000**	7,000,000

On 19 August 2022 the Company granted options over 14,700,000 shares to Mark Halpin. As a member of the Concert Party formed when the Company acquired the share capital of CloudCoCo Limited on 19 October 2019, the new options granted to Mark Halpin carry further restrictions in that whilst the Concert Party, of which Mark is part, holds between 30 and 50 per cent of the share capital of the Company, these new options cannot be exercised without triggering the provisions of Rule 9 of the Takeover Code.

These restrictions do not apply to the 7,500,000 existing options granted to Mark Halpin on 20 November 2020, which form part of the Concert Party Options issued and approved by the Takeover Panel at a time when the Concert Party held more than 50 per cent of the Company’s issued share capital. Whilst Mark Halpin resigned as a director on 29 April 2024, the share options he holds in the Company continue to be exercisable under the terms of the share option scheme.

All share options in place at 30 September 2023 have been granted under the terms of the Company’s approved EMI share option scheme. Further details of share options can be found in note 7.

By order of the Board

Simon Duckworth
Chairman, Remuneration Committee

29 April 2024

Directors' report

The Directors present their Annual Report, together with the financial statements and Auditor's report, for the year ended 30 September 2023 for CloudCoCo Group plc, company number 05259846.

Principal activities
The principal activity of the Group is the provision of IT and communications solutions predominantly to UK based businesses. Further information can be found in the Strategic Report on pages 2 to 13.

Results and dividends
The Group's loss on ordinary activities after taxation was £2.1 million (FY22: loss of £2.3 million). The audited financial statements of the Group are set out on pages 31 to 54. The Directors do not propose a dividend for the year ended 30 September 2023 (FY22: £nil).

Strategic review
The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, including likely future developments and trading outlook, has been included in the separate Strategic Report on pages 2 to 13 in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Going concern
The Group had positive net assets at 30 September 2023 totalling £1.0 million compared to £3.0 million at the end of FY22. This reduction being mainly impacted by non-cash adjustments of £1.3 million of amortisation relating to intangible assets and £0.5 million of deferred interest relating to the loan note during the year.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the cost of living crisis together with the ongoing restructuring of the originally distressed Connect business, the Group reported a 19% improvement in underlying profitability as measured by Trading Group EBITDA[1] (2023: £1.9 million; 2022: £1.6 million). Cash inflow from operating activities before acquisition costs was £0.8 million (FY22: £1.0 million) although cash balances overall reduced by £0.7million.

The Strategic Report on pages 2 to 13 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the energy costs crisis and uncertainty caused by high inflation rate and the cost of living crisis.

In assessing the Group's ability to continue as a going concern, the Directors have reviewed the forecast sales growth, budgets and cash projections for the period to 30th April 2025, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months.

Based on these assumptions, the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements and accordingly continue to adopt the going concern basis in preparing these financial statements.

Directors
The present membership of the Board is as follows:

Simon Duckworth, Non-Executive Chairman
Jill Collighan, Non-Executive Director
Andy Mills, Non-Executive Director
Mark Halpin, Chief Executive Officer (resigned 29 April 2024)
Darron Giddens, Chief Financial Officer

Andy Mills will be offering himself for re-election at the forthcoming Annual General Meeting.

The biographical details of the current Directors of the Company are given on page 14.

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the Directors' Remuneration Report on pages 19 and 20.

Fees in relation to Jill Collighan are paid to MXC Advisory Limited a subsidiary of MXC Guernsey Limited which has a 10.6% holding in the shares of the Company (shareholding at 30 September 2023: 10.6%) and which holds loan notes in the Company to the value of £5.8 million at the date of signing these accounts. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.

Directors' report (continued)

Directors (continued)

The Company maintains liability insurance for its Directors and Officers. The Directors and Officers have also been granted a qualifying third-party indemnity provision under the Companies Act 2006. That indemnity provision has been in force throughout the year and remains in force at the date of this report.

Substantial shareholdings

As at 29 April 2024, the following substantial shareholding interests had been notified to the Company. These balances also reflect the holding at 30 September 2023.

	Number of ordinary shares	Percentage held
Mark Halpin (CEO) and Caroline Halpin	140,713,578	19.93%
Mark Ward	110,000,000	15.58%
MXC Capital Limited	75,066,275	10.63%
Hargreaves Lansdown Asset Management Limited	38,500,000	5.45%
Andy Mills (Non-Executive Director)	32,724,088	4.63%
Simon Duckworth (Non-Executive Chairman) and Lady Caroline Duckworth	25,850,000	3.66%

Share options and Long Term Incentive Plan

The Company has 55,029,500 (FY22: 69,725,000) share options in issue as part of the Company's 'CoCo-One' initiative in which qualifying colleagues have been awarded options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. No additional share options were issued during the financial year ending 30 September 2023 (FY22: 21,500,000)

All share options have an exercise price of 1 pence per Ordinary Share and can be exercised at various dates between now and 19 August 2032 in the event the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise or otherwise if there is a qualifying transaction, thereby aligning the interests of recipients with those of shareholders. Details of the share options remaining in force can be found in Note 7 to the consolidated financial statements.

In 2017, the Group established a long term incentive plan ("LTIP") to reward shareholder value generated reflected by a share price above 4.2p pence per share. Whilst active, the scheme holds no current value to its members or liability to the Group.

Share warrants

During FY22, the Company issued 4,000,000 share warrants to the vendors of Systems Assurance Limited, giving them the right to subscribe in cash for Ordinary Shares in the Group, at a Subscription Price of 1.5p per Ordinary Share, subject to certain pre-conditions during the ten-year period Exercise Period, commencing 3 March 2022. Further details are provided in Note 7 to the consolidated financial statements. No share warrants were issued during FY23.

Corporate Governance

The Company recognises the importance of operating a robust corporate governance policy to give stakeholders confidence that that the company is managed in an effective, transparent, and accountable manner. The Corporate Governance statement on pages 15 to 18 is included in this report by cross reference.

Post balance sheet events

On 29 April 2024, MXC Guernsey Limited ("MXCG") agreed to extend the redemption date of the loan notes detailed in Note 21 from 21 October 2024 to 31 August 2026. Interest will continue to accrue on the loan notes at the current rate until redemption. All other terms of the loan notes remain the same.

As consideration for the extension, effective from 22 October 2024, MXCG will charge the Company a fee of £550,000 for providing the extension. Payment of this fee will be deferred until the redemption of the loan notes and it will accrue interest at the same rate as the loan notes. MXCG will also have the right to appoint a consultant to, or an Executive Director of, the Company's Board in addition to its current non-executive representative and will have the right at any time to increase its loan security in the form of a full debenture over all Group Companies.

Financial risk management and objectives

Details of the financial risk management policies and objectives are contained in Note 26 to the consolidated financial statements.

Equal Opportunities

The Group is an equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal opportunities and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

The Group gives full and fair consideration to applications for employment from disabled people and encourages and assists the recruitment, training, career development and promotion of disabled people. The Group endeavours to retain and adjust the environment of employees who become disabled during the course of their employment.

Directors' report (continued)

Awareness of relevant audit information
Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as they are aware:

- there is no relevant audit information of which the Auditor is unaware; and
- the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Annual General Meeting
The Annual General Meeting will be held on 29 May 2024 at 1:00 p.m.

Notice of the Annual General Meeting will be sent to shareholders on 30 April 2024.

Independent Auditor
Barnes Roffe LLP, will be proposed for reappointment as the Group's auditor in accordance with section 485 of the Companies Act 2006.

By order of the Board

Darron Giddens
Company Secretary

29 April 2024

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and company financial statements for each financial year. The Directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with UK-adopted international accounting standards. The Directors have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and UK-adopted international accounting standards to present fairly the financial position and performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions, 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. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the CloudCoCo Group plc website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditor's report to the members of CloudCoCo Group plc

Opinion

We have audited the financial statements of CloudCoCo Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2023, which comprise the group Statement of comprehensive income, the group and company Balance sheets, the group Statement of cash flows, the group and company Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including UK adopted International Accounting Standards applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters	**Group** • Carrying value of goodwill and other intangible assets • Accounting for leases under IFRS16 specifically surrounding the accounting for Data Centre Leases • Revenue recognition and Management override of controls • Going concern **Parent Company** • Impairment of Intercompany receivables
Materiality	**Group** • Overall materiality: £195,000 (2022: £181,000) • Performance materiality: £150,000 (2022: £135,000) **Parent Company** • Overall materiality: £42,000 (2022: £78,000) • Performance materiality: £31,000 (2022: £58,500)
Scope	Our audit procedures covered 100% of revenue, 99% of total assets and 99% of loss before tax.

Key audit matters

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

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit addressed the key audit mater</th></tr>
<tr><td>Carrying value of goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as at 30 September 2023 are £6.8m and £4.5m respectively.

The carrying value of goodwill in accordance with IAS36 is required to be tested for annual impairment along with whether there is any indication of impairment of the other intangibles. The measurement of the recoverable amount requires the preparation of detailed cash flow forecasts that are subject to a number of highly sensitive assumptions surrounding the future trade of the Group.</td><td>We tested the underlying methodology and that the model cast based on the initial assumptions utilised to ensure they were consistent with requirements of IAS36.

We challenged the assumptions with the following assumptions deemed as being the highest risk:
• WACC
• Growth Rates
• Length of Forecast
• Future EBITDA
We evaluated critically the assumptions by reworking the calculations and challenged the management by:

• Comparing the model to the actual performance for the year ended 30 September 2023
• Comparing the assumptions of the prior year to the actual performance of the year ended 30 September 2023
• Comparing the assumptions used in the prior year to the current year to identify any changes and obtaining explanations from management
• Performing sensitivity analysis on key assumptions
• Recalculating the WACC and comparing the rates used.
• Comparing the recoverable amount calculated by management to the market capitalisation of the group
• Comparison of the outcome to reports prepared by external advisors
We also assess whether the management's assertion that the testing of impairment was performed at the lowest level of assets that are capable of generating independent cash flows.</td></tr>
<tr><td>Accounting for leases under IFRS16 specifically surrounding the accounting for Data Centre Leases

CloudCoCo Connect Limited enters into arrangements for data centre providers for the use of rack space. Management analysed the terms of the arrangements and applied judgement in assessing whether they provide control over the assets in accordance with IFRS16 Leases. The total value as at 30 September 2023 of these leases is £0.8m.

The measurement of the right of use asset required the use of judgement in assessing the length of term that the company are committed to and the applicable discount rate.</td><td>We inspected the agreements for the data centres to understand the terms relating to the use of the assets and the rights of the company and the ability to terminate.

We assessed whether the group's policy in respect of short leases was consistent with the requirements of IFRS16.

We challenged the assumptions and the rate used to discount the right of use asset and lease liability by comparison to previously used rates and market data.

The models were tested for data integrity and accuracy.

A sample of invoices was reviewed to confirm the accuracy of the provision with a sample of locations tested to income to confirm there are no unrecognised onerous contracts.</td></tr>
<tr><td>Impairment of Intercompany receivables

At 30 September 2023 the parent company has receivable balances due from it's subsidiary undertakings with a value of £7.294m. However the group reported an operating loss of £1.5m. This increases the risk that the balance may not be recoverable.</td><td>The underlying assumption is that the subsidiary companies will be able to repay amounts up to it's own net assets and an impairment is recognised to reduce the carrying value to that of the Group Net Assets.

We have reviewed these assertions and forecasts to ensure there is no further funds that can be repaid. We challenged the assumptions utilised and performed sensitivity analysis on the assumptions to assess the impact of changes in assumptions regarding the cash flows.</td></tr>
</table>

Independent Auditor’s report to the members of CloudCoCo Group plc (continued)

Key Audit Matter	How the scope of our audit addressed the key audit mater
Revenue Recognition and Management override of controls	Work has been considered and detailed in our audit report as part of the extent to which the audit was considered capable of detecting irregularities, including fraud section
Going Concern The group had significant loan notes totalling £5.2m that were due for repayment in October 2024, in addition the group is loss making.	We have received detailed forecasts to support the cash generation of the underlying trade and the ability of the group to continue to meet its debts as they fall due. Upon inspection of the forecasts the requirement for further finance was identified by the group in order to be able to repay the loan notes that were due for payment in October 2024. Subsequent discussions were held with the loan note repayment date being extended. We have reviewed the detailed assumptions included in the forecasts to ensure their validity and the various stress tests have been performed. In addition to the above the agreement to extend the loan note repayment date has been verified.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£195,000 (2022: £181,000)	£42,000 (2022: £78,000)
Basis for determining overall materiality	0.75% of Revenue	2% of net assets
Rationale for benchmark applied	Revenue is considered to the most appropriate measure used to assess the performance of the group during the period in which it is seeking to grow revenues and return to profitability.	Net assets are considered to be the appropriate measure as the company’s activity is to hold investments in group companies.
Performance materiality	£150,000 (2022: £135,000)	£31,000 (2022: £58,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £10,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £2,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of the parent company, four trading company and 5 other entities which were dormant or non-trading. All entities are based in the UK. The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit/Loss before tax
Full scope audit	3	76%	95%	98%
Specific audit procedures*	2	24%	4%	1%
Total	**5**	**100%**	**99%**	**99%**

* Specific audit procedures were performed in order to obtain sufficient and appropriate coverage over the group’s loss before tax and borrowings.

Full scope audits were performed for three companies including the parent company, specific audit procedures for two subsidiary companies were undertaken.

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of management's going concern evaluation and reviewing cashflow forecasts to include an assessment of the knowledge of the Group's strategies, markets and risks by the preparer of the forecast;
- evaluating management's ability to accurately forecast performance through comparison of historic performance against forecast;
- performing sensitivity analysis and stress tests to understand the impact of reasonably possible outcomes, or changes to assumptions;
- testing the integrity and mechanical accuracy of the forecast model; and
- considering the adequacy of the disclosures relating to going concern included within the financial statements against the requirements of the accounting standards and consistency of disclosures against forecasts and going concern assessment of the Directors.

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 or the parent 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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
UK-adopted IAS and Companies Act 2006 including IFRS, Companies Act 2006 and AIM Rule 19	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from external tax advisors.
Telecoms regulation enforced by Ofcom	Inquiry of management and review of board minutes and inspections of legal and regulatory correspondence along with a check to the Ofcom Register

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue cut-off	For a sample of contract assets and liabilities, recalculating the revenue recognised (and the associated accrual/deferral), based upon the terms of the underlying contracts and invoices; and For samples of monthly and quarterly billed revenue transactions, in the identified cut-off periods, verifying that revenue has been recognised in the correct period.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Use of our report

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

Mario Cientanni (Senior Statutory Auditor)
for and on behalf of

Barnes Roffe LLP
Chartered Accountants
Charles Lake House
Claire Causeway
Crossways Business Park
Dartford
Kent
DA2 6QA

29 April 2024

Consolidated income statement

for the year ended 30 September 2023

	Note	2023 £'000	2022 £'000
Continuing operations			
Revenue	3	**25,953**	24,193
Cost of sales		**(17,508)**	(16,246)
Gross profit		**8,445**	7,947
Administrative expenses		**(10,202)**	(9,784)
Trading Group EBITDA [1]		**1,915**	1,594
Amortisation of intangible assets	10	**(1,285)**	(1,286)
Plc costs[2]		**(863)**	(770)
Depreciation of IFRS16 data centre right of use assets	11	**(879)**	(530)
Depreciation of tangible assets and other right of use assets	11	**(249)**	(164)
Exceptional items	4	**(277)**	(562)
Share-based payments	7	**(119)**	(119)
Operating loss	5	**(1,757)**	(1,837)
Interest receivable	6	**4**	1
Interest payable	6	**(813)**	(772)
Loss before taxation		**(2,566)**	(2,608)
Taxation	8	**475**	321
Loss and total comprehensive loss for the year attributable to owners of the parent		**(2,091)**	(2,287)
Loss per share			
Basic and fully diluted	9	**(0.30)p**	(0.32)p

The accompanying accounting policies and notes on pages 35 to 54 are an integral part of these consolidated financial statements.

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

[2] Plc costs are non-trading costs relating to the Board of Directors of the Parent Company, the costs of being listed on the AIM Market of the London Stock Exchange and associated professional costs.

Consolidated statement of financial position

as at 30 September 2023

	Note	**30 September 2023 £'000**	30 September 2022 £'000
Non-current assets			
Intangible assets	10	**11,295**	12,580
Property, plant and equipment	11	**312**	128
Right of Use assets	11	**1,530**	814
Total non-current assets		**13,137**	13,522
Current assets			
Inventories	12	**76**	165
Trade and other receivables	13	**4,443**	4,766
Contract assets	14	**395**	558
Cash and cash equivalents	15	**794**	1,516
Total current assets		**5,708**	7,005
Total assets		**18,845**	20,527
Current liabilities			
Trade and other payables	16	**(6,878)**	(6,890)
Contract liabilities	17	**(1,820)**	(1,891)
Provision for onerous contracts	18	**(148)**	(148)
Borrowings	19	**(69)**	(69)
Lease liability	20	**(1,138)**	(733)
Total current liabilities		**(10,053)**	(9,731)
Non-current liabilities			
Contract liabilities	17	**(311)**	(601)
Provision for onerous contracts	18	**(684)**	(927)
Borrowings	19	**(5,335)**	(4,723)
Lease liability	20	**(476)**	(112)
Deferred tax liability	22	**(951)**	(1,426)
Total non-current liabilities		**(7,757)**	(7,789)
Total liabilities		**(17,810)**	(17,520)
Net assets		**1,035**	3,007
Equity			
Share capital	23	**7,062**	7,062
Share premium account	23	**17,630**	17,630
Capital redemption reserve	23	**6,489**	6,489
Merger reserve	23	**1,997**	1,997
Other reserve	23	**370**	458
Retained earnings	23	**(32,513)**	(30,629)
Total equity		**1,035**	3,007

These financial statements were approved and authorised for issue by the Board of Directors on 29 April 2024.
Signed on behalf of the Board of Directors by

Darron Giddens

Director

The accompanying accounting policies and notes on pages 35 to 54 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 September 2023

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2021	**7,062**	**17,630**	**6,489**	**1,997**	**339**	**(28,342)**	**5,175**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,287)	(2,287)
Transactions with owners in their capacity of owners							
Share-based payments	—	—	—	—	119	—	119
Total transactions with owners	—	—	—	—	119	—	119
Total movements	—	—	—	—	119	(2,287)	(2,168)
Equity at 30 September 2022	**7,062**	**17,630**	**6,489**	**1,997**	**458**	**(30,629)**	**3,007**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2022	**7,062**	**17,630**	**6,489**	**1,997**	**458**	**(30,629)**	**3,007**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,091)	(2,091)
Transactions with owners in their capacity of owners							
Share-based payments	—	—	—	—	119	—	119
Share options lapsed	—	—	—	—	(207)	207	—
Total transactions with owners	—	—	—	—	(88)	(1,884)	(1,972)
Total movements	—	—	—	—	(88)	(1,884)	(1,972)
Equity at 30 September 2023	**7,062**	**17,630**	**6,489**	**1,997**	**370**	**(32,513)**	**1,035**

The accompanying accounting policies and notes on pages 35 to 54 form an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 September 2023

	2023 £'000	2022 £'000
Cash flows from operating activities		
Loss before taxation	**(2,566)**	(2,608)
Adjustments for:		
Depreciation – IFRS data centre right of use assets	**879**	530
Depreciation – other right of use assets	**87**	114
Depreciation – owned assets	**162**	50
Amortisation	**1,285**	1,286
Share-based payments	**119**	119
Net finance expense	**809**	771
Costs relating to acquisitions	**—**	58
Movements in provisions	**(140)**	(153)
Decrease / (increase) in trade and other receivables	**414**	(1,064)
Decrease / (increase) in inventories	**88**	(79)
(Decrease) / increase in trade payables, accruals and contract liabilities	**(298)**	2,014
Net cash inflow from operating activities before acquisition costs	**839**	1,038
Costs relating to acquisitions	**—**	(58)
Net cash inflow from operating activities	**839**	980
Cash flows from investing activities		
Purchase of property, plant and equipment (note 11)	**(346)**	(115)
Acquisitions net of cash acquired	**—**	497
Payment of deferred consideration relating to acquisitions	**(50)**	(180)
Interest received	**4**	—
Net cash (outflow) / inflow from investing activities	**(392)**	202
Cash flows from financing activities		
Repayment of COVD-19 bounce-back loan	**(22)**	(18)
Payment of lease liabilities	**(1,118)**	(813)
Interest paid	**(29)**	(18)
Net cash (outflow from financing activities	**(1,169)**	(849)
Net (decrease) / increase in cash	**(722)**	333
Cash at bank and in hand at beginning of period	**1,516**	1,183
Cash at bank and in hand at end of period	**794**	1,516
Comprising:		
Cash at bank and in hand	**794**	1,516

Notes to the consolidated financial statements

1. General information
CloudCoCo Group plc is a public limited company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on the back cover of this report. The principal activity of the Group is the provision of IT Services to small and medium-sized enterprises in the UK. The financial statements are presented in pounds sterling (rounded to the nearest thousand (£'000)) because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards. The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Going concern
The Group had positive net assets at 30 September 2023 totalling £1.0 million compared to £3.0 million at the end of FY22. This reduction being mainly impacted by non-cash adjustments of £1.3 million of amortisation relating to intangible assets and £0.5 million of deferred interest relating to the loan note during the year.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the cost of living crisis together with the ongoing restructuring of the originally distressed Connect business, the Group reported a 19% percent improvement in underlying profitability as measured by Trading Group EBITDA[1] (2023: £1.9 million; 2022: £1.6 million). Cash inflow from operating activities before acquisition costs was £0.8 million (FY22: £1.0 million) although cash balances overall reduced by £0.7million.

The Strategic Report on pages 2 to 13 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the energy costs crisis and uncertainty caused by high inflation rate and the cost of living crisis.

In assessing the Group's ability to continue as a going concern, the Directors have reviewed the forecast sales growth, budgets and cash projections for the period to 30th April 2025, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months.

Based on these assumptions, the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements and accordingly continue to adopt the going concern basis in preparing these financial statements.

1.2 New standards and interpretations of existing standards that have been adopted by the Group for the first time

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates – Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12
- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
- Amendments to IAS 1 - Lease Liability in a Sale and Leaseback - Amendments to IFRS 16
- Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7
- Lack of exchangeability – Amendments to IAS 21
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IFRS 10/IAS 28

1.3 New standards and interpretations of existing standards that are not yet effective and have not been adopted early by the Group

The new standards or amendments that may be applicable to the 2024 financial statements are as follows:

- IAS 1: Changes regarding the classification of liabilities and accounting for covenants.
- IFRS 16: Updates related to lease liability in sale and leaseback transactions.

None of these are expected to have a material impact on the Group.

2. Principal accounting policies

a) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 September each year. Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Statement of Financial Position at their fair values, which are also used as the cost bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition costs over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

b) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Refer to principal accounting policy (k) for a description of impairment testing procedures.

c) Revenue and revenue recognition

Revenue arises from the sale of goods and the rendering of services as they are performed and the performance obligations fulfilled. It is measured by reference to the fair value of consideration received or receivable, excluding valued added tax, rebates, trade discounts and other sales-related taxes.

The Group enters into sales transactions involving a range of the Group's products and services; for example, for the delivery of hardware, software, support services, managed services, data centre locations, network connectivity and professional services. At the inception of each contract the Group assesses the goods or services that have been promised to the customer. Goods or services can be classified as either i) distinct or ii) substantially the same, having the same pattern of transfer to the customer as part of a series. Using this analysis, the Company identifies the separately identifiable performance obligations over the term of the contract. A contract liability is recognised when billing occurs ahead of revenue recognition. A contract asset is recognised when the revenue recognition criteria were met but in accordance with the underlying contract the sales invoice had not been issued.

Goods and services are classified as distinct if the customer can benefit from the goods or services on their own or in conjunction with other readily available resources. A series of goods or services, such as Recurring Services, would be an example of a performance obligation that is transferred to the customer evenly over time. The Group applies the revenue recognition criteria set out below to each separately identifiable performance obligation of the sale transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable performance obligation in proportion to its relative fair value.

Sale of goods (hardware and software)

Sale of goods is recognised at the point in time when the customer obtains control of the goods. Revenue from the sale of software with no significant service obligation is recognised on delivery at a point in time as this is when the customer takes possession and is able to use the software.

Rendering of services

The Group generates revenues from managed services, data centre services, support services, maintenance, resale of telecommunications and professional services ("Managed IT Services"). Consideration received for these services is initially deferred (when invoiced in advance), included in accruals and contract liabilities and recognised as revenue in the period when the service is performed and the performance obligation fulfilled.

Revenue from the delivery of professional services is recognised over the period of the project and measured on a time-based method using hourly rates.

Contracts for managed IT services are usually 12 months in duration and are automatically renewed unless termination rights are exercised. Revenue is recognised equally over the term of the contract as this fairly reflects the delivery of services to the customer.

Sales commission and third-party costs (where relevant) relating to these services are shown within Contract Assets and are recognised equally over the duration of the contractual term, in line with when the customer benefits from the services. Internal technical resources utilised in setting up recurring Managed IT Services over twelve months in duration are capitalised at the start of the contract within Contract Assets and spread equally over the duration of the contractual term.

d) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the statement of financial position date. All exchange differences are recognised in the Consolidated Income Statement.

e) Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. The depreciation policy is contained in principal accounting policy (i).

f) Right of use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received and any initial direct costs incurred.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

g) Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Consolidated Income Statement.

h) Exceptional items and Plc costs

Non-recurring items which are material either because of their size or their nature, are highlighted separately on the face of the Consolidated Income Statement. The separate reporting of these items helps provide a better picture of the Group's underlying performance. Items which may be included within this category include, but are not limited to, acquisition costs, spend on the integration of significant acquisitions and other major restructuring or rationalisation programmes, significant goodwill or other asset impairments and other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group and are highlighted separately in the Consolidated Income Statement as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

Note 4 contains more detail on exceptional items.

Plc costs are non-trading costs, relating to the Board of Directors of the Parent Company, the costs of being listed on the AIM Market of the London Stock Exchange and its associated professional advisors.

i) Depreciation

Depreciation is calculated on a straight-line basis so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

IT equipment	–	three to four years
Fixtures, fittings and leasehold improvements	–	three to four years
E-commerce platform	-	three to four years
Right of use asset	–	over the remaining term of the lease

Material residual value estimates are updated as required, but at least annually.

j) Intangible assets

Intangible assets mainly comprise the fair value of customer bases and other identifiable assets acquired which are not included on the balance sheets of the acquired companies. A fair value calculation is carried out based on evaluating the net recurring income stream from each type of intangible asset. Intangible assets are initially recognised at fair value, and are subsequently carried at this fair value, less accumulated amortisation and impairment. The following items were identified as part of the acquisitions of entities by the Group and were still owned at 30 September 2023:

j) Intangible assets (continued)

- Billing and website systems amortised over three years;
- customer lists amortised over five to ten years; and
- brands amortised over ten years.

Judgement is used in the allocation of fair values to the tangible assets and the identification and valuation of intangible assets which affect the calculation of goodwill recognised in respect of an acquisition. Refer to principal accounting policy (w).

k) Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit ("CGU") level. Goodwill is allocated to those CGUs that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Impairment reviews are carried out using multi-year cash flow projections from the approved budgets of the Group. These are discounted using a discount rate specific to each CGU. Forecast cash flows beyond 5 years assume steady growth at no more than the long-term average growth rate for the United Kingdom. The discount rate for each CGU reflects the time value of money and the nature and risks of the CGU.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses are credited to the carrying amount of the relevant asset. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

L) Leases

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. Any variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

m) Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. The cost is calculated using the FIFO basis. Work in progress relates to costs incurred on part-completed work.

n) Taxation

Current tax is the tax currently payable based on taxable results for the year. Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Consolidated Income Statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

Notes to the consolidated financial statements (continued)

o) Financial assets

Financial assets comprise of cash and cash equivalents and trade and other receivables. All financial assets are initially recognised at fair value, plus transaction costs and subsequently measured at amortised cost.

Trade receivables are held in order to collect the contractual cash flows and are initially measured at the transaction price as defined in IFRS 15, as the contracts of the Group do not contain significant financing components. Impairment losses are recognised based on lifetime expected credit losses in profit or loss.

The Group reviews the amount of credit loss associated with its trade receivables based on forward looking estimates, taking into account current and forecast credit conditions Details of the expected credit loss provision for trade receivables is shown in note 13.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken, at least, at each reporting date.

Interest and other cash flows resulting from holding financial assets are recognised in the Consolidated Income Statement when receivable.

p) Cash and cash equivalents

Cash at bank and in hand comprises cash on hand and demand deposits.

q) Financial liabilities

Financial liabilities comprise of trade and other payables, lease liabilities and borrowings. Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. All interest-related charges are recognised as an expense in “finance costs” in the Consolidated Income Statement. Loan notes are raised for support of long-term funding of the Group’s operations. The financial liability arising on the loan notes is carried at amortised cost.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the Consolidated Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Modification of the terms of a liability is accounted for as an extinguishment of the original liability and recognition of a new liability when the modification is substantial. A modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification

r) Onerous contracts

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

The recognition of the onerous contract liability is based on a reliable estimate of the expected costs and benefits of the contract. This estimate takes into account all relevant information, including the terms and conditions of the contract, market conditions, and the company’s own experience.

s) Issued share capital

Ordinary shares are classified as equity. Incremental costs attributable to the issue of shares or options are recorded in equity as a deduction from proceeds.

Notes to the consolidated financial statements (continued)

t) Employee benefits

Share-based payment – equity-settled

All material share-based payment arrangements are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the Consolidated Income Statement with a corresponding credit to “other reserve”. If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received, net of attributable transaction costs, are credited to share capital and share premium.

Share-based payment – modification, cancellation and issue of replacement awards.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

u) Pension

The Group makes payments to defined contribution retirement benefit plans that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to personal pension schemes.

v) Government Grants

The Group received funding from various Government sources in relation to COVID-19 in FY22. Government income is recognised in profit or loss (within other income) on a systematic basis over the periods in which the Group recognises costs for which the grants are intended to compensate. Where it is not yet considered highly probable that Government funding will not have to be repaid, this element is deferred on the balance sheet within other creditors.

w) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group’s accounting policies

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets requires judgement in the selection of appropriate valuation techniques and inputs and affect the goodwill and the assignment of that to each cash generating unit, recognised in respect of the acquisitions (note 24).

Judgement was also applied in determining whether contracts for dark fibre connections included the lease of identifiable assets for which a right of use asset and lease liability should be recognised. The directors concluded that except for last mile connections (if any) between the supplier’s core network and the company’s customer, the company did not have control over the use of specific fibres or utilise a significant proportion of the supplier’s core network.

Judgement has been applied in the analysis of agreements relating to the lease of data centre assets including the impact of termination and extension options on the lease term. Management have exercised judgement in assessing the recoverability of right of use assets, or provision for onerous operating leases, for each of the lease arrangements relating to data centre assets.

Judgement has also been applied in the measurement of the economic benefit to be received when testing for impairment of ROU assets or onerous contracts and the selection of an appropriate discount rate with which to measure the provision described in note 18.

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. Customer bases are valued at acquisition by measuring the estimated future discounted cash flows over a ten-year period from the date of acquisition, depending on class and date of acquisition and assuming a diminution for retention rate specific to each customer base, calculated using the average actual retention rate over the prior three or five-year period. All future cash flows are discounted using a discount rate, based on the internal rate of return for each asset, calculated over its useful economic life. Further details are shown in Note 10.

Key sources of estimation uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to the consolidated financial statements (continued)

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

Valuation of Intangible assets

Determining whether intangible assets, including goodwill, are impaired requires an estimate of whether there is an impairment indicator. The key estimates for the carrying value of intangible assets are the cash flows associated with the intangible assets and a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Each of the intangible assets held by the Group is measured regularly to ensure that they generate discounted positive cash flows. Where there is indication of impairment, the intangible asset is impaired by a charge to the Consolidated Income Statement. Further details on the impairment tests are shown in principal accounting policy (j) above and note 10.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the company estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment. An internal borrowing rate of 10% per annum was applied when measuring the fair value of the right of use assets. A change of 1% in this borrowing rate would increase the carrying value of right of use assets at 30 September 2023 by £23,000.

3. Segment reporting

The Chief Operating Decision Maker ("CODM") has been identified as the executive directors of the Company and its subsidiaries, who review the Group's internal reporting in order to assess performance and to allocate resources.

The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. A reconciliation between the non-statutory measure of Trading Group EBITDA[1] and the statutory operating loss is shown in the Income Statement. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of two categories separately (Managed IT Services and Value added resale), the operating costs and operating asset base used to derive these revenue streams are the same for both categories and are presented as such in the Group's internal reporting.

The segmental analysis below is shown at a revenue level in line with the CODM's internal assessment based on the following reportable operating categories:

Managed IT Services	–	This category comprises the provision of recurring IT services which either have an ongoing billing and support element or utilise the technical expertise of our people.
Value added resale	–	This category comprises the resale of one-time solutions (hardware and software) from our leading technology partners, including revenues from the More Computers e-commerce platform.

All revenues are derived from customers within the UK and no customer accounts for more than 10% of external revenues in both financial years. Inter-category transactions are accounted for using an arm's length commercial basis.

3.1 Analysis of continuing results

All revenues from continuing operations are derived from customers within the UK. In order to simplify our reporting of revenue, we condense our reporting segments into two categories – Managed IT Services and Value Added Resale. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, reflects the nature of the revenue. Trading EBITDA[1] is reported as a single segment.

3.1.1 Revenue

	2023 £'000	2022 £'000
Managed IT Services	**17,977**	17,056
Value added resale	**7,976**	7,137
Total Revenue	**25,953**	24,193

3.1.2 Revenue

	2023 £'000	2022 £'000
Recognised over time	**16,670**	16,187
Recognised at a point in time	**9,283**	8,006
Total Revenue	**25,953**	24,193

4. Exceptional Items

Items which are material and non-routine in nature are presented as exceptional items in the Consolidated Income Statement.

	2023 £'000	2022 £'000
Costs relating to acquisitions	**—**	(58)
Costs relating to re-finance of the loan notes	**(28)**	—
Dilapidations costs	**—**	(46)
Run-off costs relating to discontinued data centre services	**(92)**	(138)
Costs relating to onerous contracts settled in the year	**(54)**	—
Integration and restructure costs	**(103)**	(320)
Exceptional items	**(277)**	(562)

Integration and restructure costs relate to notice period, redundancy, holiday pay and severance payments made to staff whose roles were duplicate or whose employment was terminated during the year as part of the internal reorganisation. Run-off costs relating to discontinued data centre services contain unrecoverable operating expenses incurred during the year for data centre racks that were empty on acquisition. Costs associated with exploring options relating to the search for re-finance of the loan notes have also been separately identified as have costs relating to onerous contracts settled during the year.

5. Operating loss

	2023 £'000	2022 £'000
Operating loss is stated after charging:		
Depreciation of owned assets	**162**	50
Depreciation of right of use assets	**966**	644
Short life lease expense: IFRS16 data centre short-life leases	**946**	1,538
Amortisation of intangibles	**1,285**	1,286
Auditor's remuneration:		
– Audit of parent company	**30**	53
– Audit of subsidiary companies	**60**	106

6. Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the Consolidated Income Statement line for the reporting periods presented:

	2023 £'000	2022 £'000
Interest income resulting from short-term bank deposits	**4**	1
Finance income	**4**	1
Interest expense resulting from:		
Lease liabilities	**205**	75
Interest on borrowings	**27**	17
Loan note interest	**684**	651
Unwinding of the discount on provisions	**(103)**	29
Finance costs	**813**	772

Loan note interest includes £547,000 (2022: £526,000) which is accrued and is only payable when the loan notes are repaid at the end of their term. The original repayment date was 21 October 2024. On 29 April 2024, the repayment date for the loan notes were subsequently extended to 31 August 2026. Further details are provided in Note 27.

7. Employee costs

7.1 Directors and employees

At 30 September 2023, the Group employed 91 staff (2022: 125). The average number of staff employed by the Group during the financial year amounted to 111 (2022: 129) as follows:

	2023	2022
Management staff	**15**	13
Operational staff	**96**	116
Total	**111**	129

Employee numbers are stated including executive and non-executive Directors.

7.2 Employee remuneration including directors

	2023 £'000	2022 £'000
Wages and salaries	**4,831**	5,288
Pension contributions	**116**	131
Social security costs	**524**	532
Total	**5,471**	5,951

There were £17,000 of pension contributions payable at the reporting date (2022: £40,200)

7.3 Directors

Details of individual Directors' emoluments for the year are as follows:

	Fees and salaries		Employer's NI contributions		Other benefits		Totals (including employer's NI)	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Non-Executive								
S Duckworth	**43**	39	**5**	4	**—**	—	**48**	43
J Colligham [1]	**39**	36	**—**	—	**—**	—	**39**	36
A Mills[2]	**43**	35	**—**	—	**—**	—	**43**	35
Executive								
M Halpin[3]	**160**	127	**21**	17	**13**	4	**194**	148
D Giddens	**105**	88	**13**	11	**5**	4	**123**	103
Total	**390**	325	**39**	32	**18**	8	**447**	365

Other benefits include £4,500 (FY22: £4,000) in respect of pension contributions for M Halpin and £3,000 (FY22: £3,000) in respect of pension contributions for D Giddens. Additional benefits for M Halpin relate to company car fees of £7,000 and private health insurance premiums of £1,149. Additional benefits for D Giddens relate to private health insurance premiums.

1.fees in relation to J Collighan are paid to MXC Capital Advisory Limited (see note 24).
2. A Mills fees includes £9,000 of payments relating to Group subsidiaries.
3. Mark Halpin resigned as a director on 29 April 2024.

7.4 Share-based payments

(i) Share option plans for employees

The Company has an HMRC-approved EMI share option scheme for certain staff and senior management. There is also an unapproved share option scheme in place which is used where the awards do not fall under the rules of the approved scheme.

The unapproved scheme has no set term and the current arrangements continue until further notice. In both schemes, upon vesting, each option allows the holder to purchase one Ordinary Share at the pre-agreed option price. All share-based employee remuneration will be settled in equity. The Group has no legal or other obligation to repurchase or settle the options.

No share options were issued during the year (2022: 21,500,000). Share options have been issued historically as part of the Company's 'CoCo-One' initiative in which all qualifying colleagues were awarded options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. All share options in issue have an exercise price of 1 pence per Ordinary Share and can be exercised at any time between now and 19 August 2032.

All share options will only accrue value in the event the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise (or if there is a qualifying transaction), thereby aligning the interests of recipients with those of shareholders. Some members of the Senior Management Team have additional performance criteria attached to a proportion of their share options, requiring trading overheads to be covered by recurring gross profits. The scheme also contains provisions for Share Options to be exercised in the event of a change of control of the business.

Of the 21,500,000 Employee Options issued last year, 14,700,000 were granted to the Company's former Chief Executive Officer Mark Halpin. As a member of the Concert Party created on 19 October 2019 when the Company acquired CloudCoCo Limited, the new Options granted to Mark Halpin carry further restrictions in that whilst the Concert Party, of which Mark is part, holds between 30 and 50 per cent of the share capital of the Company, these new options cannot be exercised without triggering the provisions of Rule 9 of the Takeover Code. These restrictions do not apply to the 7,500,000 existing options granted to Mark Halpin on 20 November 2020, as they were granted at a time when the Concert Party held more than 50 per cent of the Company's issued share capital. Whilst Mark Halpin resigned as a director on 29 April 2024, the share options he holds in the Company continue to be exercisable under the terms of the share option scheme.

Notes to the consolidated financial statements (continued)

7.4 Share-based payments (continued)

During the year 14,695,500 share options lapsed (2022: nil) in accordance with the share issue documents. At 30 September 2023, the Company had granted the following outstanding share options:

	2023 Number	**2023 Weighted average exercise price**	2022 Number	2022 Weighted average exercise price
Outstanding at 1 October	**69,725,000**	1.0p	48,225,000	1.0p
Granted	**—**	1.0p	21,500,000	1.0p
Lapsed	**(14,695,500)**	1.0p	—	1.0p
Outstanding at 30 September	**55,029,500**	1.0p	69,725,000	1.0p

No options are vested and exercisable at the balance sheet date. No options expired during the periods covered by the tables above.

The total number of share options outstanding at 30 September 2023 was 55,029,500 as follows:

Date granted	**Balance 2023**	Movement during the year	**Balance 2022**	Exercise price	Dates exercisable	Remaining contractual life (months)
20 November 2020	**38,729,500**	(9,495,500)	48,225,000	1.00p	20 November 2023–20 November 2030	98
19 August 2022	**16,300,000**	(5,200,000)	21,500,000	1.00p	19 August 2024–19 August 2032	107
Total	**55,029,500**	(14,695,500)	69,725,000	1.00p		

In determining the fair value of the share options granted on 20 November 2020 and 19 August 2022, the Company assessed the historical share price volatility associated with the Company's share price and the effective risk-free rate of interest inherent in the debt element of this instrument. The fair value of options issued during the year were calculated using a Black-Scholes model with inputs using an historical volatility rate of 14% (FY22: 40%) and a risk-free interest rate of 2.17% (FY22: 1%). The share price at grant date was 1.09p per share and no dividend yield was expected.

(ii) Non-employee share options and warrants

On 3 September 2021, the Company issued 4,000,000 share warrants at a subscription Price of 1.5p per Ordinary Share to the vendors of Systems Assurance Limited and More Computers Limited (the "Acquired Companies") in order to incentivise them to further assist with the integration of the business beyond the initial acquisition.

The share warrants can be exercised in the period commencing 3 March 2022 up to and including 3 March 2032. The exercise of the share warrants is conditional upon the Company's share price in the five consecutive days preceding relevant notice of exercise being not less than 2 pence per ordinary share and the prior six months' revenue from new or qualifying customers in the Acquired Companies being at least £3,200,000 calculated on the last day of the calendar month starting 50 days before the date of the relevant notice of exercise.

The total share-based payments charge included in the Consolidated Income Statement is:

	2023 £'000	2022 £'000
Share options	**118**	117
Share warrants	**1**	2
Total	**119**	119

8. Income tax

	2023 £'000	2022 £'000
Current tax		
UK corporation tax for the period at 22% (2022: 19%)	**—**	—
Deferred tax		
Deferred tax credit on intangible assets	**475**	321
Total tax credit for the year	**475**	321

Notes to the consolidated financial statements (continued)

8. Income tax (continued)

The tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2023 £'000	2022 £'000
Loss for the year before tax:	**(2,359)**	(2,608)
Tax rate	**22%**	19%
Expected tax credit	**(519)**	(496)
Adjusted for:		
Non-deductible expenses	**(10)**	57
Differences in tax rates	**(28)**	(1)
Recognition of deferred tax assets	**(238)**	—
Movement in unprovided deferred tax relating to losses	**320**	150
Short-term timing differences	**—**	(31)
Total tax credit for the year	**(475)**	(321)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £4,961,000 (2022: £2,824,000). There are no restrictions in the use of tax losses. Deferred tax assets remain unrecognised until it becomes probable that the underlying deductible temporary differences will be able to be utilised against future taxable income. The substantively enacted tax rate increased from 19% to 25% with effect from 1 April 2023. Accordingly, a blended rate of 22.01%, calculated as an average monthly rate over the financial year is applied in the measurement of deferred tax for the year as reflected in the table above.

9. Loss per share	**2023 £'000**	2022 £'000
Loss attributable to ordinary shareholders	**(2,091)**	(2,287)
Weighted average number of Ordinary Shares in issue, basic and diluted	**706,215,686**	706,215,686
Basic and diluted loss per share	**(0.30)p**	(0.32)p

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives, details of which are given in Note 7, would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

10. Intangible assets

Intangible assets are non-physical assets which have been obtained as part of an acquisition or research and development activities, such as innovations, introduction and improvement of products and procedures to improve existing or new products. All intangible assets have an identifiable future economic benefit to the Group at the point the costs are incurred. The amortisation expense is recorded in administrative expenses in the Consolidated Income Statement

Intangible assets	Goodwill £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost					
At 1 October 2021	10,088	361	2,127	9,421	21,997
Business combinations (note 24)	1,193	—	256	2,024	3,473
At 30 September 2022 and 30 September 2023	**11,281**	**361**	**2,383**	**11,445**	**25,470**
Accumulated amortisation					
At 1 October 2021	**—**	**(184)**	**(1,032)**	**(4,523)**	**(5,739)**
Charge for the year	—	(18)	(123)	(1,145)	(1,286)
At 1 October 2022	**—**	**(202)**	**(1,155)**	**(5,668)**	**(7,025)**
Charge for the year	—	(18)	(122)	(1,145)	(1,285)
At 30 September 2023	**—**	**(220)**	**(1,277)**	**(6,813)**	**(8,310)**
Impairment					
At 1 October 2021	**(4,447)**	**—**	**(225)**	**(1,193)**	**(5,865)**
Charge in the year	**—**	**—**	**—**	**—**	**—**
At 1 October 2022	(4,447)	—	(225)	(1,193)	(5,865)
Charge in the year	**—**	**—**	**—**	**—**	**—**
At 30 September 2023	**(4,447)**	**—**	**(225)**	**(1,193)**	**(5,865)**
Carrying amount					
At 30 September 2023	**6,834**	**141**	**881**	**3,439**	**11,295**
At 30 September 2022	6,834	159	1,003	4,584	12,580
Average remaining amortisation period		**7.8 years**	**7.2 years**	**3.0 years**	**3.5 years**

Notes to the consolidated financial statements (continued)

10. Intangible assets (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are independent cash inflows (cash generating units). Goodwill is allocated to those assets that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash inflows. The directors concluded that at 30 September 2023, there were four CGUs being CloudCoCo Limited, CloudCoCo Connect Limited (formerly IDE Group Connect Limited), Systems Assurance Limited and More Computers Limited.

Each year, management prepares the resulting cash flow projections using a value in use approach to compare the recoverable amount of the CGU to the carrying value of goodwill and allocated assets and liabilities. Any material variance in this calculation results in an impairment charge to the Consolidated Income Statement.

The calculations used to compute cash flows for the CGU level are based on the Group's Board approved budget for the next twelve months, and business plan, growth rates as below, the weighted average cost of capital ("WACC") and other known variables. The calculations are sensitive to movements in both WACC and the revenue growth projections. The impairment calculations were performed using post-tax cash flows at post-tax WACC of 13.25% (FY22: 13.25%) for each CGU. The pre-tax discount rate (weighted average cost of capital) was calculated at 18% per annum (FY22:18%) and the revenue growth rate is 5% per annum (FY22: 5%) for each CGU for 5 years and a terminal growth rate of 2.3% (FY22: 2%).

Sensitivities have been run on cash flow forecasts for the CGU. Revenue growth rates are considered to be the most sensitive assumption in determining future cash flows for each CGU. Management is satisfied that the key assumptions of revenue growth rates should be achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount exceeding the recoverable amount. Sensitivity analyses have been performed and the table below summarises the effects of changing certain other key assumptions and the resultant excess (or shortfall) of discounted cash flows against the aggregate of goodwill and intangible assets.

Sensitivity analysis £'000	CloudCoCo Limited	Systems Assurance Limited	More Computers Limited	CloudCoCo Connect Limited [1]
Excess of recoverable amount over carrying value:				
Base case – headroom	696	400	251	4,583
Pre-tax discount rate increased by 1% - resulting headroom	429	360	244	4,384
Revenue growth rate reduced in years 2 to 5 by 1% per annum – resulting headroom	107	358	241	4,286

Base case calculations highlight that the impairment review in respect of CloudCoCo Limited is most sensitive to the discount rate and growth rate. Headroom was also evident when applying a growth rate of 2% in years 2 to 5 in each of the CGU's but would trigger an impairment of £918,000 in CloudCoCo Limited.

[1] formerly IDE Group Connect Limited

11. Property, plant and equipment	Right of Use Assets £'000	IT equipment £'000	E-commerce platform £'000	Fixtures, fittings and leasehold improvements £'000	Total £'000
Cost of assets					
At 1 October 2021	**278**	**267**	**—**	**49**	**594**
Additions	680	115	—	—	795
Modifications	378	—	—	—	378
Disposals	—	(190)	—	(20)	(210)
Business combinations	303	9	—	2	314
At 30 September 2022	**1,639**	**201**	**—**	**31**	**1,871**
Additions	1,294	199	107	40	1,640
Modifications	388	—	—	—	388
Disposals	(33)	—	—	—	(33)
At 30 September 2023	**3,288**	**400**	**107**	**71**	**3,866**
Depreciation					
At 1 October 2021	**181**	**221**	**—**	**43**	**445**
Charge for the year	644	42	—	8	694
Disposals	—	(190)	—	(20)	(210)
At 30 September 2022	**825**	**73**	**—**	**31**	**929**
Charge for the year	966	113	41	8	1,128
Disposals	(33)	—	—	—	(33)
At 30 September 2023	**1,758**	**186**	**41**	**39**	**2,024**
Net book value					
At 30 September 2023	**1,530**	**214**	**66**	**32**	**1,842**
At 30 September 2022	814	128	—	—	942

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

The net book value of right of use assets at 30 September 2023 comprised:

	Land & buildings £'000	Data Centre Assets £'000	Motor Vehicles £'000	Total £'000
At 30 September 2023	**523**	**990**	**17**	**1,530**
At 30 September 2022	55	756	3	814

The depreciation charge in respect of right of use assets comprises £879k in respect of data centre assets (FY22: £530k) and £87k in respect of property and other assets (FY22: £114k). Data centre assets are described in more detail in Note 20.

12. Inventories

	2023 £'000	2022 £'000
Consumables	**38**	81
Work in progress	**38**	84
Inventories	**76**	165

13. Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	**2,821**	2,936
Other debtors	**76**	244
Prepayments	**1,546**	1,586
Trade and other receivables	**4,443**	4,766

The Group reviews the amount of expected credit loss associated with its trade receivables and contract assets under IFRS 9 based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. At 30 September 2023 trade receivables amounting to £602,000 (2022: £710,000) were past due but not impaired. The age of trade receivables not impaired is as follows:

	2023 £'000	2022 £'000
Less than 30 days	**1,500**	1,391
30–59 days	**364**	248
60–89 days	**355**	587
90–119 days	**153**	183
120+ days	**449**	527
	2,821	2,936

Trade receivables at the reporting date comprise amounts receivable from the provision of the Group's products and services. The average credit period taken on the provision of these services is 34 days (2022: 40 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £229,000 (2022: £415,000) as follows:

	2023 £'000	2022 £'000
Opening impairment provision	**415**	45
Business Combinations	**—**	345
Subsequently recovered from customers	**(257)**	(5)
Unrecoverable balances from customers written-off	**(1)**	(10)
Provision in year	**72**	40
Impairment provision at 30 September 2023	**229**	415

At period end, customers were categorised into three categories based on spend in the last 12 months:

1. Top 10 customers, 2. Next 50 customers and 3. Others

Category	**Impairment Rate**
Top 10 customers	0.0%
Next 50 customers	2.8%
Other customers	3.0%

13. Trade and other receivables (continued)

Specific provisions are also made based on known issues.

Category	2023 £'000 Gross Trade Receivables	2023 £'000 Impairment Provision	2023 £'000 Net Trade Receivables	2023 Impairment Rate
Top 10 customers	**1,146**	**(85)**	**1,061**	**7.4%**
Next 50 customers	**1,000**	**(36)**	**964**	**3.6%**
Other customers	**904**	**(108)**	**796**	**12.0%**
	3,050	**(229)**	**2,821**	**7.5%**

Category	2022 £'000 Gross Trade Receivables	2022 £'000 Impairment Provision	2022 £'000 Net Trade Receivables	2022 Impairment Rate
Top 10 customers	1,151	(189)	962	16.4%
Next 50 customers	1,053	(42)	1,011	4.0%
Other customers	1,147	(184)	963	16.0%
	3,351	(415)	2,936	12.4%

Credit risk

The Group's main risk relates to trade receivables which are stated net of the provisions above. No collateral is held as security against these debtors and the carrying value represents the fair value. The Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised represent a large number of receivables from various customers, including some government authorities.

14. Contract assets

	2023 £'000	2022 £'000
Contract assets	**395**	558

Contract assets relate to the Group's right to consideration in respect of goods or services that the Group has transferred to a customer. Contract assets are linked to recurring Managed IT services revenues.

15. Cash and cash equivalents

	2023 £'000	2022 £'000
Cash at bank and in hand	**794**	1,516

Cash balances are held with a small number of counterparties. There were no other borrowing facilities in place at 30 September 2023 other than the loan notes issued to MXC Guernsey Limited and the COVID-19 Bounce Back Loan (Note 17).

16. Trade and other payables

	2023 £'000	2022 £'000
Trade payables	**5,655**	4,717
Accruals	**512**	1,448
Other taxes and social security costs	**711**	725
Trade and other payables	**6,878**	6,890

Notes to the consolidated financial statements (continued)

17. Contract liabilities

The aggregate amount of the transaction price (the total contract value) allocated to unsatisfied performance obligations at 30 September 2023 was £11.7 million (2022: £10.9 million) and is expected to be recognised as revenue in future periods as follows:

	2023 £'000	2022 £'000
Within 6 months	**4,060**	4,416
6 to 12 months	**4,240**	2,049
12 to 24 months	**2,450**	2,341
Greater than 24 months	**977**	2,067
	11,727	10,873

18. Provision for onerous contracts

	2023 £'000	**2022 £'000**
Provisions for onerous contracts – short-term element	**148**	148
Provisions for onerous contracts – long-term element	**684**	927
Provisions for onerous contracts	**832**	1,075

As part of the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) the Group become party to a number of onerous contracts for redundant dark-fibre circuits that remain under term contracts which expire over numerous accounting periods up until November 2032. The total amount payable over the term in relation to onerous contracts is £1.3 million and was reflected in the lower acquisition price paid for the business in October 2021.

	2023 £'000	**2022 £'000**
Opening balance	**1,075**	—
Business combinations	**—**	1,199
Payments	**(140)**	(163)
Unwinding of discount on provisions	**(103)**	39
Closing balance	**832**	`1,075

An onerous contract is one where the cost of fulfilling the contract exceeds the economic benefits that will be received. In other words, it is a contract that is expected to result in a loss. Under IFRS, we are required to recognise the expected losses from an onerous contract as a liability in the financial statements.

The recognition of the onerous liability is based on a reliable estimate of the expected costs and benefits of the contract. The liability has been recognised in the opening balance sheet for Connect and has been measured at the present value of the expected future cash outflows, using a discount rate equivalent to the current risk-free rate of government bonds over the term of the onerous contracts. The provision for these contracts at 30 September 2023 were £0.8 million (2022: £1.1 million).

19. Borrowings

19.1 Current

	2023 £'000	2022 £'000
COVID-19 Bounce-back loan repayable – short-term element	**19**	19
Deferred consideration for acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) - short-term element	**50**	50
	69	69

19.2 Non-current

	2023 £'000	2022 £'000
Loan notes	**4,723**	3,908
Accrued interest on loan notes repayable in October 2024	**519**	650
Loan notes	**5,242**	4,558
Deferred consideration for acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) - long-term element	**52**	102
COVID-19 Business Bounce-back loan repayable – long-term element	**41**	63
	5,335	4,723

19.2 Non-current (continued)

On 10 May 2022, the Company borrowed £50,000 from HSBC Bank UK Plc, under the COVID-19 Business Bounce-back loan scheme. In accordance with the UK Government's Business Interruption Payment scheme, the interest on the loan for the first 12 months was covered by the UK Government and the Company will repay the loan in 59 equal monthly instalments, which commenced in June 2023.

As part of the acquisition of More Computers Limited on 6 September 2021, the Company inherited a COVID-19 Business Bounce-back loan of £50,000 between More Computers Limited and NatWest Bank Plc. In accordance with the UK Government's Business Interruption Payment scheme, the interest on the loan for the first 12 months is covered by the UK Government and the Company will repay the loan in 59 equal monthly instalments, which commenced in March 2023.

19.3 Net debt – net debt comprises:

	2023 £'000	Cash movements £'000	Other movements £'000	2022 £'000
Loan notes (see note 21)	**5,242**	—	684	4,558
COVID-19 Bounce-back loans	**60**	(22)	—	82
Deferred consideration	**102**	(50)	—	152
Lease liabilities	**1,614**	(1,118)	1,887	845
Cash and cash equivalents	**(794)**	722	—	(1,516)
Total	**6,224**	(468)	2,571	4,121

20. Lease Liabilities

The acquisition of the Connect business delivered with it 32 data centre locations. The majority of data centres are leased from third-party suppliers on renewable contract terms of up to 5 years in duration. Many of these data centre leases can be auto-renewed, resized or terminated in the months leading up to the end of the term, creating a new or modified leases in excess of twelve months, which then fall under IFRS16 as a right of use asset with associated lease.

During the year, the Group entered into new or modified IFRS16 right of use leases of £1.1 million. Those leases, which had less than 12 months remaining on the date of acquisition, were treated as short-term leases up until the point at which they were renewed or modified.

	2023 £'000	2022 £'000
Opening balance	**845**	97
Additions	**1,294**	711
Modifications	**388**	378
Leases acquired on the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited)	**—**	397
Related interest expense	**205**	75
Repayment of lease liabilities	**(1,118)**	(813)
Closing balance	**1,614**	845

	2023 £'000	2022 £'000
Current	**1,138**	733
Non-current	**476**	112
	1,614	845

The total cash outflows from leases (including lower value and short-life leases) in the financial year was £2,064,000 (2022: £2,351,000) of which £946,000 relates to short-life leases (2022: £1,538,000).

21. Financial instrument

As part of a loan note consolidation on 21 October 2019, the Company agreed to modify a loan note originally provided to Business Growth Fund ("BGF") on 26 May 2016. The original loan note contained a provision for share options which were immediately exercised. The directors considered this to be in consideration for the extinguishment of Loan Notes with a principal amount of £1.5m and accrued interest of £0.1m. In accordance with IAS 32, the carrying value of the Loan Notes that were extinguished, £1.3m, was derecognised and recorded in equity.

On the same date, the remaining loan notes with a principal amount of £3.5m were acquired by a MXC Guernsey Limited, a subsidiary of MXC Capital (UK) Limited. The terms of the loan notes were revised by increasing the coupon to 12% per annum compound, rolled up and payable at maturity, and extending the term to October 2024. When measured using the loan notes' original effective interest rate, the present value of the cash flows of the revised instrument were not significantly different to that of the instrument prior to the modification. As a result, the Loan Notes were not treated as a new instrument and continue to be measured at amortised cost. On 29 April 2024, the repayment date for the loan notes was subsequently extended to 31 August 2026. Further details are provided in Note 27.

22. Deferred tax liabilities

	Deferred tax on acquired intangibles £'000
Deferred tax liability at 30 September 2021	**1,188**
Deferred tax on acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited)	559
Credited to income statement – on intangibles	(321)
Deferred tax liability at 30 September 2022	**1,426**
Credited to income statement – on intangibles	(475)
Deferred tax liability at 30 September 2023	**951**

23. Share capital and reserves

Share capital and reserves comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;
- "Capital redemption reserve" represents the nominal value of cancelled Deferred Shares;
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions;
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised. In the financial statements at 30 September 2019 other reserves also included the equity element in the form of share options, contained in the financial instrument issued to the Business Growth Fund on 26 May 2016.
- Retained earnings reserve" represents retained profits and accumulated losses.

23.1 Share capital

Shares issued and fully paid

	2023 £'000	2022 £'000
Beginning of year	**7,062**	**7,062**
Shares issued and fully paid	**7,062**	**7,062**

Share capital allotted, called up and fully paid

	2023 No. Ordinary Shares	2022 No. Ordinary Shares
Ordinary shares of £0.01p	**706,215,686**	706,215,686

23.2 Share premium

	2023 £'000	2022 £'000
Beginning of year	**17,630**	**17,630**
End of year	**17,630**	**17,630**

23.3 Capital redemption reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised to enter into a contract for the off-market purchase of all of the Deferred Shares of £0.009 each in its capital for cancellation. A single new Ordinary Share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares created a capital redemption reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and it therefore may be used to distribute to shareholders or used to buy back shares.

23.4 Merger reserve

The merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

Notes to the consolidated financial statements (continued)

23.5 Other reserve

	2023 £'000	2022 £'000
Beginning of year	**458**	339
Share based (credit) payment	**(88)**	119
End of year	**370**	458

23.6 Retained earnings

	2023 £'000	2022 £'000
Beginning of year	**(30,629)**	(28,342)
Arising on loss and total comprehensive loss for the period	**(2,091)**	(2,287)
Share options lapsed	**207**	—
End of year	**(32,513)**	(30,629)

24. Related party transactions

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the report of the Board to the members on Directors' remuneration on pages 19 and 20. The Directors are also considered to be the Group's Key Management Personnel and their remuneration details can be found in Note 7.

Mark Halpin, a former Director of the Company had a 19.9% holding in the shares of the Company at 30 September 2023 and is considered to have a significant influence over the Group. Jill Collighan, a Director of the Company, is an employee of MXC Capital (UK) Limited ("MXC"), a wholly owned subsidiary of MXC Guernsey Limited ("MXCG"). At 30 September 2023, MXCG had a 10.6% holding in the shares of the Company and is considered to have a significant influence over the Group. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

During the year the Company purchased services including Non-Executive fees for Andy Mills of £43,000 (2022: £37,866) from CoCoNitro Limited, a company jointly owned by Mark Halpin and Andy Mills, of which £13,500 (2022: £38,200) was outstanding at the financial year end. In addition, during the year CloudCoCo Limited, sold £76,651 (2022: £39,000) and purchased £70,179 (2022: nil) of IT services and hardware to ViVoTech Limited, a Leeds based IT company in which CoCoNitro owns 50%. ViVoTech owed CloudCoCo Limited £77,325 at 30 September 2023 (2022: £34,000).

Fees invoiced by MXC to the Company include £39,000 (2022: £36,000) for Jill Collighan's services as Non-Executive Director, included as directors' emoluments in Note 7. Additionally, corporate finance advisory and transaction services were purchased from MXC as financial adviser to the Company. The Group purchased services totalling £69,000 (2022: £66,000) from MXC and at 30 September 2023 owed £27,000 to MXC (2022: £145,400).

As part of a refinancing in October 2019, MXCG, acquired £3.5 million loan notes of the Company, the terms of which were varied such that interest is charged at 12% compound per annum rolled up and payable only at the end of the term, which was also extended to 21 October 2024 with no repayment due until that date unless the Company chooses to pay early. At 30 September 2023, the Company owed MXCG £5.5 million (2022: £4.9 million) in respect of the loan notes. On 29 April 2024, the repayment date for the loan notes was subsequently extended to 31 August 2026. Further details are provided in Note 27.

25. Contingent liabilities

There are no contingent liabilities at 30 September 2023 (2022: £nil).

26. Risk management

The Group finances its activities through equity, loan notes and bank funds. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, trade and other receivables, trade and other payables, accruals, lease liabilities and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors and are reported in the principal risks and uncertainties contained within the Strategic Report on pages 2 to 13.

26.1 Cash and liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

26.2 Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has available credit card facilities with HSBC of up to £30,000 (2022: £30,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement. The interest rate charged by MXCG is at a fixed rate. No interest rate sensitivity analysis has been disclosed as the majority of the Group's borrowings are fixed.

26.3 Capital risk management

The Group's policy on capital structure is to maintain a level of gross cash available, which the Board considers to be adequate to fund a range of potential EBITDA movements, taken from a series of business projections and scenarios. Based on these business projections, the Board believes it has sufficient cash resources at its disposal to pursue its chosen strategy of maximising shareholder returns over the medium to long term from the customer base with a high proportion of contracted recurring revenues.

The Group manages its capital to ensure that trading entities in the Group will be able to continue as going concerns, while maximising the medium and long term returns to shareholders through the organisation of cash, debt and equity balances. The capital structure of the Group consists of cash at bank and in hand, debt and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity on page 33.

The Directors seek to promote recurring revenues to a wide range of business customers, to reduce the risks associated with fluctuations in the UK economy and to increase the long-term value to customers and shareholders. If required, the Group will subsidise one-off connection fees in order to generate contracted recurring revenues and secure longer-term business relationships with customers.

The declaration and payment by the Group of any future dividends on the Ordinary Shares and the amount will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

Given the Group's stage of development, the Directors do not envisage that the Group will pay dividends in the foreseeable future and intend to reinvest surplus funds in the development of the Group's business. The Board will regularly review the appropriateness of its dividend policy. In order to maintain or adjust the capital structure, the Group may adjust the amount of any pay-outs to the shareholders, return capital to the shareholders, issue new shares, make borrowings or sell assets to reduce debt.

26.4 Credit risk

The Group's policy is to monitor trade and other receivables and avoid significant concentrations of credit risk. The principal credit risk arises from trade receivables. Aged receivables reports are reviewed monthly as a minimum. The credit control function follows a policy of sending reminder letters that start once an invoice is over 30 days overdue. These culminate in a legal letter with the threat of legal action. In a limited number of cases, legal action has been pursued. An aged analysis of receivables is shown in Note 13 to the financial statements.

26.5 Risk management analysis

The information below provides an analysis of the financial assets and liabilities within the scope of IFRS 9 Financial Instruments required by IFRS 7 Financial Instruments: Disclosure. An analysis of the principal sums, relevant to an analysis of risk management, is as follows:

2023	Financial assets £'000	Non-financial assets £'000	Balance Sheet total £'000
Trade and other receivables	**2,897**	**1,546**	**4,443**
Other current assets	**—**	**76**	**76**
Cash at bank and in hand	**794**	**—**	**794**
	3,691	**1,622**	**5,313**

2022	Financial assets £'000	Non-financial assets £'000	Balance sheet total £'000
Trade and other receivables	3,180	1,586	4,766
Other current assets	—	165	165
Cash at bank and in hand	1,516	—	1,516
	4,696	1,751	6,447

Book value approximates to fair value.

Notes to the consolidated financial statements (continued)

26.5 Risk management analysis (continued)

2023	Other Financial liabilities at amortised cost in the balance sheet £'000	Other liabilities not within scope of IFRS 9 £'000	Balance sheet total £'000
Trade and other payables - short-term element	**6,167**	**—**	**6,167**
Contract liabilities – short-term element	**—**	**1,820**	**1,820**
Contract liabilities – long-term element	**—**	**311**	**311**
Borrowings – short-term element	**69**	**—**	**69**
Borrowings – long-term element	**5,335**	**—**	**5,335**
Provision for onerous contracts – short-term element	**—**	**148**	**148**
Provision for onerous contracts – long-term element	**—**	**684**	**684**
Lease liability – short-term element	**—**	**1,138**	**1,138**
Lease liability – long-term element	**—**	**476**	**476**
	11,571	**4,577**	**16,148**

Book value approximates to fair value.

2022	Other Financial liabilities at amortised cost in the balance sheet £'000	Other liabilities not within scope of IFRS 9 £'000	Balance sheet total £'000
Trade and other payables - short-term element	6,166	—	6,166
Contract liabilities – short-term element	—	1,891	1,891
Contract liabilities – long-term element	—	601	601
Borrowings – short-term element	69	—	69
Borrowings – long-term element	4,723	—	4,723
Provision for onerous contracts – short-term element	—	148	148
Provision for onerous contracts – long-term element	—	927	927
Lease liability – short-term element	—	733	733
Lease liability – long-term element	—	112	112
	10,958	4,412	15,370

Book value approximates to fair value.

Average Trade Creditor days at 30 September 2023 was 84 days (FY22: 77 days).
The remaining contractual maturity of the Group's financial instrument liabilities, being the undiscounted cash flows, including interest, based on the earliest dates on which the liabilities are required to be paid, are as follows:

2023	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	**2,683**	**2,651**	**321**	**—**	**—**	**—**	**5,655**
Borrowings	**3**	**6**	**9**	**6,219**	**—**	**—**	**6,237**
Lease liabilities	**222**	**323**	**390**	**436**	**298**	**195**	**1,864**
	2,908	**2,980**	**720**	**6,655**	**298**	**195**	**13,756**

2022	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	2,047	2,415	157	98	—	—	4,717
Borrowings	3	6	9	6,219	—	—	6,237
Lease liabilities	140	261	333	178	12	—	924
	2,190	2,682	499	6,495	12	0	11,878

27. Post Balance Sheet events

On 29 April 2024, MXC Guernsey Limited ("MXCG") agreed to extend the redemption date of the loan notes detailed in Note 21 from 21 October 2024 to 31 August 2026. Interest will continue to accrue on the loan notes at the current rate until redemption. All other terms of the loan notes remain the same.

As consideration for the extension, effective from 22 October 2024, MXCG will charge the Company a fee of £550,000 for providing the extension. Payment of this fee will be deferred until the redemption of the loan notes and it will accrue interest at the same rate as the loan notes. MXCG will also have the right to appoint a consultant to, or an Executive Director of, the Company's Board in addition to its current non-executive representative and will have the right at any time to increase its loan security in the form of a full debenture over all Group Companies.

28. Ultimate controlling party

There is no ultimate controlling party.

Statement of financial position (parent company)

as at 30 September 2023

	Note	**30 September 2023 £'000**	30 September 2022 £'000
Fixed assets			
Fixed asset investments	6	**235**	298
Total fixed assets		**235**	298
Current assets			
Debtors	7	**7,471**	9,094
Cash at bank and in hand		**102**	14
Total current assets		**7,573**	9,108
Creditors: amounts falling due within one year	8	**(437)**	(286)
Net current assets		**7,136**	8,822
Total assets less current liabilities		**7,371**	9,120
Creditors: amounts falling due in more than one year	9	**(5,385)**	(4,686)
Net assets		**1,986**	4,434
Capital and reserves			
Called up share capital	11	**7,062**	7,062
Share premium account	11	**17,630**	17,630
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**370**	458
Retained earnings		**(31,562)**	(29,202)
Shareholders' funds		**1,986**	4,434

The parent company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in the financial statements. The parent company's loss for the year and included in the Retained earnings movement was £2,567,000 (2022: £2,007,000).

Approved by the Board and authorised for issue on 29 April 2024.

Darron Giddens

Director

The accompanying accounting policies and notes form part of these financial statements.

Company number: 05259846

Statement of changes in equity (parent company)
for the year ended 30 September 2023

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2021	**7,062**	**17,630**	**6,489**	**1,997**	**339**	**(27,195)**	**6,322**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,007)	(2,007)
Transactions with owners in their capacity as owners							
Share-based payments	—	—	—	—	119	—	119
Total transactions with owners	—	—	—	—	119	—	119
Total movements	—	—	—	—	119	(2,007)	(1,888)
Equity at 30 September 2022	**7,062**	**17,630**	**6,489**	**1,997**	**458**	**(29,202)**	**4,434**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2022	**7,062**	**17,630**	**6,489**	**1,997**	**458**	**(29,202)**	**4,434**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,567)	(2,567)
Transactions with owners in their capacity as owners							
Share-based payments	—	—	—	—	119	—	119
Share options lapsed	—	—	—	—	(207)	207	—
Total transactions with owners	—	—	—	—	(88)	(2,360)	(2,448)
Total movements	—	—	—	—	(88)	(2,360)	(2,448)
Equity at 30 September 2023	**7,062**	**17,630**	**6,489**	**1,997**	**370**	**(31,562)**	**1,986**

The accompanying accounting policies and notes on pages 57 to 62 form an integral part of these financial statements.

Notes to the parent company financial statements

1. Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention basis.

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 (FRS 101) – The Reduced Disclosure Framework (March 2018), and with the Companies Act 2006.

Going concern

The Group had positive net assets at 30 September 2023 totalling £1.0 million compared to £3.0 million at the end of FY22. This reduction being mainly impacted by non-cash adjustments of £1.3 million of amortisation relating to intangible assets and £0.5 million of deferred interest relating to the loan note during the year.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the cost of living crisis together with the ongoing restructuring of the originally distressed Connect business, the Group reported a 19% percent improvement in underlying profitability as measured by Trading Group EBITDA[1] (2023: £1.9 million; 2022: £1.6 million). Cash inflow from operating activities before acquisition costs was £0.8 million (FY22: £1.0 million) although cash balances overall reduced by £0.7million.

The Strategic Report on pages 2 to 13 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the energy costs crisis and uncertainty caused by high inflation rate and the cost of living crisis.

In assessing the Group's ability to continue as a going concern, the Directors have reviewed the forecast sales growth, budgets and cash projections for the period to 30th April 2025, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months.

Based on these assumptions, the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements and accordingly continue to adopt the going concern basis in preparing these financial statements.

1.2 Compliance with accounting standards

The parent company has taken advantage of the reduced disclosure framework and has the following exemptions available to it:

- the exemption from preparing a statement of cash flows;
- the exemption from providing a reconciliation on the number of shares outstanding; and
- the exemption from disclosing key management personnel compensation.

1.3 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.4 Pensions

The Company does not currently offer a pension scheme for the benefit of its employees, although the Executive Directors participate in a pension scheme operated by CloudCoCo Limited, where their payroll costs are prepared before an element is recharged back to the Company.

1.5 Share-based remuneration

The Company issues equity-settled share-based payments to certain employees. The fair value of the shares granted is borne by the Company and is not recharged to the Company's subsidiaries. Share-based payments are calculated at the grant date, based on an estimate of the shares that will ultimately vest, using the Black Scholes model and in accordance with FRS 101.

1.6 Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty

Where there is indication of impairment, the debtors balance is impaired by a charge to the Company's Income Statement. The debtors' balance of £7.4 million (2022: £9.1 million) is recorded in the Company's Balance Sheet and relates to the amounts owed by subsidiary undertakings after impairment. At the end of each period, the minimum level of impairment provided is calculated such that the net assets of the Company are equal to the net assets of the Group excluding deferred tax liabilities relating to intangible assets. In addition, a full line-by-line review of the debtors is carried out for any further impairment. Whilst every attempt is made to ensure that the impairment provision is as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectable.

Notes to the parent company financial statements (continued)

1.7 Financial assets
Financial assets comprise amounts due from subsidiary undertakings and are initially recognised at fair value, plus transaction costs and subsequently measured at amortised cost. At the end of each reporting period, the Company assesses whether there is objective evidence of impairment. If there is objective evidence of impairment, the Company recognises an impairment loss in profit or loss immediately.

1.8 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Company becomes a party to the contractual provisions of the instrument. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost. In the financial statements at 30 September 2023, loan notes were treated as a compound instrument as if the options granted to the lender represented an option to convert loan notes into equity.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the Company Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Modification of the terms of a liability is accounted for as an extinguishment of the original liability and recognition of a new liability when the modification is substantial. A modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification.

1.9 Change in applicable accounting standard
During the year, the parent company transitioned from Financial Reporting Standard 102 (FRS 102) to Financial Reporting Standard 101 (FRS 101). This change was made to streamline reporting processes and align more closely with the financial reporting framework applicable to the Group, which prepares its consolidated financial statements under International Financial Reporting Standards (IFRS).

The transition to FRS 101 has been applied retrospectively. Accordingly, the comparative figures for the previous period have been restated to conform with FRS 101. This transition adheres to the requirements outlined in FRS 101 regarding the first-time adoption of this standard.

The analysis of the financial statements under both FRS 102 and FRS 101 revealed no material differences in the financial position, performance, or cash flows of the company. Therefore, the adoption of FRS 101 has not resulted in any adjustments to the company's financial statements for the current or previous reporting periods.

2. Auditor remuneration
Fees payable to the Company's Auditor for the audit of the parent company's annual accounts were £30,000 (2022: £53,000).

3. Employee costs
The average number of staff employed by the Company during the year was 5 (2022: 5). These were all Directors. The costs for the year were £408,000 (2022: £333,000). Further detail is provided in note 7 to the consolidated financial statements.

4. Pension payments
The Company made pension payments of £7,500 during the year (2022: £7,000). Further detail is provided in note 7 to the consolidated financial statements.

5.Share-based payments
The Company has share option plans for employees and there were movements in non-employee share options and warrants during the year. Further detail is provided in note 7 to the consolidated financial statements.

Notes to the parent company financial statements (continued)

6. Fixed asset investments

	£'000
At 1 October 2021	195
Additions	103
At 30 September 2022	**298**
Disposals	(63)
At 30 September 2023	**235**

Additions/disposals relate to the cost of share options awards to employees of the subsidiaries.

At 30 September 2023 the Company had one subsidiary undertaking.

Company	Country of registration or incorporation	Class of shares held	%
Subsidiary undertakings			
CloudCoCo Holdings Limited	Scotland	Ordinary	100

The aggregate amount of capital and reserves and the results of the subsidiary undertakings for the last relevant financial year was:

Company	Principal activity	Net liabilities £'000	Loss for the year £'000
CloudCoCo Holdings Limited	Intermediate holding company	11,084	9

At 30 September 2023, the Company had the following direct and indirect subsidiaries:

Active companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
CloudCoCo Holdings Limited	100%	Scotland	Ordinary	Holding company
Indirectly held				
CloudCoCo Limited	100%	England and Wales	Ordinary	IT Managed Services
Systems Assurance Limited	100%	England and Wales	Ordinary	IT Managed Services
More Computers Limited	100%	England and Wales	Ordinary	IT Hardware e-commerce
CloudCoCo Connect Limited	100%	England and Wales	Ordinary	IT Manged Services

Dormant companies

Indirectly held subsidiary company	Holding	Country of incorporation	Shares	Nature of business
Pinnacle CDT Limited	100%	England and Wales	Ordinary	Dormant
CloudCoCo Managed IT Limited	100%	England and Wales	Ordinary	Dormant
Ancar-B Technologies Limited	100%	England and Wales	Ordinary	Dormant
Nimoveri Limited	100%	England and Wales	Ordinary	Dormant
Nimoveri Holdings Limited	100%	England and Wales	Ordinary	Dormant

Nimoveri Limited being dormant, was dissolved on 6 February 2024.

Notes to the parent company financial statements (continued)

6. Fixed asset investments (continued)

For the year ending 30 September 2023 the following subsidiaries of the Company were entitled to exemption from audit under s479C of the Companies Act 2006. The Company having issued a parent guarantee to each of the subsidiaries below:

Subsidiary Name	Registered Office	Companies House Registration Number
CloudCoCo Holdings Limited	12/13 St Andrew Square, Edinburgh, EH2 2AF	SC102302
Systems Assurance Limited	Carwood Park, Selby Road, Swillington Common, Leeds,	02691103
More Computers Limited	Carwood Park, Selby Road, Swillington Common, Leeds,	04666684

For the year ending 30 September 2023 the following dormant subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006. The Company having issued a parent guarantee to each of the subsidiaries below:

Subsidiary Name	Registered Office	Companies House Registration Number
CloudCoCo Managed IT Limited	Carwood Park, Selby Road, Swillington Common, Leeds, LS15 4LG	06056115
Pinnacle CDT Limited	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	04613699
Ancar-B Technologies Ltd	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	03347248
Nimoveri Limited	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	04139442
Nimoveri Holdings Limited	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	11273706

Nimoveri Limited being dormant, was dissolved on 6 February 2024.

7. Debtors

	2023 £'000	2022 £'000
Amounts owed by subsidiary undertakings	**7,402**	9,047
Prepayments	**47**	30
Other taxes and social security costs	**22**	17
	7,471	9,094

The charge in the period for impairment of amounts owed by subsidiary undertakings was £0.8 million, (FY22: £0.7 million). The amounts owed by subsidiaries are unsecured, interest free and are repayable on demand.

8. Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	**235**	11
COVID-19 Bounce back loan repayable – short-term element	**10**	10
Accruals	**142**	215
Deferred consideration for the acquisition of CloudCoCo Connect – short term element	**50**	50
	437	286

Further detail on the COVID-19 Bounce back loan is provided in note 19 of the consolidated financial statements.

9. Creditors: amounts falling due in more than one year

	2023 £'000	2022 £'000
Loan notes	**5,242**	4,485
COVID-19 Bounce back loan repayable – long-term element	**18**	28
Deferred consideration for the acquisition of CloudCoCo Connect Limited – long term element	**125**	173
	5,385	4,686

Further detail on the COVID-19 Bounce back loan is provided in note 19 of the consolidated financial statements.

10. Financial instrument

The Company has loan notes in issue and further detail is provided in note 21 of the consolidated financial statements.

Notes to the parent company financial statements (continued)

11 Share capital and reserves

Share capital and reserves comprises the following:

- “Share capital” represents the nominal value of equity shares;
- “Share premium” represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;
- “Capital redemption reserve” represents the nominal value of cancelled Deferred Shares;
- “Merger reserve” represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions;
- “Other reserve” represents equity-settled share-based employee remuneration until such share options are exercised.
- Retained earnings reserve” represents retained profits and accumulated losses.

11.1 Share capital

Shares issued and fully paid

	2023 £’000	2022 £’000
Beginning and end of year	**7,062**	**7,062**
Shares issued and fully paid	**7,062**	**7,062**

The shares issued to the CloudCoCo Limited vendors were issued on behalf of CloudCoCo Holdings Limited in settlement of the consideration payable for the purchase of the entire issued share capital of CloudCoCo Limited.

Share capital allotted, called up and fully paid

	2023 No. Ordinary Shares	2022 No. Ordinary Shares
Beginning and end of year	**706,215,986**	706,215,986
End of year	**706,215,986**	706,215,986

11.3 Share premium

	2023 £’000	2022 £’000
Beginning of year	**17,630**	17,630
End of year	**17,630**	17,630

11.4 Capital redemption reserve

At the Company’s Annual General Meeting on 27 March 2015, the Company was authorised to enter into a contract for the off-market purchase of all of the Deferred Shares of £0.009 each in its capital for cancellation. A single new Ordinary Share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares created a capital redemption reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and it therefore may be used to distribute to shareholders or used to buy back shares.

11.5 Merger reserve

The merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

11.6 Other reserve

The Other reserve relates to share-based employee remuneration to be settled in equity. Further detail is provided in note 7 of the consolidated financial statements.

12. Related party transactions

There were related party transactions during the year. Further detail is provided in note 24 of the consolidated financial statements.

13. Contingent liabilities

There are no contingent liabilities at 30 September 2023 (2022: nil).

Notes to the parent company financial statements (continued)

14. Post Balance Sheet events

On 29 April 2024, MXC Guernsey Limited ("MXCG") agreed to extend the redemption date of the loan notes detailed in Note 21 from 21 October 2024 to 31 August 2026. Interest will continue to accrue on the loan notes at the current rate until redemption. All other terms of the loan notes remain the same.

As consideration for the extension, effective from 22 October 2024, MXCG will charge the Company a fee of £550,000 for providing the extension. Payment of this fee will be deferred until the redemption of the loan notes and it will accrue interest at the same rate as the loan notes. MXCG will also have the right to appoint a consultant to, or an Executive Director of, the Company's Board in addition to its current non-executive representative and will have the right at any time to increase its loan security in the form of a full debenture over all Group Companies.

Directors, Secretary and advisers

Directors

Simon Duckworth OBE DL
Non-Executive Chairman

Jill Collighan
Non-Executive Director

Andy Mills
Non-Executive Director

Darron Giddens
Chief Financial Officer

Company Secretary

Darron Giddens

Company number

05259846

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Nominated adviser and broker

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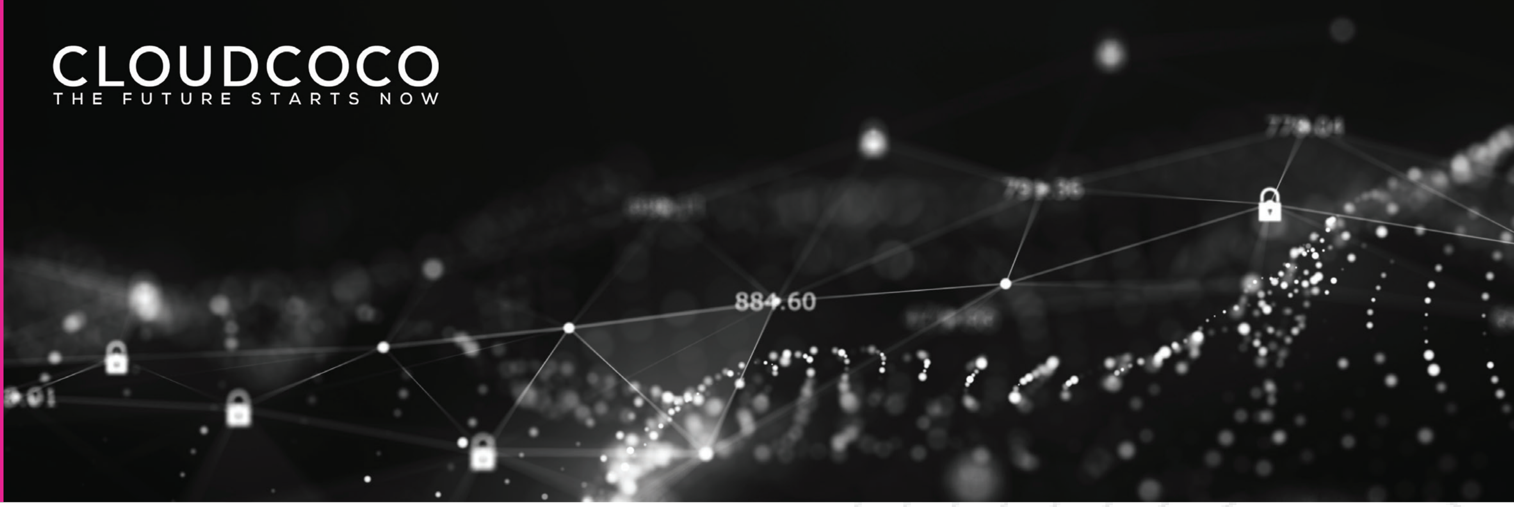
London
EC4N 8AF



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