

EXPONENTIAL-E LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 January 2023

Company Registration Number 04499567



Exponential-e Limited

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Exponential-e Limited

Directors, Officers and Advisers

Directors:

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M Bavisi
S Acott
C Christou
J Kyrillou
H B Pepperall
S Gray

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Company registration number:

04499567

Exponential-e Limited

Strategic Report

Business review

The principal activities of the business continue to be the provision of Network, Cloud, Unified Communications & Security managed services, across a large number of private and public sector clients.

The key alternative performance measures for the group are set out in the table below:

	Jan-23	Jan-22	YOY
Revenue	206,598,594	184,056,860	12%
Gross Margin %	53.9%	57.5%	
EBITDA	84,888,001	81,805,104	4%
Underlying EBITDA	86,040,545	82,995,848	4%
Profit Before Tax	18,751,456	18,708,497	0%
Sales - First Year Revenue	101,118,929	80,048,860	26%
Sales - Total Contract Value	157,644,244	133,627,788	18%
ARR	187,125,105	170,427,056	10%
Average Headcount	772	715	8%
Average Net Promoter Score	82	73	

Definition of alternative performance measures:

¹ Gross Margin % is defined as Gross Profit / Revenue expressed as a % (both as disclosed in the Consolidated Statement of Comprehensive Income)

² EBITDA is earnings before interest, tax, depreciation & amortisation

³ Underlying EBITDA is earnings before interest, tax, depreciation & amortisation excluding non-recurring costs (explained in more detail in Note 4)

⁴ Sales - First Year Revenue is the value of new contracts won, measured as the expected revenue relating to the first year of the contract

⁵ Sales - Total Contract Value is the total value of new contracts won

⁶ ARR – Is the sum of all revenue for managed service contracts for customers as at the measurement date.

⁷ Average Headcount is the average number of persons employed by the Group during the year (as disclosed in note 5)

⁸ Average Net Promoter Score is a customer satisfaction metric measured as the average of scores received from customers during the year

Combining the results of all Group companies, the directors are pleased to report a strong financial performance for FY 2022/23. Our sales teams secured new business wins totalling £101,118,929 of first year revenue with total contract value of £157,644,244 which is up 26% & 18% respectively, versus FY22, and supports the continued growth of our contracted revenues. During FY23 our annual contracted revenues comprised £187,125,105, or 91% of our total revenues for the year. The increasing sales performance combined with the first full year of Xpertex contribution, resulted in Revenue growth of 12% to £206,598,594 (FY22 £184,056,860).

The Gross margin rate was 53.9% in FY23, which is down from 57.5% in FY22, caused by three things; the competitive nature of the technology services markets in which we serve, the inflationary pressure we continue to see across our cost base, and the dilutive impact of consolidating the full year of Xpertex Ltd results.

To assess EBITDA growth, we need to adjust the reported EBITDA numbers, to arrive at an Underlying EBITDA which reflects the underlying operating performance of the Group. By simply adding back the non-recurring costs in the income statement, detailed in note 4, we can arrive at Underlying EBITDA. The table below sets out the bridge from reported EBITDA to underlying EBITDA:

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	2023	2022
EBITDA	84,888,001	81,805,104
Non-recurring costs	1,152,543	1,190,744
Underlying EBITDA	86,040,545	82,995,848

Underlying EBITDA has grown by 4% in FY23 to **£86,040,545** (FY22: £82,995,848). Ideally, we would have liked to have seen Underlying EBITDA grow in line with revenues at 12% in FY23. However, due to the decline in margin rates, and our decision to invest in new technical capability (adding 8% to our average headcount in the year), these factors compounded to reduce our growth rate to 4%. However, the Underlying EBITDA margin rate is a healthy 42%.

Profit Before Tax was up £0.1m in FY23, to £18,751,456. We continued to make significant capital investments during FY23 totalling £27,321,281 this consisted of £21,707,203 of investment in the infrastructure to support new customer contract wins and £5,614,078 into our core network.

Our NPS score is very important to us, as we value highly the feedback from our customers. The average score was 82 during FY23 up from 73 in FY22; a great external validation of the huge investments we make in placing the customer at the heart of everything we do. This is very positive and validates our strategy of delivering service excellence to our customers.

The Directors are pleased with the overall performance and outcome of the Group, whereby we have managed to sustain relatively strong growth metrics in Revenues & Underlying EBITDA during the financial year; especially when you consider the economic challenges, the investments that have been made, and the strong sales performance which will yield future revenue growth.

Net assets increased by £14,248,726 to finish on £47,948,963 in FY23, up 42.3% from FY22, as the profitable performance during the year strengthens our Balance Sheet.

At period end FY23, group cash balances were £18,266,927 and net debt was just £3,433,073, ignoring lease liabilities, giving us a net debt leverage of just 0.04x. This prudent leverage level, means we are well positioned to invest both organically & inorganically, to further enhance the value of our technology services.

Alternative performance measures are used by the Board of Directors to understand and manage performance of the business. These are defined above and have been included as management considers them to be important measures, relevant to all stakeholders, in assessing the historic performance of the business. In addition, the Group uses these metrics in developing its forecasts and strategic plans, to evaluate potential acquisitions, in communication to stakeholders & employees, and in communications with Directors concerning the Group's financial performance.

Business Performance 2022 - 23

During the year, we made significant and substantial contract wins including;

- (a) We won some significant new services contracts, with some large multi site retailers, with stores geographically dispersed across the UK. Some of these contracts were won with new customer logos, and others were with existing customer relationships. We are building quite a strong foothold in this segment; where we deliver a full network transformation across the retail footprint, delivering SD-Wan solutions, and ongoing management of the network.
- (b) We won a large public sector contract, to deploy a new software solution, and offer a bespoke 24/7 managed service, across a 5,000 seat user base. The public sector market has been a key focus area for us as a business.

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Future Developments

Exponential-e 5.0

We are progressing well with our 5.0 strategic goals :

- We have continued to invest, and build upon the skills we have across the group, to advance our security solutions, and expand our bench of security cleared engineers, helping us to gain further traction in the defence vertical.
- We remain as committed as ever to investing in our core connectivity solutions; investing to create our own fibre network in the South East, where we have a high density of customers.
- There are a number of internal digital transformation projects in flight, all aimed at making us more efficient, and looking to add more value in all of our customer touchpoints.
- We are investing in some new warehouse and configuration facilities, which will enhance our ability to deliver large multi site, rollout projects, where we do an infrastructure refresh as part of the onboarding phase.

R&D Activities

The Exponential-e Group dedicates time to researching and developing solutions and services, we are committed to continuing future investments across our Network and Cloud business units. To meet the growing demand, our investment within our cybersecurity portfolio is set to increase with the aim to launch our new portfolio of Military-Grade cybersecurity solutions with the expertise and help of Xpertex Ltd.

Principal risks and uncertainties

Over the FY23 period, the UK economic performance continues to be weak, with GDP growing at around 0.4%. On top of this weak growth, we have had to operate in an environment of high inflationary pressure, coupled with rising interest rates. Most recently the banking sector has come up under pressure as a result of the high interest rates, exposing the fragility of the banking sectors balance sheets, to bond prices.

i. Geo-Political & Macroeconomic risks

In the past year, we have seen the war in Ukraine continue to destabilise the global geo-political environment, and contribute to rising inflationary pressures. The CPI index has increased from 6.2% to 10.1% over the course of the financial year. This has led our suppliers to levy price increases upon us. For some of these costs we have managed to pass them onto our customers, but in other circumstances we have had to absorb these costs ourselves, and this has in part contributed to our declining gross profit margins seen.

Rising interest charges has had a negligible impact to our business, due to the very low level of debt and debt leverage we have across the group. Our net debt leverage at close for FY23 was 0.04x.

ii. Supply chains risks

As a Managed Services Provider, we are reliant upon multiple hardware component and software partners, to deliver innovative solutions, according to our customers timelines. As a consequence of the Global challenges for the supply of micro-chip components, many large vendors such as Cisco, Fortinet and Dell have continued to struggle to reduce their lead times, which can cause our service delivery timelines to be extended.

We continue to manage this risk as follows. Firstly, we are advising our customers to place orders for the hardware in advance. Secondly, we are spending a lot more time in procurement, chasing up deliveries,

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and/or sourcing substitute hardware. Thirdly, we are setting clear customer expectations early in the project, and planning our delivery activities, to ensure the lead times are taken into account.

Finally, we are also exploring new technologies, and for individual customers we are proposing alternative services, which utilise existing assets rather than the need to purchase new hardware.

iii. The Cyber Risk

We mitigate the cyber risk to the Exponential-e Group with a multitude of monitoring and defensive solutions supported by our own in-house Cyber Security Operations Centre (CSOC) team. Our CSOC team monitor the network 24x7x365. We have SIEM sensors at key locations, DDOS mitigation systems to protect our gateways, Cortex XDR, Anti-virus and Malware protection on all endpoints, Mobile Device Manage (MDM) on all mobile endpoints and MFA on all systems. The Group also holds a security forum meeting every two weeks, monthly vulnerability scans, an annual cyber security awareness training to all staff and a full annual IT health check performed. Additionally, the core data at the heart of our business, is replicated and distributed geographically.

iv. Staff recruitment risks

We continually work hard to mitigate these risks, ensuring our staff are paid competitively, and doing everything we can to make the workplace a fun and engaging environment, taking matters of staff welfare seriously, and supporting staff with their learning and development needs.

Part of this has been entering into harmonisation programmes to ensure all business entities are aligned and also reviewing additional benefits. During this time, the business has focused on wellbeing initiatives and aligned closely with our Employee Assistance Programme.

Over the last 12 months we have invested in new software for both the Recruitment and the Learning and Development Team. This has assisted in ensuring we can streamline recruitment and find the best talent as well as roll out World Class Learning Programmes.

v. Financial

The Group uses financial instruments including loans and items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The existence of these financial instruments exposes the Group to a number of financial risks which are described in more detail below.

The main risks arising from the Group's financial instruments are price risk, currency risk, cash flow interest rate risk, liquidity risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised as follows. These policies have remained unchanged from previous years.

Price risk

The directors manage price risk by matching the prices of inputs to sales contracts where this is possible through the supply contracts.

Currency risk

The Group is exposed to translation and transaction foreign exchange risk arising from the purchase of a small number of purchases in foreign currency. This risk relates to < 6% of our total purchases for FY 2022/23, by value. Any losses or gains are recognised as invoices are settled.

We do not have any risk, pertaining to our sales side, as over 99% of sales to customers are denominated in Sterling.

Cash flow interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The bank finance is provided through a combination of overdraft and revolving credit facility whereby the interest

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is variable based on a combination of SONIA and the Group's net debt ratio for the period of each drawdown. The directors monitor interest rate trends and will consider interest rate management when appropriate.

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. Short term flexibility is achieved by overdraft and revolving credit facilities of £70m. On the 9th May a new £100m financing facility was signed, giving us access to a £70m revolving credit facility, and a £30m accordion, on standby to support with organic and/or inorganic investments. The remaining £21.7m term loan will also be repaid utilising the revolving credit facility. The agreement is a 3 year term with the option to extend to 5 years in totality.

Credit risk

The Group's principal financial assets are cash and trade debtors. The credit risk associated with the cash is limited as the counterparties have high credit ratings. The principal credit risk arises, therefore, from its trade debtors.

In order to manage credit risk, the directors set limits for customers based on a combination of payment history and third-party credit references. Our credit control team, are constantly reviewing the aged debt profile of our customer ledgers, working with our customers and internal teams, to resolve their queries, in order to facilitate payment from our customers. The revenue across our customer base is well distributed, with no single customer contributing more than 2% (2022: 2.0%) of Group revenues.

Duty to promote the success of the Company

Section 172 of the Companies Act 2006 requires the Directors to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

- a) The likely consequences of any decision in the long term;
- b) The interests of the company's employees;
- c) The need to foster the company's business relationships with suppliers, customers and others;
- d) The impact of the company's operations on the community and the environment;
- e) The desirability of the Company maintaining a reputation for high standard of business conduct;
- and
- f) The need to act fairly as between member of the company.

The Board confirms that, during the year, it has had regard to the matters set out above. Further details as to how the Directors have fulfilled their duties with references to relevant areas within these financial statements, are set out below.

Risk Management

The Board recognises the importance of identification, evaluation and management of the Group risks. Details of the principal risks and uncertainties of the Group are set out on pages 6-7.

Employees

The Board is committed to the company being a responsible employer and strives to create a working environment where employees are engaged, informed and involved. The company's employment policies and related information is set out on page 11.

Community and the environment

The Board recognises their responsibilities to achieving good environmental practice and making positive contributions to the community, this is demonstrated on page 13/14 by our ISO standards ISO14001:2015 Environmental Management system and ISO50001: 2011 Energy Management system.

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Business conduct and relationships

The Board recognises the importance of a strong culture that considers the best interest of its employees, business partners and shareholders. The Board recognises its responsibilities to other external stakeholders including its clients, contractors and suppliers. Its strong relationships with its clients are critical to driving growth and this is demonstrated by our investments and NPS score set out on page 4 and our ISO standards set out on page 13/14.

This report was approved by the Board on 26th May 2023 and signed on its behalf.



Mr L F Wade

CEO

Date 26th May 2023

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Directors' Report

The directors present their report and the financial statements for the year ended 31 January 2023.

Directors

The Directors who served the Group during the year were as follows:

LF Wade
M Bavisi
S Acott
C Christou
J Kyrillou
H B Pepperall
S Gray

Dividend

In April 2022 the Board approved and paid a Dividend of £2,438,538.

Items covered in the Strategic Report

The business review on pages 4-7 includes a summary of recent financial performance, principal business activities, future developments and R&D activities, and financial risk management disclosures are included within the Strategic Report on page 7-9.

Stakeholder engagement

Supplier engagement:

At Exponential-e, we have developed a robust process of managing existing, as well as new, suppliers to mitigate risk within our wider supply chain and ensure compliance with legislation, industry standards and best practices.

Whilst the need to on-board new suppliers may originate from any area of the business, the process of doing so is overseen and carried out centrally within the Procurement department, who apply a comprehensive set of end-to-end checks and balances to ascertain the need for a new supplier to be brought on-board, as well as the inherent risk level carried by the new product or service, which in turn determines the legal agreement framework type to be used, the key risk areas to capture, as well as the level of Legal involvement in the process. All new suppliers who wish to partner with Exponential-e are asked to sign up to our standard terms of purchase.

Tier 1 as well as Tier 2 suppliers are required to participate in Exponential-e's compliance programme, which centres itself around a set of over 200 controls spanning HR security, data protection, financial risk, environmental, social and governance (ESG), business resilience and others. To achieve this, Exponential-e has partnered with Risk Ledger, a third party acting as a community of suppliers and buyers alike, whereby buyers have the ability to evaluate suppliers' compliance with these requirements.

Customer engagement:

We believe that an engaged, highly committed and motivated workforce is an essential part for delivering a world class customer service to our clients. Our teams deliver on this promise, ensuring the levels of service to our customers across a wide portfolio of services are the best in class. Our willingness to go the extra mile is testament to our teams' dedication, and rewards us with the reputation we have worked hard to achieve over the past 20 years as 'world class IT enablers' (Quote: BSI November 2017). Hence,

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we are pleased to see our Net Promoter Score average at 82 during the financial year, this sets us apart in our sector at the pinnacle of customer service leadership.

We are constantly striving to improve our products and services along with our customer support services by continually investing in new services, portals, training and enhancements to existing customer engagement facilities.

Employee information

The Group recognises that the contributions and dedication of its employees is at the heart of its success.

The company has an open policy on disseminating information to employees, and by way of example:

- The monthly sales and operational figures are published on the intranet, which is accessible to all.
- Financial information is made available monthly to managers, who are encouraged to share this information with their team.
- A monthly newsletter is circulated to all employees and customers.
- An annual presentation event is run where the Directors summarise the company's past performance and future plans as well as share the great employee achievements over the past year.
- A monthly pulse survey to encourage engagement across the business.

We run an employee engagement survey each year, then this is followed up by focus groups to discuss the key issues that the survey reveals. The comments made at these group meetings are then fed back to senior management on an anonymous basis and actions agreed.

As the business emerged from Covid-19 lockdowns, employees were engaged to understand preferences on working practices going forwards. Following feedback from employees, a hybrid-working policy was introduced in 2021 and we have continued to work efficiently in this manner.

Exponential-a is keen on training its staff, the company uses both internal and external trainers to run these courses and has the following programmes in place:

- An academy where new recruits are identified and put through a full time training programme for 8 weeks. They are mentored throughout this programme and into their new roles within a Sales team, if successful.
- All staff go through an annual review process where their progress is assessed, and at which they can discuss further job specific training.
- Exponential-e sponsors staff who wish to acquire professional qualifications (such as ACCA).
- A training programme focused on delivering an enhanced customer service.
- Exponential-e runs management academy programmes each year, with a handful of managers, being selected to enrol onto the Cranfield MBA programme.

Disabled persons

The Group operates on an equal opportunities basis regarding employees with disabilities, ensuring that individuals are treated equally and fairly, and that decisions over recruitment, training, promotion & career development are based solely on objective, job-related criteria.

Going Concern

The financial statements report a net asset position of £47,948,963 (2022: £33,700,236).

In considering the going concern assumption, the Directors have reached their conclusion based on assessing future trading forecasts to the end of May 2024 as well as the balance sheet position at the date of signature of the financial statements.

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The Group's business activities, its principal risks and uncertainties, together with details of its financial instruments, exposure to credit & liquidity risk, and its approach to financial risk management, are set out in the Strategic Report. The financial position of the Group and its cash flows are set out in the financial statements below.

The Group has a high degree of certainty on future revenue generation, thanks to a very high proportion of its revenue being derived from long-term contracts across a large number of customers and industries. Having achieved a record sales year in FY 2022/23, the Group expects to see growth in revenue in FY 2023/24 as the pipeline of contracts won are delivered and begin to generate revenue & cash. The FY 2023/24 forecast is therefore for continued growth, supported by this strong pipeline of deliveries and future sales.

In spite of the risks inherent in its market and the wider economy, the directors believe that the Group is well placed to manage its business risks successfully, and the Group is comfortable that it has adequate facilities in place to meet its financial obligations as and when they fall due, with £18.3m cash as at 31 January 2023, and at the point of signing these financial statements we have a £70m revolving credit facility of which £48m remains undrawn.

The Group performs detailed forecasting and extensive scenario analysis, to understand the expected future performance of the business and its resilience to risks.

A sensitivity analysis and reverse stress test has been performed by the Group, assessing a range of key inputs across each of the Groups' entities, resulting in a range of outcomes of financial performance and cashflow for the 12 months following the date of signature of these financial statements.

The sensitivity analysis factors in two main drivers: new business sales measured as 'first year revenue', and the rate of customer cancellations. Having performed a reverse stress test it was determined that the set of conditions required to result in the Group not being able to operate as a going concern are extremely unlikely. As such the directors are confident that the assumptions underlying the Group's forecasts are reasonable and that the Group will be able to operate on a going concern basis.

Directors' Indemnities

During the year there were no qualifying third-party indemnity provision policies or qualifying pension scheme indemnity provision policies in place.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements and parent company financial statements in accordance with UK-adopted international accounting standards. 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

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

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- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

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

To the best of our knowledge:

- the Group financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole; together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' report is approved have confirmed that:

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

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

Group accreditations and frameworks

We operate the business within a disciplined managerial structure and with process and governance in place that allows the Group to attain and maintain a number of recognised accreditations and places on key frameworks.

ISO 9001:2015 Quality Management Systems:

This is one of the most sought after 'good corporate governance' accreditations. It is recognised globally for providing Quality Assured service to our customers.

ISO 27001 :2013 Information Security Management Systems:

We are accredited to ensure our customers' information is managed with levels of confidentiality, security and integrity.

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ISO 20000:2018 Service Management System:

Exponential-e provide world-class IT Service Management to our customers.

ISO 22301:2019 Business Continuity Management System:

This enables us to develop a best practice approach for reducing disruptions when continued operation is vital.

ISO14001:2015- Environmental Management System:

This sets out the criteria for an EMS and to reduce waste management costs and demonstrate commitment to protecting the environment.

ISO50001: 2019- Energy Management System:

The enables an organisation to follow a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy security, energy use and consumption.

ISO CSA STAR - Cloud Security

Exponential-e is the first European CSP's to achieve CSA Star Certification from BSI. It provides our customers with the extra confidence that their data is fully protected by improving transparency and assurance within the Exponential-e Cloud.

ISO27017 - Private Cloud Security

This sets out guidelines for information security controls applicable to the provision and use of cloud services by providing additional controls with implementation.

ISO45001 – Occupational Health & Safety

This sets out guidelines for improving employee safety, reducing workplace risks and creating better, safer working conditions.

8510012: 2017 - Data Protection

This certification supports our information governance strategy, helping us respond to immediate and future regulatory, legal, risk and operational requirements.

Cyber Essentials Plus - Information Assurance

This is a government-backed, industry supported scheme to help organisations protect themselves against common cyber-attacks.

SOC 2 Type 2 – Certified

This is a compliance standard, which specifies how organisations manage customer data. The standard is based on the following Trust Services Criteria: security, availability, processing integrity, confidentiality, privacy.

HSCN - Health and Social Care Network

This is a new data network for health and care organisations which provides the underlying network arrangements to help integrate and transform health and social care services by enabling them to access and share information more reliably, flexibly and efficiently.

PCI DSS - Service Provider

This is a set of comprehensive requirements for enhancing network security. It is a multifaceted security standard that includes requirements for: Security management, policies and procedures, network architecture and their critical protective measures.

Safe Contractor - accreditation scheme checks that organisation meet the necessary requirements around health and safety, equal opportunities, diversity and environmental management practices – all in one plan. So that clients can be confident about you and reduce risk in their supply chain.

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Carbon and energy reporting

Streamlined energy and carbon reporting

The Board at Exponential-e recognises their responsibilities for achieving good environmental practice and making positive contributions to the community. Exponential-e is committed to achieving Net Zero emissions for the reporting period 2030 at the latest.

Exponential-e are certified to ISO 14001 and ISO50001 and operate an Environmental Management System to continually improve its energy efficiency and overall environmental performance. This has led to significant energy usage reductions since the baseline (Baseline set 1st January 2017 – 31st December 2017) via more low-energy use appliances, efficient temperature management and embracing technology that further enables improvements such as virtualisation of data centres.

Other key initiatives we have implemented to reduce its carbon footprint include reducing paper use, safe management of WEEE and hybrid remote working to reduce the need for business travel. The 'Green Team' are a group within Exponential-e that pro-actively engage with staff and incentivise their contribute to sustainability. To further reduce our carbon footprint in the future we are exploring the feasibility to increase EV charging capacity at company premises and to integrate carbon footprint as a key consideration when selecting suppliers.

During the financial year Exponential-e launched the Electric Vehicle Scheme. This is part of our ongoing review of benefits package together with our commitment to the Sustainability Strategy. We have partnered with Octopus Electric Vehicles, who are helping people transition to cleaner, fairer transport, an environmental goal that Exponential-e believe in. It offers employees an all-in-one, easy to manage and affordable brand-new zero-emission electric vehicle package in return for sacrificing an amount from their salary.

Boundaries of reporting

The following report has been produced based on the Exponential-e Company. Vysion Limited and Xpertex Limited have been excluded from this as each subsidiary does not meet two or more of the conditions stated in order to report on its own account. The data within this report covers the calendar year Jan-Dec 2022, and therefore covers 11 months of FY 2022/23, and 1 month of FY 2021/22, which will not materially impact the conclusions.

Methodologies used within the calculation:

Green House Gas (GHG) emissions have calculated in-line with ISO14064:1 methodology and presented in a GHG Inventory displaying specific sources of emissions, sub-divided into Scope 1, Scope 2 and Scope 3 as defined in the GHG Protocol. UK conversion factors from the Department for Business, Energy and Industrial Strategy were used to convert metrics into kilograms of carbon dioxide equivalent (kgCO₂e) as well as directly into kg of carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O) where appropriate. Emissions are calculated by multiplying the metric (e.g., kWh or miles driven) by the appropriate conversion factor.

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	TOTAL (tCO₂e)	Included Sources
Scope 1	N/A	No Scope 1 emissions were recorded in the Baseline. No vehicles are owned by the company, so no mobile combustion occurred. No form of stationary combustion was recorded as no gas is used at company premises for heating or other purposes. Data on fugitive emissions is currently unavailable but Exponential e are currently liaising with the landlord to establish if any leaks from refrigerant systems have occurred.
Scope 2	104.98 tCO ₂ e	Electricity consumption (head office)
Scope 3	81.27 tCO ₂ e	Electricity consumption (working from home and hotel stays) Travel by staff conducting activities on behalf of Exponential-e, in vehicles not owned by Exponential-e. Modes of transport included in the baseline are: - Flights - Cars (grey fleet) - Taxi journeys - Rail (national & international) - Rail (London underground & overground)
Total Emissions		Paper consumption (printing) Waste disposal and treatment Transmission and distribution losses in the electrical grid 186.25 tCO₂e

Exponential-e have set the following absolute reduction targets based on its most significant emission sources.

- Reduce emissions associated with electricity consumption at head office by 5% each year (36.64 tCO₂e reduction by 2025 compared with 2019)
- Reduce emissions associated with flights for business purposes by 50% by 2025 compared to 2019 (5.56 tCO₂e reduction)
- Reduce emissions associated with use of cars for business purposes by 10% by each year relative to 2019 levels by 2025 (44.24 tCO₂e reduction)

Post balance sheet events

On the 9th May 2023, a new £100m financing facility was signed. Giving us access to a £70m revolving credit facility, of which £22.1m was utilised to repay both the term loan and settle the arrangement fees. A £30m accordion, on standby to support with organic and/or inorganic investments. The agreement is a 3 year term with the option to extend to 5 years in totality.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

Henry Pepperall

Mr H B Pepperall

Director

Date 26th May 2023

Company registration number: 04499567

Exponential-e Limited

Independent Auditor's Report to the members of Exponential-e Limited

Opinion

We have audited the financial statements of Exponential-e Limited (the 'parent company') and its subsidiaries (the 'group') for 31 January 2023, which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of finance position, the consolidated and parent company statement of changes in equity, consolidated statement of cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice)

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2023 and of the group's profit for the year then ended;
- the groups 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 Generally Accepted Accounting Practice; 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 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the 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.

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

Exponential-e Limited

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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of 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.

Matter on which we are required to report under the Companies Act 2006

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.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

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Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and parent company and sector in which they operate. We determined that the following laws and regulations were most significant: UK-adopted International accounting standards in conformity with the requirements of the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice, Companies Act 2006 and UK taxation laws.
- We understood how the Group and parent company is complying with those legal and regulatory frameworks by making inquiries of the finance team, those responsible for compliance procedures, Human Resources and management. We corroborated our inquiries through our review of board minutes, walkthroughs performed with management and other supporting documentation.
- We assessed the susceptibility of the Group and parent company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - obtaining an understanding of the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgments made by management in its significant accounting estimates;
 - identifying and testing journal entries with our data interrogation software where each risk category was scoped with journals of large value, journals posted on or after 31st January 2023, journals with a blank description and journals by senior financial reporting personnel and material journals posted to cash being the key considerations;
 - testing the completeness of the Group and parent company's related party transactions and testing that these transactions had a valid business purpose;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
 - held discussions with those outside the finance team including the entity's in-house legal representatives.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations through the following:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the industry in which the client operates
 - understanding of the legal and regulatory requirements specific to the entity including:
 - the provisions of the applicable legislation
 - the regulators rules and related guidance, including guidance issued by relevant authorities that interprets those rules
 - the applicable statutory provisions.

Exponential-e Limited

- We enquired of management and the board, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. None were noted.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.



Paul Naylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
26th May 2023

Exponential-e Limited

Consolidated Statement of Comprehensive Income

	Notes	2023 £'000	2022 £'000
Revenue	2	206,599	184,057
Cost of Sales	4	<u>(95,282)</u>	<u>(78,217)</u>
Gross profit		111,317	105,840
Other operating income	3	-	137
Other administrative expenses	4	(88,134)	(83,310)
Non-recurring administrative expenses	4	(1,153)	(1,191)
Total administrative expenses		(89,287)	(84,501)
EBITDA		84,888	81,805
Depreciation and amortisation	4	(62,858)	(60,329)
Operating profit		22,030	21,476
Finance income	6	16	0
Finance expense	6	(3,294)	(2,767)
Profit before tax		<u>18,752</u>	<u>18,709</u>
Tax expense	7	<u>(3,008)</u>	<u>(4,047)</u>
Profit for the financial year		<u>15,744</u>	<u>14,662</u>

There were no other items of comprehensive income during the periods under review and hence the Group has not presented a separate statement of other comprehensive income. The notes to these financial statements form an integral part of these financial statements.

Exponential-e Limited

Consolidated Statement of Financial Position

	Notes	At 31 January 2023 £'000	At 31 January 2022 £'000
Assets			
Non-current assets			
Goodwill	8	21,484	21,484
Intangible assets	9	10,224	11,466
Property, plant and equipment	10	53,420	42,552
Right of Use Assets	10	86,605	74,956
		<u>171,733</u>	<u>150,458</u>
Current assets			
Inventories	12	1,160	1,597
Trade and other receivables	13	69,498	48,146
Current tax receivable		10,755	8,102
Cash and cash equivalents	14	18,267	12,782
		<u>99,680</u>	<u>70,627</u>
Current liabilities			
Trade and other payables	15	35,445	31,086
Deferred income	19	44,439	39,132
Lease liabilities	17	24,458	17,406
Borrowings	18	3,700	11,200
Deferred consideration		0	541
		<u>108,042</u>	<u>99,365</u>
Non-current liabilities			
Deferred income	19	43,241	19,469
Lease liabilities	17	45,177	41,587
Borrowings	18	18,000	21,700
Provisions	16	2,265	1,908
Deferred tax	7	6,739	3,356
		<u>115,422</u>	<u>88,020</u>
Net Assets		<u>47,949</u>	<u>33,700</u>
Equity			
Share capital	24	32	32
Share premium		1,268	1,202
Share based payment reserve		2,313	1,435
Capital redemption reserve		25	25
Retained earnings		44,311	31,006
Equity attributable to owners of the Parent Company		<u>47,949</u>	<u>33,700</u>

The notes to these financial statements form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for their issue on 26th May 2023 and were signed on its behalf by:

Henry Pepperall

Mr H B Pepperall
Director

Registered number: 04499567

Exponential-e Limited

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 February 2021	31	1,136	434	25	18,559	20,185
Profit for the year					14,663	14,663
Total comprehensive income	-	-	-	-	14,662	14,663
Issue of shares	1	66				67
Dividends					(2,216)	(2,216)
Share based payments			1,001			1,001
Total transactions with owners	1	66	1,001	-	(2,216)	(1,148)
At 31 January 2022	32	1,202	1,435	25	31,006	33,700
	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 February 2022	32	1,202	1,435	25	31,006	33,700
Profit for the year					15,744	15,744
Total comprehensive income	-	-	-	-	15,744	15,744
Issue of shares	0	66	-	-	-	66
Dividends	-	-	-	-	(2,439)	(2,439)
Share based payments	-	-	878	-	-	878
Total transactions with owners	0	66	878	-	(2,439)	(1,495)
At 31 January 2023	32	1,268	2,313	25	44,311	47,949

Exponential-e Limited

Consolidated Statement of Cash Flows

	Notes	2023 £'000	2022 £'000
Cash flow from operating activities			
Profit for the financial year before tax		18,752	18,709
Finance income	6	(16)	(0)
Finance expense	6	3,294	2,767
Share-based payments	25	878	784
Depreciation of PPE	10	59,042	56,615
Amortisation of Intangibles	9	2,753	2,850
Impairment of intangibles		448	398
Loss on disposal of assets		616	526
Tax paid		(2,278)	(5,352)
		<u>83,489</u>	<u>77,297</u>
Changes in working capital			
Decrease in inventories		438	183
(Increase) in trade and other receivables		(21,353)	(5,458)
Increase in trade and other payables		33,794	6,441
		<u>16,879</u>	<u>1,266</u>
Net cash used in operating activities		<u>96,368</u>	<u>78,463</u>
Cash outflow from investing activities			
Purchase of intangible assets	9	(2,210)	(2,172)
Purchase of property, plant & equipment	10	(25,111)	(21,467)
Cash paid for business combinations		-	(6,391)
Cash acquired in business combinations		-	1,185
Deferred consideration paid for previous business combinations		(541)	(541)
Finance income		16	0
		<u>(27,846)</u>	<u>(29,386)</u>
Net cash used in investing activities		<u>(27,846)</u>	<u>(29,386)</u>
Cash flow from financing activities			
Issue of ordinary shares	24	66	67
Dividends paid		(2,439)	(2,216)
New loans received	18	0	3,250
Repayment of loans	18	(11,200)	(3,700)
Capital payments on lease liabilities	18	(46,170)	(43,680)
Interest paid on lease liabilities	18	(2,209)	(1,934)
Other interest paid		(1,085)	(833)
		<u>(63,037)</u>	<u>(49,046)</u>
Net cash generated by financing activities		<u>(63,037)</u>	<u>(49,046)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of financial year	14	12,782	12,752
Forex		0	(1)
Cash and cash equivalents at end of financial year	14	<u>18,267</u>	<u>12,782</u>

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Notes to the consolidated financial statements

1. Principal Accounting Policies

1.1 Company information

Exponential-e Limited is a private company limited by shares and incorporated in England and Wales. Its registered head office is located at 100 Lemn Street, London, E1 8EU. The Company's subsidiaries listed in note 11, together with the Company, form the Exponential-e Limited group ("the Group").

1.2 Basis of preparation

These financial statements for the year ended 31 January 2023 have been prepared in accordance with IFRS.

The consolidated financial statements are presented in Sterling which is the functional currency of the Company and rounded to the nearest £'000s.

The preparation of these consolidated financial statements requires management to make certain estimates and assumptions. Critical estimates and judgements are detailed in note 1.21 of these accounting policies.

The consolidated financial statements present the results of the Company and its own subsidiaries as if they form a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

The consolidated financial statements present the results of the Group for the 12 month period ending 31 January 2023.

1.3 Going Concern

The financial statements report a net asset position of £47,948,963 (2022: £33,700,236).

In considering the going concern assumption, the Directors have reached their conclusion based on assessing future trading forecasts to the end of May 2024 as well as the balance sheet position at the date of signature of the financial statements.

The Group's business activities, its principal risks and uncertainties, together with details of its financial instruments, exposure to credit & liquidity risk, and its approach to financial risk management, are set out in the Strategic Report. The financial position of the Group and its cash flows are set out in the financial statements below.

The Group has a high degree of certainty on future revenue generation, thanks to a very high proportion of its revenue being derived from long-term contracts across a large number of customers and industries. Having achieved a record sales year in FY 2022/23, the Group expects to see growth in revenue in FY 2023/24 as the pipeline of contracts won are delivered and begin to generate revenue & cash. The FY 2023/24 forecast is therefore for continued growth, supported by this strong pipeline of deliveries and future sales.

In spite of the risks inherent in its market and the wider economy, the directors believe that the Group is well placed to manage its business risks successfully, and the Group is comfortable that it has adequate facilities in place to meet its financial obligations as and when they fall due, with £18.3m cash as at 31 January 2023, and at the point of signing these financial statements we have a £70m revolving credit facility of which £48m remains undrawn.

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The Group performs detailed forecasting and extensive scenario analysis, to understand the expected future performance of the business and its resilience to risks.

A sensitivity analysis and reverse stress test has been performed by the Group, assessing a range of key inputs across each of the Groups' entities, resulting in a range of outcomes of financial performance and cashflow for the 12 months following the date of signature of these financial statements.

The sensitivity analysis factors in two main drivers: new business sales measured as 'first year revenue', and the rate of customer cancellations. Having performed a reverse stress test it was determined that the set of conditions required to result in the Group not being able to operate as a going concern are extremely unlikely. As such the directors are confident that the assumptions underlying the Group's forecasts are reasonable and that the Group will be able to operate on a going concern basis.

1.4 Revenue Recognition

Revenue represents the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The Group applies the IFRS 15 principles-based, five step model to all contracts, as follows:

- Identify the contract with the customer
- Identify the distinct performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract, on a relative stand-alone selling price basis
- Recognise revenue when the entity satisfies its performance obligations

Managed Services

The majority of the Group's revenue is comprised of multi-period contracts for managed services.

The Group provides customers with a variety of IT managed services, predominantly leveraging Exponential-e's core network infrastructure to provide a backbone of network connectivity services, with additional or standalone Cloud, Unified Communications & Collaboration, Security & Managed services.

The Group enters into customer contracts to provide multiple service types, which are setup and commence at different points in time. In such cases, the Group considers each individual service to be a distinct performance obligation, which begins to be satisfied when the individual service goes live. This is on the basis the customer is able to benefit and use each service provided independently of the other services which have been promised in the contract.

The delivery of such services often comprises installation components such as the provision of professional services, consultancy and engineering services in order to setup and install the service. In such cases, the installation components are not deemed to constitute a distinct performance obligation because no distinct good or service is transferred to the customer, but instead are a necessary setup activity to enable the provision of the ongoing managed service. Therefore amounts billed in respect of this part of the work are allocated to the service performance obligation to which they relate.

For such managed service contracts, the price allocated to each service line is based on its standalone selling price. Revenue is recognised on a straight-line basis over the contracted service period, as the customer benefits and consumes the service evenly over that time, and elements such as support are always available and utilised evenly over the contract term.

Some managed service contracts contain an element of usage-based charges, and customers may request additional services or changes in scope, both resulting in additional charges. Usage-based charges are typically billed in arrears, in the period subsequent to which the usage takes place, and revenue is therefore accrued in the month which usage takes place. For changes in scope or additional services, a new distinct contract is entered into, with revenue recognised as above.

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Typically, installation activities are billed at the commencement of the contract, and ongoing managed service provision is billed monthly or quarterly in advance. Payment is generally due 30 days after invoice date. Where amounts billed to customers are in advance, Deferred Income is recognised and released when the revenue is recognised. When revenue is billed in arrears, a contract asset is recognised and released when the revenue is billed. If revenue is billed following completion of a performance obligation, an unbilled receivable is recognised and released when the revenue is billed.

Due to the homogenous nature of managed service contracts, the Group has elected to apply the practical expedient in IFRS 15.4, and apply the Standard to a portfolio of contracts. To minimise the possibility of misstatement, the Group separately analyses a small number of “bespoke” contracts deemed to be of a significant value or complexity and therefore having sufficiently different characteristics to be considered not part of the portfolio. For the remaining portfolio, whilst individual services within each contract may be installed and commence at different times, the Group uses an estimate of the commencement date for all services within the Portfolio, based on historic delivery data, in order to determine the date at which revenue recognition should begin. For further information regarding critical judgements in the consideration of performance obligations, identification of “bespoke” contracts, and the estimate of commencement date, see note 1.21.

In its provision of managed services, the Group typically deploys hardware to either customer sites or its own sites, which is configured for use in providing the managed service. Control of such hardware remains with the Group, and the Group may retrieve hardware at the end of a service contract and redeploy the hardware on subsequent contracts. The Group has made a judgement that the hardware it deploys is an integral part of the service delivery to the customer, and the deployment of such hardware is not considered to be a separate lease arrangement with the customer.

When the initial term of a contract ends, if a customer does not terminate the original contract nor agree a renewal for a subsequent term, then the contract rolls beyond its initial term and ongoing billings continue at the same price and are recognised as earned. Where a contract is renewed for a subsequent term, a new commercial arrangement is agreed with the customer, often with new services or upgrades added or old services removed, and as such the contract renewal is a new contract comprising new performance obligations, with revenue recognised as outlined above. For the vast majority of contracts there are no material rights to account for at the outset of the initial contract.

Professional Services & Project Activities

The Group provides Professional Services activities, such as consultancy or engineering services, on a standalone basis and distinct from the provision of any managed service contract. In addition, the Group delivers project activities, often to install and configure IT or Networking infrastructure, but with no associated ongoing managed service provision. There is usually only one performance obligation, being the specified Professional Services or Project work.

In cases where there is a standalone Professional Services or Project engagement, with no ongoing service component, arrangements are assessed for whether control passes over the course of the work’s performance or only when it is completed. If control passes as the work is performed, such that the customer receives and consumes benefits as work is performed or the Group has a right to payment for work completed to date, then this is reflected in revenue recognition over time; if control and benefits do not pass during delivery but only on completion then revenue is recognised on completion. Revenue recognised over time on Professional Services and Project activities is on an input basis, looking at the Group’s costs incurred in providing the services as a percentage of anticipated total costs.

Professional Services and Project work are billed either in advance of the work being performed, or in arrears following completion of the project or pre-agreed delivery milestones. When revenue is billed in advance of the work being completed, a contract liability is recognised and released when the revenue is recognised. When revenue is billed in arrears, a contract asset is recognised and released when the revenue is billed. If revenue is billed following completion of a performance obligation, an unbilled receivable is recognised and released when the revenue is billed. Payment is generally due 30 days after invoice date.

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Product Sales

The Group sells hardware & software licenses that is sourced from and delivered by multiple vendors and distributors. For such sales, there is a single performance obligation, being the delivery of the product as specified in the order.

Revenue is recognised at a point in time when control passes to the customer, that is, when the product is delivered to and received by the customer. Revenue is billed either in advance, or in arrears following delivery of the product, with payment generally due 30 days after invoice date.

Where a Group company resells products to customers, an assessment is made as to whether the company is acting as principal or agent. This assessment is based on when control passes from the original supplier to the company, and also takes into account other factors in IFRS 15 such as the company's ability to set its own prices and its assumed responsibility for after sales support. There have been no situations identified, based on these assessments, where the directors have concluded a Group company is acting as agent rather than principal.

Costs to obtain and fulfil a contract

IFRS 15 requires incremental costs incurred to obtain a contract and costs to fulfil a contract not within the scope of another Standard, to be recognised as an asset and amortised over the period consistent with the transfer of services to the customer.

In obtaining contracts, the Group incurs commission costs payable to sales staff. These costs are capitalised as an asset and recognised as an expense only when the associated revenue is recognised.

In fulfilling contracts, the Group incurs costs relating to the installation activities and setup of an ongoing managed service, such as internal engineering costs and 3rd party subcontracted works. These costs are capitalised as a contract asset and recognised as an expense only when the associated revenue is recognised and only where the costs relate directly to a contract that can be specifically identified.

1.5 Other Operating Income

Government grants received relating to the Covid-19 pandemic are included in other operating income in the same periods as the costs for which they are intended to compensate.

R&D tax claims made under the RDEC scheme are included in other operating income in the period in which the claim is made and received.

1.6 Non-recurring items

Non-recurring items are administrative expenses which, because of the nature and expected infrequency of events giving rise to them, merit separate presentation to allow stakeholders to understand better the elements of financial performance in the period, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

1.7 Leases

The Group makes use of leasing arrangements for a variety of right-of-use assets, including Core Network Infrastructure, Customer Infrastructure and equipment, Datacentre Rackspace, Office Buildings and Motor Vehicles, where the Group has a right to control the use of such identified assets for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

The lease liability is presented as a separate line in the statement of financial position, and is initially measured as the present value of the fixed & in-substance fixed lease payments not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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Right-of-use assets are recognised in the relevant category of Property, Plant and Equipment, and comprise the initial measurement of the corresponding lease liability, prepayments made on the lease at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

For Datacentre Rackspace, Office Building and Motor Vehicles, the lease term used for calculating the future payments is based on the contractual period for which the Group can continue in the lease and would suffer penalties for terminating the lease earlier.

For Core Network Infrastructure and Customer Infrastructure and equipment, the Group typically enters into contracts with a rolling arrangement which allows ongoing use of a right-of-use asset beyond the initial contracted term. Due to the fact that Core Network Infrastructure and Customer Infrastructure and equipment is often utilised to deliver multiple services to multiple customers, and the Group has reasonable certainty that it will not exercise an option to terminate such leases at the end of the initial term, the Group estimates the lease term used for calculating the future payments of such leases. For further information regarding this critical estimate, see note 1.21.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with service charges at Office Buildings, and servicing and repair contracts in respect of motor vehicles. The Group has elected to utilise the practical expedient available in IFRS 16.15 to not separate its leases for Office Buildings & Motor Vehicles into lease and non-lease components and instead accounts for these contracts as a single lease component. For its other leases, the lease components are split into their lease and non-lease components based on their relative stand-alone selling prices.

Where variable lease payments occur, such as for power charges in the Group's Datacentres, these are recognised as expenses in the period in which they occur.

The lease liability is reassessed when there is a change in the lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using the Group's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset.

The Group has elected to apply the exemption available in IFRS 16 relating to leases of low-value assets and short-term leases, meaning leases that meet these conditions would not give rise to lease liabilities or right of use assets and payments relating to these arrangements are recognised as expenses on a straight line basis over the lease term.

Interest rate for calculation of lease liabilities

IFRS 16 requires that the calculation uses the interest rate implicit in the lease or, if this is cannot readily be determined, the lessee's incremental borrowing rate.

The incremental borrowing rate has been estimated based on the cost to the Group of existing & proposed borrowings, adjusted to take into account the predicted cost of increasing the capital borrowed. As the majority of the Group's lease arrangements are for customer infrastructure and equipment, the Group considers it reasonable to apply to the same incremental borrowing rate across all leases.

1.8 Pensions

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense in profit or loss when employees have rendered service entitling them to the contributions. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

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1.9 Share-based payments

The Group provides share-based payment arrangements to certain employees. Equity settled arrangements are measured at fair value (excluding the effect on non-market based vesting conditions) at the date of the grant.

The managed growth scheme is an equity-settled share based payment scheme. This comprises the award of C shares which have specific vesting conditions, and have been valued using the Black-Scholes option pricing model.

Share options awarded as part of the enterprise management incentive scheme and company share option plan have no vesting conditions other than conditions around the timing of vesting, and have been valued using the Black-Scholes option pricing model.

The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares that will vest. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period. The Group has no cash settled arrangements.

1.10 Taxation

(a) Current taxation

Current taxation for the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods.

(b) Deferred taxation

Deferred taxation is calculated based on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income, 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.

Current tax assets and liabilities and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.11 Business combinations and goodwill

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

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Goodwill is recorded as an intangible asset and is the surplus of the cost of acquisition over the fair value of identifiable net assets acquired. Goodwill is reviewed annually for impairment. Any impairment identified as a result of the review is charged to profit or loss.

1.12 Intangible assets

Intangible assets that are not acquired as part of a business combination are capitalised at cost. Intangible assets acquired in business combinations are capitalised separately from goodwill if they qualify for separate recognition, initially measured at their fair values, and then amortised in line with the Group's amortisation policy.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Development costs are capitalised within intangible assets where the Group can demonstrate:

- The technical feasibility of completing the asset so it will be available for use
- Its intention to complete the intangible asset and use it
- Its ability to use the asset
- How the asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use the asset
- Its ability to measure reliably the expenditure attributable to the asset during its development

The capitalised development costs are subsequently amortised on a straight-line basis over their useful economic lives of 3 years. If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

Other intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. All intangible assets are considered to have a finite useful life. The estimated useful lives range as follows:

Trade Names – 5 years
 Customer Relationships Xpertex – 9 years
 Customer Relationships Vysiion - 14 Years
 Software licences – 8 years
 Development costs – 3 years
 Support and maintenance agreements – straight line over the term of the associated customer contract

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

1.13 Property, plant and equipment

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

Assets are depreciated once they are installed and available for use. Those assets which are awaiting installation are disclosed separately within Note 10 of the financial statements under Assets held for installation.

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

- Leasehold improvements – Straight line over life of the lease
- Customer Infrastructure & Equipment – 4-8 Years
- Core Infrastructure – 8 Years
- Office Equipment – 3-7 Years

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

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

1.14 Impairment of non-financial assets

At each reporting date, the Directors review the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

Goodwill is reviewed for impairment annually, and for other assets if any indication of impairment exists. For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units (being each subsidiary of the Group) that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

In performing an impairment test, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from each cash-generating unit are discounted to their present value using a suitable pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The data used for impairment testing procedures is directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

An impairment loss is recognised as an expense immediately. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the Income Statement immediately, except for impairment losses on goodwill, which are not reversed.

Further information can be found in Note 8 of the financial statements.

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1.15 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents include debit and credit card payments made by customers which are receivable from banks and clear the bank within three working days of the transaction date.

1.16 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost

Provisions are charged as an expense to profit or loss in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

1.17 Financial instruments***Recognition and derecognition***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for trade receivables (which do not contain a significant financing component) that are initially measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable- this is not permitted for financial assets at fair value through profit or loss: instead, transaction costs are expensed as incurred).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented, the Group does not have any financial assets categorised as FVOCI.

Subsequent measurement of financial assets***Financial assets at amortised cost***

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows

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- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these financial assets are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, and trade and other receivables fall into this category of financial instruments.

Impairment of Financial Assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model to be applied. The expected credit loss model requires the Group to account for expected credit losses ("ECL") and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

IFRS 9 requires the Group to recognise a loss allowance for ECL on trade receivables.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

Trade receivables

The Group's trade receivables, which are measured at amortised cost, are first grouped based on the credit ratings of customers and assessed for impairment based on experience of write-offs for each credit bucket to predict lifetime ECL, applying the simplified approach set out in IFRS 9. The segmentation used is reviewed periodically to ensure it is still appropriate. Within the groupings based on credit rating, further analysis is performed by ageing, so that historical experience of recovery of older balances is also taken into account in the calculation of expected losses. The percentage loss expectation to be applied to each bucket is revisited annually as are the assessed credit ratings of customers.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of comprehensive income are included within finance costs or finance income.

Trade and other payables

Trade and other payables, like other liabilities at amortised cost, are initially measured at fair value, which is the transaction price.

Borrowings

Bank and other loans, and loan notes, are classified as financial liabilities at amortised cost and treated in line with the Group's policies for this type of liabilities.

Where borrowings are renegotiated, the present value of the expected cash flows under the revised arrangement is compared to the previous present value to determine whether the change is dealt with prospectively as a modification to the terms of the existing loan or as the cancellation of one arrangement and issue of another.

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1.18 Equity

Equity comprises the following:

- “Share capital” represents amounts subscribed for shares at nominal value.
- “Share premium” represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- “Share-based payment reserve” represents the accumulated value of share-based payments.
- “Retained earnings / losses” represents the accumulated profits and losses attributable to equity shareholders.
- “Capital contribution reserve” represents shares repurchased by the Group.

1.19 International Financial Reporting Standards in issue but not yet effective

At the date of authorisation of the consolidated financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Group. For the next reporting period, applicable International Financial Reporting Standards will be those endorsed by the UK Endorsement Board (UKEB).

Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of, these consolidated financial statements, the following could potentially have a material impact on the Group’s financial statements going forward:

New/Revised International Financial Reporting Standards		Effective Date: Annual periods beginning on or after:	UKEB adopted
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	No
IAS 8	Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	No
IAS 1	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023	No

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the Company.

1.20 Critical accounting judgements and key sources of estimation uncertainty

Preparation of the consolidated financial statements requires management to make significant judgements and estimates. These are continually evaluated and are based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances.

Under IFRS estimate or judgements are considered critical where they involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities from period to period.

Critical Accounting Judgements***Revenue recognition******Identification of performance obligations***

As described in the accounting policy note, contracts with customers have been analysed into their underlying performance obligations. The identification of distinct performance obligations is a matter of

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judgement, in particular the assessment of whether a whole combined contract should be analysed as a single performance obligation or an aggregation of many performance obligations. Whilst the Groups' commitment is to provide all services contained within the combined contract, due to the fact that typically each individual service within a contract commences at different points in time and the customer is able to consume benefit from each individual service as it is delivered, management therefore determine that each individual service is a distinct performance obligation.

Identification of Bespoke Contracts vs Portfolio Contracts

As described in the accounting policy note, management have applied the practical expedient in IFRS15.4 to a portfolio of contracts.

Management have had to make a critical judgement over which contracts fall within the portfolio of 'standard' contracts and which have sufficiently different characteristics to be considered not part of this portfolio and requiring separate assessment. The characteristics that Management assess in making this judgement are: the transaction price allocated to the installation activities; the initial term of the contract; and the expected time required to setup the service(s).

Where bespoke contracts have been identified these contracts are reviewed on an individual contract basis, to determine the performance obligations, allocate the installation revenue to the relevant services and recognise revenue as each performance obligation has been satisfied.

Critical Accounting Estimates

Estimate of commencement dates of services for portfolio contracts

As described in the accounting policy note, for a portfolio list of contracts, management have estimated the service commencement date of these services.

The weighted average period to setup a service (from contract signature to commencement date) has been calculated using historical data.

This weighted average period is applied from the contract signature date, to determine the date at which revenue recognition commences for the installation and setup fees charged to a customer at the outset of the contract.

Management have used this approach for the portfolio contracts as it would be impracticable to determine and apply the exact service commencement date of each service and allocate a specific element of the upfront fees to each individual performance obligation. For the majority portfolio contracts, the managed services will be live and being used by the customer by the end of the average implementation period. While individual services will go live at different dates, the timing difference has been determined not to have a material impact on revenue. As explained above, a more detailed approach is taken for bespoke contracts where the setup and range of services provided mean the setup time is over a longer period of time. In completing a sensitivity analysis, management have determined that the sensitivity of this estimate is minimal – should the time required to setup and install each service double, this would result in a 0.3% misstatement of revenue, therefore management are comfortable that using a weighted average on portfolio contracts gives a reasonable approximation for the precise starting point of each individual arrangement. The Company reviews the weighted average on an annual basis at each end of financial year period.

Lease term – Network Infrastructure leases

As described in the accounting policy note, the lease term is either the legal contractual period or where the Group has a rolling arrangement management have had to make a judgement to estimate the likelihood and length of the enforceable period to provide a maximum lease term to apply.

When a new lease commences, an estimate is made of the lease term which must include the minimum term plus any periods for which the Group expects and is able to extend the lease. Sensitivity analysis has been performed to determine the impact a movement on the lease term applied has on the overall NBV of the leased assets, this showed that a 10% movement on the estimated lease term of this class of assets could impact the NBV by 16%. The estimates are based on historical data of the average term of network infrastructure leases with Core infrastructure and Customer leases analysed separately. This estimate will be reviewed annually.

The value of lease liability and ROU-asset at significant risk of a material adjustment is £46,792,833 and £50,644,894 respectively.

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Notes to the consolidated financial statements**2. Revenue**

Revenue arose as follows:

	2023	2022
	£'000	£'000
United Kingdom	198,848	176,800
Rest of World	7,751	7,257
	206,599	184,057

Revenue from customers is disaggregated between contract types as follows:

Point in Time:

Product Sales	10,851	7,513
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Over Time - Provision of Services:

Installation and project activities	8,623	6,117
Managed service arrangements	187,125	170,427

	206,599	184,057
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Details of receivables arising from contracts with customers are set out in note 13.

3. Other operating income

	2023	2022
	£'000	£'000
Government grants receivable	-	48
R&D Tax credit	-	89
	-	137

Government grants relate to claims made by the Group under the Coronavirus Job Retention Scheme during the Covid-19 pandemic.

R&D tax claims made under the RDEC scheme, which has been offset against the company's corporation tax liabilities.

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4. Operating Profit

	2023 £'000	2022 £'000
Operating Profit is stated after charging/(crediting):		
Cost of Sales		
Cost of delivering services	53,840	38,379
Owned assets depreciation	9,125	9,597
Right of use asset Depreciation	30,689	28,695
Amortisation of Intangible Assets	1,007	1,011
(Profit)/Loss on disposal of right of use assets	446	535
(Profit)/Loss on disposal of owned assets	175	-
Administrative expenses		
Core Infrastructure	4,997	5,743
Employment Costs	55,250	49,164
Contract Assets	(2,375)	-
Development Costs	(973)	(691)
Net foreign exchange (gains)/losses	193	(25)
Bad Debt provision	223	257
Owned assets depreciation	4,943	4,862
Right of use asset Depreciation	14,284	13,461
Amortisation of Intangible Assets	1,746	1,839
(Profit)/Loss on disposal of right of use assets	(4)	(69)
(Profit)/Loss on disposal of owned assets	(1)	-
Impairment of intangible assets	448	398
Other administrative expenses	9,127	7,962
Auditors' remuneration:		
Group	180	326
Subsidiaries	93	80
Audit-related assurance services	3	3
Non-recurring expense arose as follows:		
Severance pay	261	-
Share Based payment expense	940	784
Onerous contract provision release	-	(58)
Business acquisition expenses	-	350
IFRS transition expenses	(48)	115
	1,153	1,191

The nonrecurring expenses consist of the following:

- The severance pay in 2023 is one-off transaction due to the size and incidence in which it occurred during the period.
- The share-based payment charge is a non-cash expense, relating to a number of one-off share option awards. In 2022 and 2023 this charge is in relation to the managed growth scheme which is an equity-settled share based payment scheme. This comprises the award of C shares which have specific vesting conditions, and have been valued using the Black-Scholes option pricing model.
- The provision for Onerous Contract relates to the release of surplus provision relating to the cost of outsourced service delivery for a loss-making customer contract

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- The Business acquisition expenses relate to costs incurred in acquiring Xpertex £337,162, the remaining charge in 2022 is in relation to the costs incurred in acquiring Vysiion.
- The IFRS transition expenses represents accrued professional fees in relation to the Group's transition to IFRS, the reversal in 2023 is in relation to the release of surplus accrued costs.

5. Directors and employees

The aggregate payroll costs of the employees, including management and the Executive Directors, were as follows:

	2023	2022
	£'000	£'000
Wages and salaries	47,770	42,678
Share based payments	940	784
Social security costs	5,962	5,104
Other Pension costs	1,518	1,382
	<u>56,190</u>	<u>49,948</u>

Staff costs above include £973,244 for the year (2022: £691,314) employee costs capitalised as part of Development Costs (see Note 9). The above also includes £2,375,232 of costs to obtain and fulfil a contract, which have been capitalised as part of Contracts Costs (see Note 13)

Average monthly number of persons employed by the Group during the year was as follows:

	2023	2022
Sales & sales administration	240	219
Service delivery & engineering	419	388
Management & administration	113	108
	<u>772</u>	<u>715</u>

	2023	2022
	£'000	£'000
Remuneration of Directors		
Emoluments and fees for qualifying services	2,511	2,277
Contributions to defined contribution scheme	56	49
	<u>2,567</u>	<u>2,326</u>

Key management personnel are identified as the Group Board Directors.

During the year retirement benefits were accruing to 6 Directors (2022 – 6) in respect of defined contributions pension schemes.

The highest paid director received remuneration of £653,616 (2022: £641,925) and the company paid pension contributions on his behalf of £nil (2022: £nil).

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6. Finance income and expense**Finance income**

	2023 £'000	2022 £'000
Interest received	16	0
	<u>16</u>	<u>0</u>

Finance expense

	2023 £'000	2022 £'000
Other interest on financial liabilities	35	27
Bank loan interest	1,050	806
Interest expense on lease liabilities	2,209	1,934
	<u>3,294</u>	<u>2,767</u>

7. Taxation

	2023 £'000	2022 £'000
Current tax:		
UK corporation tax	-	174
UK corporation tax - prior year adjustments	(312)	(3,103)
Group relief payable	-	-
Total current tax	<u>(312)</u>	<u>(2,928)</u>
Deferred tax:		
Origination and reversal of timing differences	2,523	8,230
Effect of tax rate change on opening balance	807	(1,156)
Adjustments in respect of prior periods	(10)	(98)
Business combination	-	-
Total deferred tax	<u>3,320</u>	<u>6,975</u>
Total tax on (losses) / profits on ordinary activities	<u>3,008</u>	<u>4,046</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2022 – higher than) the standard rate of corporation tax in the UK of 19% (2022 – 19%). The differences are explained below:

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	2023	2022
	£'000	£'000
profit before tax	18,752	18,709
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	3,563	3,555
Tax effects of:		
Non-deductible expenses	281	264
Non-taxable income	-	-
Fixed asset differences	(1,251)	(812)
Losses carried back		3,291
Adjustment to tax charge in respect of previous periods	(312)	(3,103)
Adjustment to deferred tax in respect of previous periods	(10)	(98)
Other differences	(7)	-
Unrecognised deferred tax movement	-	-
R&D expenditure credits		(17)
Deferred tax (charged)/credited to equity	(63)	218
Effect of change in tax rates	807	748
Corporation tax (credit) / charge	3,008	4,046

An increase in the UK corporation tax rate from 19% to 25%, effective 1 April 2023, was substantively enacted on 24 May 2021. As such, deferred taxes at the reporting date have been measured and reflected in these financial statements using the substantively enacted tax rate at the year end of 25%.

From 1 April 2021 until 31 March 2023, companies are able to claim a 130% super-deduction capital allowance on qualifying new plant and machinery assets. The Group has taken advantage of this allowance from 1 February 2022 to 31 January 2023 which has provided an overall benefit and reduction in the tax charge of £1,362,602 (2022: £881,783).

Deferred tax Asset/(liability)

	At 31 January	At 31 January
	2023	2022
	£'000	£'000
Opening balance	(3,356)	3,651
Adjustment to opening balance	-	23
(Charged)/credited to the income statement	(3,320)	(8,154)
Deferred tax - change in tax rate		1,156
Charged directly to equity	(63)	218
Acquisition of subsidiary		(250)
Movement in the year		
Closing balance	(6,739)	(3,356)

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Deferred tax comprises:

	At 31 January 2023 £'000	At 31 January 2022 £'000
Fixed asset timing differences	(5,850)	(1,890)
Intangibles	(1,802)	(2,028)
Tax Losses	611	93
Other temporary differences	45	90
Leases	83	142
Share Options	174	237
	<u>(6,739)</u>	<u>(3,356)</u>

8. Goodwill

	Total £'000
Cost	
At 1 February 2022	21,484
Additions	<u>-</u>
At 31 January 2023	21,484

Allocation of goodwill to cash generating units

For the purpose of annual impairment testing, goodwill is allocated to the cash generating units (CGUs) expected to benefit from the synergies of the business combinations in which the goodwill arises as set out below, and is compared to its recoverable value.

The Board has determined that the Group has the following cash generating units as these are the smallest identifiable groups of assets that generates cash inflows that are independent of the other assets or groups of assets, with no further disaggregation. Goodwill is allocated to each CGU as follows:

	£
Vysiion	16,100
Xpertex	<u>5,384</u>
	<u>21,484</u>

Goodwill arising from the acquisition of each Subsidiary has been allocated to the relevant Cash Generating Unit based on a valuation exercise at the point of acquisition.

The recoverable amounts of the CGUs have been determined from value in use calculations based on cash flow projections from a formally approved 12 month forecast which has been extrapolated out over a 5 year period, which is considered by management to be an appropriate projection period for the impairment review of non-amortised assets.

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Other major assumptions are as follows:

Impairment review date	At 31 January 2023 Vysiion %	At 31 January 2023 Xpertex %
Discount rate	12.6	15.6
Annual growth assumptions used to extrapolate 1 year budget forecast:		
- 2 – 5 years	2.0 – 9.0	2.0 – 12.0
- Beyond 5 years	2.0	2.0

The 12 month forecast data is based on the most recent annual financial statements uplifted for management's best estimates of reasonable growth targets for the subsequent 12 month period.

Management's key assumption includes revenue growth and stable profit margins based on past experience in the market.

Discount rates are based on management's assessment of specific risks related to the CGU. Growth rates beyond the first year to year 5 are based on economic data for the industry sector, along with historical experience and various other assumptions believed to be reasonable.

The Directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount for any of the cash-generating units.

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9. Intangible assets

	Trade names	Customer relationships	Development costs	Software licencing	Support & maintenance agreements	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 Feb 2022	1,346	8,209	4,023	2,938	2,060	18,576
Additions	-	-	1,685	-	525	2,210
At 31 Jan 2023	1,346	8,209	5,708	2,938	2,585	20,786
Amortisation						
At 1 Feb 2022	413	1,057	2,394	1,669	1,577	7,110
Charge for the year	269	613	591	272	1,008	2,753
Impairment			22	677		699
At 31 Jan 2023	682	1,670	3,007	2,618	2,585	10,562
Net book value						
At 31 Jan 2023	664	6,539	2,701	320	-	10,224
At 1 Feb 2022	933	7,152	1,629	1,269	482	11,466

An impairment loss of £677,411 (2022: £398,367) was recognised for software licencing. Software licencing represents two software agreements for the purchase and use of Broadsoft software and Service Assurance Suite software, licences deployed by the end of each term are then held on a perpetual basis. Amortisation is recognised within administrative expenses.

Trade Names and Customer relationships represent the value associated to the acquisition of Vysiion and Xpertex based on a valuation exercise at the point of acquisition. Amortisation is recognised within administrative expenses.

Internally generated intangibles represent capitalised development costs and enhancements to internal software, the total cost of £5,708,182 includes £1,511,457 of costs which are not ready for use. Amortisation commences when the intangible asset is ready for use and is then recognised within administrative expenses.

Support and maintenance agreements relate to a specific customer contract in Vysiion Limited and is amortised over the term of the customer contract. The amortisation is recognised within Cost of Sales.

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10. Property, plant and equipment

	Leasehold property improvements £'000	Customer Infrastructure & equipment £'000	Core infrastructure £'000	Office Equipment £'000	Assets held for installation £'000	Total £'000
Cost						
At 1 Feb 2022	1,131	59,851	47,642	2,540	-	111,164
Additions	264	12,966	2,669	360	8,852	25,111
Disposals		(199)				(199)
At 31 Jan 2023	1,396	72,617	50,311	2,900	8,852	136,076
Depreciation						
At 1 Feb 2022	876	37,821	28,066	1,849	-	68,612
Charge for the year	166	9,125	4,424	354	-	14,069
Disposals		(25)				(25)
At 31 Jan 2023	1,041	46,921	32,490	2,203	-	82,656
Net book value						
At 31 Jan 2023	355	25,696	17,821	697	8,852	53,420
At 1 Feb 2022	255	22,030	19,576	691	-	42,552

Right of use assets

	Office £'000	Customer Infrastructure £'000	Core infrastructure £'000	Data centres £'000	Motor vehicles £'000	Software £'000	Total £'000
Cost							
At 1 Feb 2022	13,814	98,774	26,387	21,973	480	-	161,428
Additions	137	40,708	12,681	4,650	134	1,515	59,824
Disposals	-	(8,447)	(482)	-	(64)	-	(8,994)
At 31 Jan 2023	13,951	131,034	38,586	26,623	549	1,515	212,258
Depreciation							
At 1 Feb 2022	5,006	53,598	18,738	8,913	216	-	86,471
Charge for the year	2,842	30,689	6,025	4,946	169	303	44,973
Disposals	-	(5,462)	(290)	-	(38)	-	(5,791)
At 31 Jan 2023	7,848	78,824	24,473	13,858	347	303	125,653
Net book value							
At 31 Jan 2023	6,103	52,210	14,113	12,765	202	1,212	86,605
At 1 Feb 2022	8,808	45,176	7,649	13,060	263	-	74,956

Depreciation of £39,813,824 (2022: £38,291,982) has been recognised within Cost of Sales in the income statement. Depreciation of £19,226,894 (2022: £18,322,900) has been recognised within administrative expenses in the income statements.

Assets held for installation relates to the new service contracts won in the year which require a large roll out across multi site retailers, these assets are only depreciated once deployed to the customer sites and available for use.

Right of use assets as disclosed in the table above arise from lease agreements, as disclosed in note 17. These right of use assets are pledged as security for the corresponding lease liabilities.

In addition, bank borrowings are secured by a fixed and floating charge over all of the Group's assets, including property, plant and equipment.

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11. Subsidiary undertakings

Subsidiaries are listed below. Where their Registered Office is listed as "London", the full address is 100 Leman Street, London, E1 8EU.

	Registered Office	Class of shares	Holding
Exponential Networks Ltd	London	Ordinary	100%
Vysiion Limited	London	Ordinary	100%
Xpertex Ltd	London	Ordinary	100%

12. Inventories

	At 31 January 2023 £'000	At 31 January 2022 £'000
Finished goods and goods for resale	914	825
Work in progress	246	772
	<u>1,160</u>	<u>1,597</u>

13. Trade and other receivables

	At 31 January 2023 £'000	At 31 January 2022 £'000
Trade receivables	38,737	27,883
Allowance for credit losses	(1,236)	(1,477)
Net trade receivables	37,501	26,406
Contract assets	11,015	6,865
Accrued revenue	3,961	2,196
Other receivables	3,657	1,598
Prepayments	13,364	11,081
	<u>69,498</u>	<u>48,146</u>

Note 21 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

Capitalised contract costs consist of commissions and installation costs associated with specific customer contracts.

	At 31 January 2023 £'000	At 31 January 2022 £'000
Commissions		
Opening	3,894	3,905
Capitalised	4,568	3,582
Amortised	(3,497)	(3,593)
Closing	4,965	3,894
Installations Costs		
Opening	2,971	420
Capitalised	4,041	3,093
Amortised	(962)	(542)
Closing	6,050	2,971
Total Contracted Costs	<u>11,015</u>	<u>6,865</u>

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14. Cash and cash equivalents

	At 31 January 2023 £'000	At 31 January 2022 £'000
Cash at bank (GBP)	18,267	12,782
	<u>18,267</u>	<u>12,782</u>

At the reporting dates presented all significant cash and cash equivalents were deposited in the United Kingdom with large international banks.

15. Trade and other payables

	At 31 January 2023 £'000	At 31 January 2022 £'000
Trade payables	19,834	15,505
Other tax and social security	2,966	3,081
Other creditors	4,830	3,404
Accruals	7,815	9,096
	<u>35,445</u>	<u>31,086</u>

16. Provisions – renewal provision

	At 31 January 2023 £'000	At 31 January 2022 £'000
Balance at 1 February 2022	1,908	2,927
Fair value on acquisition	-	117
Utilised during the year	(1,613)	(2,187)
Provided during the year	1,970	1,051
At 31 January 2023	<u>2,265</u>	<u>1,908</u>

Renewal provision has been calculated based on historic renewal behaviour, to reflect back dated discounts provided upon renewal of customer contracts, and the expected timing of these outflows is expected in the next year.

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17. Leases

Right of use assets

The Group use leasing arrangements with a maximum term of 10 years relating to buildings, vehicles, data centres and network equipment.

	At 31 January 2023 £'000	At 31 January 2022 £'000
Interest expense on lease liabilities	2,209	1,934
Total cash outflow for leases	48,379	45,614
Additions to right-of-use assets	59,824	34,450
Disposals from right-of-use assets	(3,203)	(4,353)
Depreciation charge – right of use assets	(44,973)	(42,156)
Carrying amount at the beginning of the year:	74,957	87,016
Carrying amount at the end of the year:		
- Right of use assets	<u>86,605</u>	<u>74,957</u>

Depreciation charge for right of use assets by class can be found in Note 10.

Lease Liabilities

	At 31 January 2023 £'000	At 31 January 2022 £'000
Current	24,458	17,406
Non-current	45,177	41,587
	<u>69,635</u>	<u>58,993</u>

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense related to payments not included in the measurement of the lease liability is as follows:

	2023 £'000	2022 £'000
Short-term leases	19	-
Leases of low-value assets	1,230	1,046
	<u>1,249</u>	<u>1,046</u>

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18. Borrowings

	At 31 January 2023 £'000	At 31 January 2022 £'000
Amounts falling due within one year		
Bank loan	3,700	3,700
RCF drawdown	-	7,500
	<u>3,700</u>	<u>11,200</u>
	-	-
Amounts falling due after one year		
Bank loan	18,000	21,700
	<u>18,000</u>	<u>21,700</u>

Summary of borrowing arrangements:

Bank loans are secured by a fixed and floating charge held over the assets held by the Group. The financing agreement was originally to March 2019 and has been extended to March 2024. As a result, the Group had the following loans available to it at the end of FY 2022/23: a £2m overdraft facility; a £20m revolving credit facility; and a term loan of £21.7m.

On the 9th May 2023 a new £100m financing facility giving us access to a £70m revolving credit facility, and a £30m accordion, on standby to support with organic and/or inorganic investments. Interest is charged at 1.65% to 2.80% over SONIA with the exact rate depending on the Group's net debt ratio.

Reconciliation of liabilities arising from financing activities

	At 1 Feb 2022 £'000	New loans issued £'000	New leases £'000	Interest accrued £'000	Interest paid £'000	Disposed lease £'000	Repaid in cash £'000	At 31 Jan 2023 £'000
Leases	58,993	-	59,824	2,209	(2,209)	(3,012)	(46,170)	69,635
Bank loan	25,400			754	(754)		(3,700)	21,700
RCF drawdown	7,500	6,000		27	(27)		(13,500)	-
	<u>91,893</u>	<u>6,000</u>	<u>59,824</u>	<u>2,990</u>	<u>(2,990)</u>	<u>(3,012)</u>	<u>(63,370)</u>	<u>91,335</u>

19. Deferred Income

Deferred income balances are contract liabilities arising from the setup activities and managed services which are billed in advance. These are released to the statement of profit or loss over the life of the contract.

The movement on deferred income can be explained as below:

	At 31 January 2023 £'000	At 31 January 2022 £'000
Opening	58,601	48,727
Fair value on acquisition	-	1,004
Additions	88,993	66,619
Amortised	(59,914)	(57,749)
	<u>87,680</u>	<u>58,601</u>
Closing	87,680	58,601

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20. Financial instruments**Classification of financial instruments**

The fair value hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

There were no financial instruments measured at fair value in the Statement of Financial Position at any of the reporting dates presented.

The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

Financial assets	Note	At 31 January 2023 £'000	At 31 January 2022 £'000
Trade receivables	13	37,501	26,406
Accrued income	13	3,961	2,196
Contract assets	13	11,015	6,865
Other receivables	13	3,657	1,598
Cash and cash equivalents	14	18,267	12,782
		74,401	49,847

All of the above financial assets' carrying values are approximate to their fair values, as at all reporting dates presented.

Financial liabilities	Note	At 31 January 2023 £'000	At 31 January 2022 £'000
Trade payables	15	19,834	15,505
Other payables	15	4,830	3,404
Lease liabilities	17	69,635	58,993
Borrowings	18	18,000	21,700
Accruals		5,468	6,564
		117,767	106,166

In the view of management, all of the above financial liabilities' carrying values approximate to their fair values as at all reporting dates presented.

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21. Financial instrument risk exposure and management

The Group's operations expose it to degrees of financial risk that include liquidity risk, credit risk, interest rate risk.

This note describes the Group's objectives, policies and process for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 15, 16, 17, 19, 20 and 21.

Liquidity risk

Liquidity risk is dealt with in note 22 of these consolidated financial statements.

Credit risk

The Group's credit risk, being the risk that the other party defaults on their contractual obligation, is primarily attributable to its cash balances and receivables.

The credit risk on liquid funds is limited because the third parties are large international banks with a credit rating of at least A.

The Group's maximum credit risk amounts to the total of its trade receivables and cash and cash equivalents.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed based on their credit risk characteristics as rated by an external agency. Within those risk ratings they have then been further disaggregated based on days past due. The expected loss rates are based on the payment profile for sales over the past 3 years before each reporting date as well as the corresponding historical credit losses during that period with any further adjustments considered necessary to reflect changes in circumstances.

Trade receivables are written off (ie derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst others is considered indicators of no reasonable expectation of recovery.

Interest rate risk

The Group's exposure to interest rate risk is in relation to the Group's variable rate borrowings (see note 18).

A change of 1% in the SONIA rate would have increased/decreased the Group's interest charge on borrowings in the period by £203,125 (year to 31 January 2022: £277,111).

Foreign exchange risk

The Group's transactions are carried out in GBP. Fundraising transactions and operational transactions are carried out in GBP.

22. Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to ensure the Group can meet liabilities as they fall due.

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In managing liquidity risk, the main objective of the Group is therefore to ensure that it has the ability to pay all of its liabilities as they fall due. The Group's activities are funded by a combination of borrowings, lease financing and equity investment. The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due. The Group manages its liquidity needs by monitoring data consistent with that used in the contractual maturity analysis below

The table below shows the undiscounted cash flows on the Group's financial liabilities as at 31 January 2023 and 31 January 2022, on the basis of their earliest possible contractual maturity.

	Total £'000	Within 2 months £'000	Within 2 - 6 months £'000	Within 6 - 12 months £'000	Within 1 - 2 years £'000	Within 2 - 5 years £'000	After 5 years £'000
At 31 Jan 2023							
Trade payables	19,834	19,834					
Other payables	4,830	1,976	593	691	1,031	538	-
Borrowings	21,700	-	1,850	1,850	18,000	-	-
Lease liabilities	79,206	4,561	13,594	13,498	24,050	20,833	2,669
Accruals	7,815	7,815					
	133,384	34,186	16,037	16,039	43,081	21,371	2,669
At 31 Jan 2022							
Trade payables	15,505	15,505					
Other payables	3,404	3,404					
Borrowings	32,900	7,500	1,850	1,850	21,700		
Lease liabilities	67,953	4,437	11,084	8,888	16,028	25,422	2,095
Accruals	9,097	9,097					
	128,858	39,942	12,934	10,738	37,728	25,422	2,095

23. Capital management

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide long-term returns to shareholders

The Group defines and monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the Statement of Financial Position and as follows:

	At 31 January 2023 £'000	At 31 January 2022 £'000
Equity	47,949	33,700
Cash and cash equivalents	(18,267)	(12,782)
Borrowings	21,700	32,900
	51,382	53,818

The Board monitors the level of capital as compared to the Group's commitments and adjusts the level of capital as is determined to be necessary by issuing new shares. The Group is not subject to any externally imposed capital requirements.

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These policies have not changed in the year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

24. Share capital

	At 31 January 2023	At 31 January 2022
Number	No	No
Ordinary A shares of £0.05	547,069	544,019
Ordinary B shares of £0.05	63,795	63,595
C1 shares of £0.05	13,130	12,750
C2 shares of £0.05	3,000	3,000
C3 shares of £0.05	5,350	5,900
C4 shares of £0.05	1,000	1,000
C5 shares of £0.05	750	750
Total share capital	<u>634,094</u>	<u>631,014</u>
	£	£
Allotted, called up and fully paid		
Ordinary A shares of £0.05	27,353	27,201
Ordinary B shares of £0.05	3,190	3,180
C1 shares of £0.05	657	638
C2 shares of £0.05	150	150
C3 shares of £0.05	268	295
C4 shares of £0.05	50	50
C5 shares of £0.05	38	38
Total share capital	<u>31,705</u>	<u>31,551</u>

Ordinary 'A' shares carry one voting right per share and all shares rank pari passu for dividends and other distributions. Ordinary 'B' shares are non-voting ordinary shares.

25. Share based payments

The Group has made equity share based payments as defined in IFRS2 during the historical period. This standard requires that a recognised valuation methodology be employed to determine the value fair of share options granted. The details of the relevant schemes, and the valuation methodologies adopted, has been included below.

The Enterprise Management Incentive Scheme and an unapproved option scheme can be exercised at a price of £2.50. These remaining options expired in July 2022. The directors do not consider the fair value of these options to be material to the Group.

The Company Share Option Plan is an approved option scheme consisting of 8,233 options which were issued on 27 April 2015 at a price of £7.20; 650 options were issued on 4 August 2016 at a price of £30; 10,000 shares were issued between 13 January 2017 and 10 February 2017 at a price of £30; 11,745 shares were issued on 11 February 2020 at a price of £120; 1,025 shares were issued in March 2022. These expire between 2025 and 2032.

The Growth Scheme is an equity-settled share based payment scheme, comprising C shares awarded to staff, which have specific vesting conditions.

The fair value of the share-based payment expenses for each of these instruments has been estimated using the Black-Scholes option pricing model, which relies on certain estimates. Management have applied

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judgement in determining the most appropriate estimate to use in the model, which have been summarised in relation to each of the instruments below.

Issue Date	11/02/2020	30/04/2021
Options Issued	11,745	23,400
Exercise price	120	-
Fair Value per Option using Black Scholes model	140	-
Expected Equity Volatility	10.82%	32.55%
Risk Free Rate of Interest	0.62	0.28
Expected Life	3	4
Share Based Payment charge	£74,143	£1,723,797

Details of the number of share options outstanding during each period presented are as follows:

At 31 January 2023	EMI options	Un-approved	CSOP options	Growth Scheme
Opening Balance	200	-	16,885	-
Granted in the period			1,025	480
Forfeited			-	-
Exercised	-	200	-	370
Closing Balance	-	-	15,110	-

Details of the number of Growth Scheme shares awarded during the year are as follows:

At 31 January 2023

Outstanding at the beginning of the year	23,400
Awarded during the year	480
Forfeited in the year	-
Outstanding at the year end	<u>23,030</u>

26. Related party transactions

Key management personnel are identified as the Group Board of Directors, and their remuneration is disclosed in note 5.

27. Financial commitments

There were no significant financial commitments at any of the reporting dates presented.

28. Post balance sheet events

On the 9th May 2023, a new £100m financing facility was signed. Giving us access to a £70m revolving credit facility, of which £22.1m was utilised to repay both the term loan and settle the arrangement fees. A £30m accordion, on standby to support with organic and/or inorganic investments. The agreement is a 3 year term with the option to extend to 5 years in totality.

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Company Statement of Financial Position

	Notes	At 31 January 2023 £'000	At 31 January 2022 £'000
Assets			
Non-current assets			
Investments	2	25,881	25,881
Intangible assets	3	3,013	2,889
Property, plant and equipment	4	52,671	40,841
Right of Use Assets	4	81,983	69,286
		<u>163,548</u>	<u>138,897</u>
Current assets			
Inventories		614	643
Trade and other receivables	5	61,273	42,557
Current tax receivable		10,755	8,347
Cash and cash equivalents	6	13,518	8,709
		<u>86,160</u>	<u>60,255</u>
Current liabilities			
Trade and other payables	7	29,665	25,229
Deferred income		41,011	35,070
Lease liabilities	9	22,824	15,780
Borrowings	10	3,700	11,200
Deferred consideration		(0)	541
		<u>97,200</u>	<u>87,820</u>
Non-current liabilities			
Deferred income		42,381	18,350
Lease liabilities	9	42,068	37,446
Borrowings	10	18,000	21,700
Provisions	8	2,212	1,835
Deferred tax		5,192	1,696
		<u>109,853</u>	<u>81,027</u>
Net Assets		<u>42,655</u>	<u>30,305</u>
Equity			
Share capital	11	32	32
Share premium		1,268	1,202
Share based payment reserve		2,313	1,436
Capital redemption reserve		25	25
Retained earnings		39,017	27,610
		<u>42,655</u>	<u>30,305</u>
Equity attributable to the owners of the Parent Company		<u>42,655</u>	<u>30,305</u>

The notes to these financial statements form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for their issue on 26th May 2023. and were signed on its behalf by:

Henry Pepperall

Mr H B Pepperall

Director

Registered number: 04499567

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Notes to the Parent Company Financial Statements for the year ended 31 January 2023

1. Accounting Policies

Basis of Preparation

The annual financial statements of Exponential-e Limited (the Parent Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The company has taken advantage of the provisions in FRS 101 53A allowing it to apply paragraph 1A(1) of Schedule 1 to the Regulations and adapt one of the balance sheet formats, applying the relevant presentation requirements of IAS 1 Presentation of Financial Statements.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with the Company's wholly owned subsidiaries.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's Consolidated Financial Statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value)
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value)
- Related party transactions
- Share-based payments

As permitted by section 408 of Companies Act 2006, a separate Income Statement for the Company has not been included in these financial statements. The Company's profit for the year ended 31 January 2023 was £13,845,729 (2022: £12,491,908).

Going Concern

The financial statements report a net asset position of £42,655,310 (2022: £30,304,720).

In considering the going concern assumption, the Directors have reached their conclusion based on assessing future trading forecasts to the end of May 2024 as well as the balance sheet position at the date of signature of the financial statements.

The company's business activities, its principal risks and uncertainties, together with details of its financial instruments, exposure to credit & liquidity risk, and its approach to financial risk management, are set out in the Strategic Report. The financial position of the company and its cash flows are set out in the financial statements below.

The Parent Company has a high degree of certainty on future revenue generation, thanks to a very high proportion of its revenue being derived from long-term contracts across a large number of customers and industries. Having achieved a record sales year in FY 2022/23, the company expects to see growth in revenue in FY 2023/24 as the pipeline of contracts won are delivered and begin to generate revenue & cash.

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The FY 2023/24 forecast is therefore for continued growth, supported by this strong pipeline of deliveries and future sales.

In spite of the risks inherent in its market and the wider economy, the directors believe that the Company is well placed to manage its business risks successfully, and the company is comfortable that it has adequate facilities in place to meet its financial obligations as and when they fall due, with £13.5m cash as at 31 January 2023, and at the point of signing these financial statements we have a £70m revolving credit facility of which £48m remains undrawn.

The company performs detailed forecasting and extensive scenario analysis, to understand the expected future performance of the business and its resilience to risks.

A sensitivity analysis and reverse stress test has been performed by the company, assessing a range of key inputs, resulting in a range of outcomes of financial performance and cashflow for the 12 months following the date of signature of these financial statements.

The sensitivity analysis factors in two main drivers: new business sales measured as 'first year revenue', and the rate of customer cancellations. Having performed a reverse stress test it was determined that the set of conditions required to result in the company not being able to operate as a going concern are extremely unlikely. As such the directors are confident that the assumptions underlying the company's forecasts are reasonable and that the company will be able to operate on a going concern basis.

Revenue

The accounting policy for revenue is included in the Group accounting policies set out in note 1 to the Group accounts.

Government grants

The accounting policy for government grants is included in the Group accounting policies set out in note 1 to the Group accounts.

Pensions

The accounting policy for the defined contribution pension plan in which the company's employees participate is included in the Group accounting policies set out in note 1 to the Group accounts.

Share-based payments

The accounting policy for share-based payments is included in the Group accounting policies set out in note 1 to the Group accounts.

Taxation

The accounting policies for current and deferred tax are included in the Group accounting policies set out in note 1 to the Group accounts.

Investments

When the Company acquires investments in subsidiaries they are initially recorded at cost and subsequently reviewed for impairment if there are any indicators, in line with the Group's accounting policy for impairment set out in note 1 of the Group accounts.

Intangible assets

The accounting policy for intangible assets is included in the Group accounting policies set out in note 1 to the Group accounts.

Property, plant, and equipment

The accounting policy for property, plant and equipment is included in the Group accounting policies set out in note 1 to the Group accounts.

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Impairment of non-financial assets

The accounting policy for impairment of non-financial assets is included in the Group accounting policies set out in note 1 to the Group accounts.

Cash and cash equivalents

The accounting policy for cash and cash equivalents is included in the Group accounting policies set out in note 1 to the Group accounts.

Provisions for liabilities

The accounting policy for provisions is included in the Group accounting policies set out in note 1 to the Group accounts.

Financial instruments

The Company has financial assets and liabilities held at amortised cost. The accounting policy for these financial instruments is included in the Group accounting policies set out in note 1 to the Group accounts.

Equity

Equity comprises the following:

- "Share capital" represents amounts subscribed for shares at nominal value.
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- "Share-based payment reserve" represents the accumulated value of share-based payments.
- "Retained earnings / losses" represents the accumulated profits and losses attributable to equity shareholders.

Critical accounting estimates and Judgements

The critical accounting estimates and judgements are included in note 1 of the Group accounts.

2. Investments

Cost	£'000
At 1 February 2022	25,881
Additions	-
At 31 January 2023	<u>25,881</u>

The Company's subsidiaries are detailed in note 11 to the consolidated financial statements.

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3. Intangible assets

	Development costs £'000	Software licencing £'000	Total £'000
Cost			
At 1 February 2022	3,981	2,938	6,918
Additions	1,679	-	1,679
At 31 January 2023	5,660	2,938	8,598
Amortisation			
At 1 February 2022	2,361	1,669	4,029
Charge for the year	584	272	856
Impairment	22	677	699
At 31 January 2023	2,966	2,618	5,585
Net book value			
At 31 January 2023	2,693	319	3,013
At 1 February 2022	1,620	1,269	2,889

Amortisation is recognised within administrative expenses in the income statement.

An impairment loss of £698,963 (2022: £398,367) was recognised for software licencing and development costs.

4. Property, plant and equipment

	Leasehold property improvements £'000	Customer CPE £'000	Core infrastructure £'000	Office Equipment £'000	Assets held for installation £'000	Total £'000
Cost						
At 1 February 2022	869	56,863	47,758	1,919	-	107,409
Additions	109	12,732	2,669	210	8,217	24,572
Disposals	-	(199)	-	-	-	(199)
At 31 January 2023	978	69,396	50,427	2,128	8,217	131,782
Depreciation						
At 1 February 2022	739	36,163	28,066	1,600	-	66,568
Charge for the year	45	7,942	4,424	156	-	12,567
Disposals	-	(25)	-	-	-	(25)
At 31 January 2023	785	44,080	32,490	1,755	-	79,111
Net book value						
At 31 January 2023	194	25,316	17,937	373	8,217	52,671
At 1 February 2022	130	20,700	19,692	319	-	40,841

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Right of Use Assets	Office £'000	Customer Infrastructure £'000	Core infrastructure £'000	Data centres £'000	Motor vehicles £'000	Software £'000	Total £'000
Cost							
At 1 February 2022	12,847	97,478	26,387	15,861	176		152,749
Additions	121	40,430	12,681	4,338	-	1,515	59,085
Disposals	-	(8,447)	(482)	-	-	-	(8,929)
At 31 January 2023	12,969	129,461	38,586	20,198	176	1,515	202,905
Depreciation							
At 1 February 2022	4,792	53,055	18,738	6,832	45		83,463
Charge for the year	2,701	30,297	6,025	3,829	59	303	43,212
Disposals	-	(5,462)	(290)	-	-	-	(5,753)
At 31 January 2023	7,493	77,890	24,473	10,661	103	303	120,922
Net book value							
At 31 January 2023	5,476	51,571	14,113	9,537	72	1,213	81,983
At 1 February 2022	8,055	44,423	7,649	9,029	131	-	69,286

Depreciation relating to customer infrastructure & equipment is recognised within Cost of Sales. All other depreciation is recognised within administrative expenses in the income statement.

Right of use assets as disclosed in the table above arise from lease agreements. These right of use assets are pledged as security for the corresponding lease liabilities.

In addition, bank borrowings are secured by a fixed and floating charge over all the Group's assets, including property, plant and equipment.

5. Trade and other receivables

	At 31 January 2023 £'000	At 31 January 2022 £'000
Trade receivables	32,462	22,427
Accrued revenue	2,224	1,162
Amounts receivable from group entities	1,141	1,162
Other receivables	3,572	1,521
Contract assets	10,743	6,700
Prepayments	11,131	9,586
	<u>61,273</u>	<u>42,557</u>

6. Cash and cash equivalents

	At 31 January 2023 £'000	At 31 January 2022 £'000
Cash at bank (GBP)	13,518	8,709
	<u>13,518</u>	<u>8,709</u>

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7. Trade and other payables

	At 31 January 2023 £'000	At 31 January 2022 £'000
Trade payables	16,376	12,202
Other tax and social security	2,538	2,448
Other creditors	4,688	3,204
Amounts payable to group entities	83	258
Accruals	5,980	7,117
	<u>29,665</u>	<u>25,229</u>

8. Provisions

	At 31 January 2023 £'000	At 31 January 2022 £'000
Opening Balance	1,835	2,220
Utilised during the year	(1,563)	(1,439)
Provided during the year	1,940	1,054
Closing Balance	<u>2,212</u>	<u>1,835</u>

Details of provisions are given in note 16 of the Group financial statements.

9. Leases

	At 31 January 2023 £'000	At 31 January 2022 £'000
Right of use assets		
Interest expense on lease liabilities	2,058	1,782
Total cash outflow for leases	46,493	43,908
Additions to right-of-use assets	59,085	30,851
Disposals from right-of-use assets	(3,177)	(4,353)
Depreciation charge – right of use assets	(43,212)	(40,530)
Carrying amount at the beginning of the year:	69,286	83,318
Carrying amount at the end of the year:	<u>81,983</u>	<u>69,286</u>
- Right of use assets	-	-
Lease liabilities		
Current	22,824	15,780
Non-current	42,068	37,446
	<u>64,892</u>	<u>53,226</u>

Lease payments not recognised as a liability

The company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense related to payments not included in the measurement of the lease liability is as follows:

	2023 £'000	2022 £'000
Short-term leases	4	-
Leases of low-value assets	1,225	1,046
	<u>1,229</u>	<u>1,046</u>

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10. Borrowings

	At 31 January 2023 £'000	At 31 January 2022 £'000
Amounts falling due within one year		
Bank loan	3,700	3,700
RCF drawdown	-	7,500
	<u>3,700</u>	<u>11,200</u>
	-	-
Amounts falling due after one year		
Bank loan	18,000	21,700
	<u>18,000</u>	<u>21,700</u>

Summary of borrowing arrangements:

Details of borrowings are given in note 18 of the Group financial statements.

11. Share Capital

	At 31 January 2023 No	At 31 January 2022 No
Number		
Ordinary A shares of £0.05	547,069	544,019
Ordinary B shares of £0.05	63,795	63,595
C1 shares of £0.05	13,130	12,750
C2 shares of £0.05	3,000	3,000
C3 shares of £0.05	5,350	5,900
C4 shares of £0.05	1,000	1,000
C5 shares of £0.05	750	750
Total share capital	<u>634,094</u>	<u>631,014</u>
Allotted, called up and fully paid		
	£	£
Ordinary A shares of £0.05	27,353	27,201
Ordinary B shares of £0.05	3,190	3,180
C1 shares of £0.05	657	638
C2 shares of £0.05	150	150
C3 shares of £0.05	268	295
C4 shares of £0.05	50	50
C5 shares of £0.05	38	38
Total share capital	<u>31,705</u>	<u>31,551</u>

12. Events After the Balance Sheet Date

On the 9th May 2023, a new £100m financing facility was signed. Giving us access to a £70m revolving credit facility, of which £22.1m was utilised to repay both the term loan and settle the arrangement fees. A £30m accordion, on standby to support with organic and/or inorganic investments. The agreement is a 3 year term with the option to extend to 5 years in totality.