

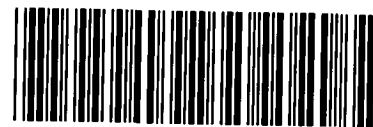
Rackspace Limited

Registered number: 03897010

Annual report and financial statements

For the year ended 31 December 2021

FRIDAY



ABJXAU2W

A04

30/12/2022

#282

COMPANIES HOUSE

Rackspace Limited
Registered number: 03897010
Annual report and financial statements
31 December 2021

Contents



	Page(s)
Strategic report	3
Directors' report	9
Independent auditors' report to the members of Rackspace Limited	16
Statement of Comprehensive Income	20
Balance Sheet	21
Statement of Changes in Equity	22
Notes to the financial statements	23

Strategic report

The directors present their strategic report for the year ended 31 December 2021 of Rackspace Limited ("the Company"). The Directors' are responsible for adhering to Section 172(1) of the Companies Act 2006 which imposes a general duty on every company director to act, in good faith, in the way they consider would be most likely to promote the success of the Company for the benefit of its shareholders and to also have regard to how the Company's activities and decisions taken will impact its stakeholders. The Directors' carry out specific measures to ensure compliance with Section 172(1) which are listed in the Strategic and Directors' Report below.

Principal activities

Revenue represents income from customer agreements for services contracted between the customers and the Company.

In addition, the Company provides services to Rackspace International GmbH ("RIG") in order for RIG to provide services to end customer. These customer agreements for services are contracted between Rackspace International GmbH, a related party registered in Switzerland, and the relevant customer. Other income in the statement of comprehensive income received by the Company from operating activities represents arms-length compensation for the provision of services to Rackspace International GmbH under a relevant agreement. The Company and RIG are part of the Rackspace group of companies ("the Group"), sharing the same ultimate parent company, Rackspace Technology, Inc. (note 24).

The principal services provided to customers of the Company and customers of Rackspace International GmbH (collectively "Rackspace", "we" or "our") fall under the umbrella of cloud computing and include:

Private cloud services

These service offerings provide compute, storage and applications accessed by a specific customer, either with a cloud management layer (in managed private cloud) or without one (in managed hosting). We offer managed private clouds powered by leading technologies like VMware, Microsoft and OpenStack in our data centres as well as in those owned by customers or by third parties such as colocation providers. We also offer managed VMware on AWS, delivering an increasingly popular hybrid combination. Our private cloud offerings can be used with or without virtualization software.

Managed public cloud

These offerings address the challenges of managing applications and data on the AWS, Microsoft Azure and Google Cloud public clouds. We bundle the underlying public cloud infrastructure with our expertise and experience, managed services and proprietary tools. While the infrastructure providers are responsible for their data centres, servers, storage, networking and operating system software, we help customers navigate, migrate, architect and deploy their applications on those leading public cloud platforms. After a migration, we manage, secure and optimize the customer's environments on an ongoing basis using our tools, automation and expertise, while supporting the customer with robust service level agreements. These offerings do not require us to commit significant capital expenditures given that third parties provide the infrastructure.

Managed hosting and colocation

For customers that require infrastructure on mature cloud platforms, we also offer them the option to place their own servers and networking hardware in our data centres (colocation) or to utilize dedicated servers provided by us in our data centres (managed hosting). However, demand for these services has lessened in recent years as more and more customers move their data and applications to the cloud. In some cases, we are proactively approaching customers and encouraging them to move from these mature services to the cloud in order to preserve the customer relationship.

Managed security services

We provide fully-integrated security solutions that combine cutting-edge technology with our in-house Security Operations Centre to provide customers with threat detection, analysis and remediation capabilities. Additionally, we have integrated security platforms into our management tools to give our customers one view of their organization's vulnerability and threats. We offer additional managed security services to customers in the areas of (i) security threat assessment and prevention, (ii) proactive threat detection and response, (iii) rapid remediation, (iv) governance, risk and compliance assistance across multiple cloud platforms and (v) Privacy and Data Protection services, including detailed access restrictions and reporting. Our 24x7x365 Customer Security Operations Centre is staffed by experienced Global Information Assurance Certification (GIAC) security analysts.

Strategic report (*continued*)

Principal activities (*continued*)

Managed applications

Our managed application services include running large-scale SaaS applications for customers on our and public cloud infrastructure, such as Oracle, SAP and Office 365. This includes key functions such as: managing a customer's applications and performing key functions such as account management and scaling up or down of required cloud resources. Additionally, we manage productivity and collaboration applications such as email and hosted Microsoft SharePoint.

Data services

We help customers use their data to further innovate by providing services and expertise for data extraction, transformation, ingestion, storage and analysis. We utilize both traditional analytics platforms and new, machine learning technologies to build repeatable, scalable and automated platforms that extract meaningful insights. Our developers, administrators and cloud and data analytics architects are skilled across a full range of database services, including managed relational databases (Oracle, SAP, SQL Server and MySQL), big data (Hadoop), managed NoSQL (MongoDB) and managed SAP HANA. Our data services are offered both through our managed services subscriptions and through our professional services offerings.

Professional services

We offer professional services across our entire portfolio, including multicloud solutions, applications, security and data. As part of our professional services process, we meet customers at every stage of their cloud journey and design solutions focused on modernizing their infrastructure and applications to enhance the value of their cloud technologies. This process often serves as the starting point for new business opportunities; following our initial professional services engagement, a customer will typically use any combination of our managed services under long-term contracts, and will often use our professional services multiple times as their technology needs continue to evolve. For some new customer relationships, the early stages of the relationship can be weighted toward infrastructure revenue; in these cases, our customer success sales team is tasked with up-selling and cross-selling additional services, including professional services, to enhance the overall customer relationship.

Open stack public cloud

In addition to our integrated services portfolio described above, we also offer customers our OpenStack Public Cloud solution, our third reporting segment, which represents our legacy business prior to our pivot to multicloud. While we expect to continue to offer our OpenStack Public Cloud solution, we ceased to actively market it to customers in 2017.

Objectives and strategy

We believe that the following characteristics differentiates Rackspace from our competitors and drive a continuous cycle of product innovation and product development:

1. **Focus on delivering strategic outcomes:** Our value proposition to customers includes a focus on solving strategic business problems, rather than selling a product or group of products in a point sale. Our customers are able to use our services to drive new revenue streams and enhance the value of their cloud investments, which may include collecting data to create new product offerings and applications, connecting workloads between clouds or automatically scaling cloud usage to match demand.
2. **Unified service experience for the multicloud:** We have developed Rackspace Fabric, a multi-tenant, end to-end service management platform enabling our customers to access all of our supported clouds and all of our managed services from a single, web-based interface. This technology provides customers with a toolkit to including unified billing, a central security model, unified ticketing and support interactions. This technology provides our customers with a consistent experience across all clouds and enables us to deliver a scalable and efficient means of offering our Fanatical Experience to our customers worldwide.
3. **Differentiated relationships with technology partners:** We benefit from differentiated partnerships with major public and private cloud vendors, including AWS, Azure, Google Cloud and VMware. We work with our partners' sales teams to offer bundled solutions through a single go-to-market effort. Additionally, we have insight into our partners' product roadmaps (and vice versa), providing critical inputs for both sides to develop complementary services and technology. We believe these relationships are beneficial to us, our customers and our partners; we and our partners both receive critical inputs for further innovation and benefit from joint go-to-market initiatives, while our customers are able to maximise their use of innovative technologies more efficiently, reduce time-to-market and remain competitive.

Strategic report (continued)

Objectives and strategy (continued)

4. **Customisable consumption of services:** Our service model enables customers to adapt their consumption of our services with the evolving needs of their businesses. Rackspace Service Blocks are packages of services tailored to address specific cloud use cases and enable a customised consumption model whereby customers can match their cloud needs with the associated spend. Rackspace Service Blocks allow our customers to maintain greater agility, performance and cost-efficiency as compared to traditional IT services contracts. Additionally, this structure provides us with a platform for cross-sell and up-sell opportunities with customers over time, resulting in a land-and-expand model in which customers increase their use of our services as their cloud needs evolve.
5. **We deliver a Fanatical Experience to our customers:** The Fanatical Experience that we deliver to our customers is the foundation of the trust our customers place in us when they choose us to build, manage and operate their cloud environments. That process encompasses everything from the way we recruit, interview and test prospective employees; to the way we continuously train new and veteran employees in the latest technologies; to the way we make the specialised expertise of global Rackers available to customers 24x7x365 by phone, chat, email or web portal; to the way we empower Rackers to invest in new research and development projects; to our hyper focus on customer experience and satisfaction; and to the way we leverage automation and proprietary tools and processes to make our services highly reliable and easy for our customers to use.

Key performance indicators

The key performance indicator for the Company is the growth of revenue and management of cost. Refer to "Results and Performance" in the Strategic Report for details. As part of the budgetary process, targets are set in order to effectively manage the activities of the Company. Performance is reviewed on a regular basis and appropriate actions are taken as required. Non-financial KPI's are disclosed in the Directors' report under stakeholder engagement section.

Results and performance

Revenue in the year amounted to £106,312,259 (2020: £125,171,202). The primary reason for the decrease was due to churn. During the year, the Company's combined cost of sales and administrative expenses increased marginally in the current year (2021: £323,483,567 2020: £307,742,339). Other income in the year amounted to £234,886,528 (2020: £202,499,549). The primary reason for the increase was due to higher income from intercompany hosting services. Rackspace Limited continues to bears third party infrastructure cost for UK customers that are contracted with Rackspace International GMBH, however Rackspace Limited is compensated for those costs via hosting fee income. This has resulted in distorted gross margin however, the net margin is intact in line with transfer pricing arrangement.

The results of the Company for the year ended 31 December 2021 are set out in the statement of comprehensive income on page 18. Profit before taxation for the year amounted to £22,297,544 (2020: £9,184,841). A net profit of £15,334,229 was made from a onetime sale of land situated in Crawley.

The net assets of the Company at the end of the year amounted to £39,822,181 (2020: £19,044,729). The increase is primarily caused by a capital contribution of £15,661,106 to Datapipe Europe Limited, decrease in tangible assets driven by depreciation £(16,664,632), and the unwinding of the leasing structure with Rackspace UK Leasing Limited, a related company registered in the UK, resulting in a loan repayment of £(28,769,237) and lease termination of £(34,546,642).

The Directors' consider the long-term impact on the Company of key decisions made. The Directors' delegate this to the Senior and Financial Leadership Team who perform budgetary analysis of decisions to be made and consider the likely consequences in the long-term. The monitoring of the long-term impact of key decisions made is reviewed by the Directors and management at Rackspace International GmbH, a related company registered in Switzerland, as part of meetings that consider regional results including the Company's results. Furthermore, all entity level controls are reviewed as part of the ultimate parent company's (note 24) group wide control framework.

Strategic report (*continued*)

Principal risks and uncertainties

Rackspace International GmbH, a related company registered in Switzerland, principally bears the risks suffered by Rackspace Limited and Management use the experts at Rackspace International GmbH to manage a number of its risks. The principle risks that may affect the business include the following.

Market risk

Market risk / Contract Renewal risk arises where the Group is unable to retain or secure new customers thus ensuring that it utilises its assets efficiently. As Rackspace Limited is a service provider, remunerated on a cost plus basis, all of this risk is borne by Rackspace International GMBH. The Rackspace International GMBH Board monitors contract renewals and new business on an ongoing basis to manage this risk.

Security risk

If there is a security breach or another interruption to the infrastructure, Rackspace International GMBH may be exposed to lawsuits, incur additional costs, lose customers, or suffer reputational damage as a result of the breach. Rackspace Limited does not bear any risk in this area. Rackspace Limited is required under the contract to maintain appropriate insurance to guard against loss or damage to the servers.

Price volatility risk

Rackspace International GMBH bears the risk that external prices and therefore future income streams fall relative to originally anticipated levels, which could reduce profitability and ultimately make the services unviable. Pricing pressure has particularly been seen in the cloud computing sector. Again, Rackspace Limited does not bear this risk since it is rewarded in respect of the costs of providing the service.

Software / product development risk

Within the industry, this specific risk arises where the technical products / services change at a faster rate than the Group can maintain, or that technical advances make the Group's product / service differentiation unrecognisable. If the Group cannot keep pace with developments, customers will seek alternative service providers. As the contracting entity, Rackspace International GMBH bears the risk of a reduction in revenue from customers due to the products becoming obsolete or not including the desired offerings.

Warranty / service liability risk

This is the risk that there are technical difficulties or system failures that prevent the company providing the services that it has contracted to do. Rackspace International GMBH enters into Service Level Agreements (SLAs) with its customers and bears the costs associated with those SLA terms not being met. Rackspace Limited does not bear any of this risk.

Climate change risk

Concerns about greenhouse gas emissions and global climate change may result in environmental taxes, charges, assessments or penalties, increased electricity prices and loss of customers were businesses fail to address changing consumer demands towards more environmentally responsible business practices.

The effects of human activity on the global climate change have attracted considerable public and scientific attention, as well as the attention of the UK government. Efforts are being made to reduce greenhouse emissions, particularly those from coal combustion by power plants, some of which we rely upon for power. The added cost of any environmental taxes, charges, assessments or penalties levied on these power plants could be passed on to us, increasing the cost to run our data centres. Environmental taxes, charges, assessments or penalties could be levied directly on us in proportion to our carbon footprint. Any enactment of laws or passage of regulations regarding greenhouse gas emissions by the U.K. or any domestic or foreign jurisdiction we perform business in, could adversely affect our business, financial condition and results of operations. Additionally, consumer demand for environmentally conscious business ethos could result in loss of contract renewals and market share were consumers turn to competitors that are more environmentally focused.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Climate change risk (continued)

Management recognise that our business operations have environmental impacts, including carbon emissions, air pollution, natural resource use, water consumption and general waste consumption. These impacts are predominantly driven by the Company's energy consumption and therefore to mitigate impacts where possible the Company's primary focus has been to ensure that the infrastructure employed is energy efficient. Energy usage is continually monitored, and the Company has historically run projects to ensure that the most efficient technologies are implemented. In 2021 no new projects were deemed suitable due to the current levels of energy efficiencies implemented. Increases in efficiencies resulting in reduced greenhouse gas emissions is evident from the reduction of 1,711 tCO₂e arising from electricity, gas, steam, diesel and water consumption in comparison to 2020.

In the UK, the risk of flooding is predicted to increase as a result of climate change. Flooding presents a physical risk to site locations and poses the threat of physical damage to sites, plant and machinery and personal safety risks. The event of a flood could potentially disrupt operations which may result in lost revenue, additional costs and damage to customer relations. This risk is elevated for sites located within designated areas prone to flooding. To mitigate this risk the Company's UK offices and data centres are located outside of designated areas prone to flooding. Flood zones are monitored to ensure that the Company is aware of any changes which may arise from climate change.

Rackspace International GmbH bears the financial impact resulting from climate change risk.

Financial instruments

The Company finances its activities with a combination of intercompany loans, leases, cash and short-term deposits and capital contributions. Overdrafts are used to satisfy short term cash flow requirements. Other financial assets and liabilities, such as trade receivables and trade payables arise directly from the Company's operating activities.

Financial instruments give rise to credit risk, liquidity risk, interest rate and foreign currency risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade. The Company has a detailed bad debt policy that considers factors such as ageing profile and historic default rates. See Note 14 for exact provision details. Rackspace International GmbH bears all credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's use of financial instruments is confined to bank accounts, leases and loan funding from Rackspace Asia Limited, Datapipe, Inc., and Rackspace Benelux B.V. Management ensures that the Company has sufficient cash at bank and debt facilities from group undertakings to allow it to settle all obligations as they fall due.

Foreign currency risk

The majority of customers are invoiced, and substantially all of the Company's expenses are paid, in the functional currency of the Company however some customers are invoiced in currencies other than the functional currency. Rackspace International GmbH bears all foreign exchange risk arising from trading items.

The Company's loans are also not subject to foreign currency risk as they are denominated in sterling. Any currency not denominated in sterling is cross charged to Rackspace International GmbH through unrealised foreign exchange gain or loss. Accordingly, foreign currency movements will not materially affect the profit of the Company.

Strategic report (continued)

Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk of fluctuating interest rates. Management regularly monitors interest rate movements and consider any material impact on the financial statements from unfavourable interest rate movements in the foreseeable future of the Company.

On March 5, 2021, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it will not compel panel banks to contribute to the overnight 1, 3, 6 and 12 months LIBOR tenors after June 30, 2023 and all other tenors after December 31, 2021. LIBOR may be replaced by the Sterling Overnight Index Average ("SONIA") or other benchmark rates over the next several years. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the U.K., the U.S. or elsewhere.

Some of the Company's intercompany one year Revolving Credit Facilities use LIBOR as a benchmark for establishing the applicable interest rate, but the First Lien Credit Agreement includes provisions relating to the future discontinuance of LIBOR and sets forth mechanics for establishing the replacement of LIBOR with an alternative benchmark rate. The consequences of the phase out of LIBOR cannot be entirely predicted at this time. Any alternative rate for calculating interest with respect to our credit facility may not be as favourable or perform in the same manner as LIBOR and could lead to an increase in our interest expense.

In addition, the transition process may involve, among other things, increased volatility or illiquidity in financial markets, which could also have an adverse effect on us whether or not any replacement rate applicable to our borrowings is affected. Any such effects of the transition away from LIBOR, as well as other unforeseen impacts, may result in increased interest expense and other expenses, difficulties, complications or delays in connection with future financing efforts or otherwise have an adverse impact on our financial condition.

The Company is not drawn on any of its revolving intercompany credit facility agreements using the LIBOR benchmark and has not renewed all other loan agreements that rely on variable interest benchmarks.

Environmental responsibility

As part of the ISO 14001 framework followed by our operations, the Company has established and maintains an Environmental Management system. This ensures all required environmental aspects are identified and the relevant procedures implemented to manage those aspects that have or can have significant impact on the environment.

In support of our commitment to our employees and the environment our Data Centres and Offices are certified to both the international environmental management standard, ISO 14001, which provides a framework for managing our environmental responsibilities, including energy and waste management, and BS OHS 18001 for our commitment to workplace wellbeing.

Our ISO 14001 certificate number is EMS 581182 and our BS OHS 18001 is numbered OHS 587454. The Company are subject to on-going external assessment by our certification body, BSI (British Standards Institution), with a full re-assessment every three years.

Rackspace Limited
Registered number: 03897010
Annual report and financial statements
31 December 2021

On behalf of the board.



A Marroquin
Director

Unit 5, 8 Millington Road
Hyde Park Hayes
Hayes
Middlesex
UB3 4AZ

Dated 22 December 2022

Directors' report

The directors present their directors' report and audited financial statements for the year ended 31 December 2021 for Rackspace Limited ("the Company").

Rackspace Limited ("the Company") is a company domiciled in the United Kingdom under the company number 03897010. It is a wholly owned subsidiary of Rackspace Benelux B.V., a company domiciled in the Netherlands.

Directors

The directors who held office during the financial year and up to the date of signing the financial statements were as follows:

Martin Blackburn (resigned on 7 December 2022)
Aimee Marroquin (appointed 26 February 2021)
Christopher Rosas (resigned on 26 February 2021)
Stefanie Box (resigned 10 December 2021)

Dividend

No dividend was paid in the year ending 31 December 2021 (2020: £33,500,000). No final dividend has been recommended by Directors during the year or at the date of the report (2020: £nil).

Financial risks management

Discussion of the financial risks of the Company is in the financial instruments section of the Strategic Report.

Statement by the Directors in relation to Performance of their Statutory Duties in accordance with Section 172(1) Companies Act 2006

This section sets out an overview of how the directors have fulfilled their duties under s172 of the Companies Act 2006. S172 requires that directors act in a way that is most likely to promote the success of the company for the benefit of its members as a whole. The specific requirements of s172 are that directors have regard to:

- the likely long-term consequences of their decisions;
- the interests of the Company's employees;
- the need to maintain business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and environment;
- the desirability of maintaining a reputation for good business ethics; and
- the need to act fairly between members of the Company.

The Directors' consider the long-term impact on the Company of key decisions made. The Directors' delegate this to the Senior and Financial Leadership Team who perform budgetary analysis of decisions to be made and consider the likely consequences in the long-term. The monitoring of the long-term impact of key decisions made is reviewed by the Directors and management at Rackspace International GmbH, a related company registered in Switzerland, as part of meetings that consider regional results including the Company's results. Furthermore, all entity level controls are reviewed as part of the ultimate parent company's (note 24) group wide control framework.

We have detailed out the importance of different stakeholders below and how we engage with them and influence decision making

Stakeholder engagement and influence on decision making

Employees

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through formal and informal meetings, the corporate intranet and other methods of communication. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Company and are of interest and concern to them as employees. The Company also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them. Each year, the Company performs an employee engagement survey, the results of which are shared by the management team to all employees.

Directors' report (*continued*)

Stakeholder engagement (*continued*)

The Company encourages the involvement of employees in the Company's performance through an Employee Share Purchase Plan which enables employees to buy Rackspace Technology, Inc. shares at a discount and for qualifying employees, a Restricted Stock Unit grant which vest over a two to three year period.

In considering applications for employment from disabled people in the UK, the Company seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the jobs for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

Suppliers

The Company strives to develop long-term relationships with suppliers and subcontractors to ensure continuous high standards of delivery are adhered to. The Company does this by performing quarterly business reviews (QBR) which outline issues and improvement areas between the Company and key suppliers. The QBR engagement helps in enhancing and fostering the relationship with key suppliers. All suppliers undergo a set-up process that includes financial vetting and the Company's supplier information packet provides the vendors details on the Company's policies including Supplier Code of Conduct, Human Trafficking, Environmental Strategy etc.

Customers

The Company enhances its relationship with its customers by providing them with fanatical experience, assist them with adopting proven modern technologies and integrated solutions, offering unbiased opinion and offering customers proven operating expertise. The Company primarily performs net promoter score (NPS) to measure its engagement and performance with the customer. On a daily basis, the customer support team is engaged with the Company's customers and provide them with quick and long-lasting solutions. The Company has defined a well laid out anti-corruption and bribery policy to guide how it deals with stakeholders including customers within and outside the UK.

Principal decisions

We define principal decisions as both those that are material to the Company, but also those that are significant to our key stakeholder groups. In making the following principal decisions the Directors' considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company. Principal decisions such as stakeholder engagement, dividends, environmental responsibility etc. are outlined above and their impact to the stakeholders.

Charitable and political contributions

During the year the Company made no charitable donations (2020: £250). The Company did not make any political donations during the year (2020: £nil).

Qualifying third party directors' indemnity

Rackspace US, Inc. has purchased directors' and officers' liability insurance for all directors and maintained such insurance throughout the year and at the date of approval of the financial statements. The Company has entered into a qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Going concern

The Company is in a net current asset position of £4,852,180 (2020: £18,516,313) and net asset position of £39,822,181 (2020: £19,044,729) at year-end. Having considered future cashflow forecast and financial support from the parent company Rackspace US, Inc., it is the opinion of the directors that the Company has adequate resources to continue to meet its ongoing financial obligations for at least 12 months from the date of signing the financial statements as Rackspace US, Inc has sufficient resources to support the Company. Therefore, the directors have adopted the going concern basis of preparation in the financial statements.

Directors' report (*continued*)

Events occurring after the reporting period

On 24 February 2022, Russia invaded Ukraine, marking this as a major advance in the ongoing Russo-Ukrainian conflict that commenced in 2014. The Company is closely monitoring the development of the ongoing conflict and its related impact on the Company's business. Principal concern areas include supply chain and resource disruptions loss of business relationships and financial restrictions but are not deemed material for the Company.

We do not consider this an adjusting event in accordance with IAS 10 as this war was not foreseen at year end. The Company is not aware of any additional material impact on the financial statements arising from subsequent events.

Carbon Emission Reporting

In order to comply with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ('the 2013 Regulations') and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ('the 2018 Regulations'), the Company has disclosed greenhouse gas activity for the year ended 31 December 2021.

With reference to the Environmental Reporting Guidelines March 2019, the Company's environmental impact has been analysed on an operational control basis.

The scope of this analysis includes three office sites and four datacentre sites.

Offices

- HPH5 - Hyde Park Hayes 5; primary office building that accommodates most department workstations, canteen and employee facilities

Datacentres

- LON3 – Datacentre
- LON5 – Datacentre

The branch in Dubai does not meet the requirement for disclosure as it is non-UK based.

The Company has identified greenhouse gas emissions from the consumption of electricity, gas, diesel and steam to be the key environmental impact:

- **Electricity:** The Company's main environmental impact arises from electricity consumed through its datacentre sites due to the housing of hardware such as servers, networking equipment, and data storage units to support its internal and customer needs. Electricity used at our offices is driven mainly from powering workstations, lighting, heating and general day to day operations.
- **Gas:** Used for primarily heating the Company's premises and to operate its canteen based at the head office. The Company received invoices for the gas consumption at the head office, however the main usage is controlled by our canteen provider.
- **Steam:** Datacentres require steam to increase humidity in the environment which can prevent electrostatic discharge that can damage sensitive electronics. In turn this reduces the risk of database damage and data loss.
- **Diesel:** Diesel generators are required to support operations in the event of failure of our main power system. The requirement exists at:
 - The Company's leased datacentre sites
 - The Company's leased office premises, managed by our maintenance company within its overall premises' contract
- **Water:** Water use at datacentres is mainly required to generate steam. At our office sites water use mainly comes from the use of the canteen and bathroom facilities.

Directors' report (continued)

Carbon Emission Reporting (continued)

	2021	2020
Emission from purchase of heat, electricity, steam and cooling: Scope 2 Emissions (tCO ₂ e)	17,220	18,931
Indirect emissions from business travel and air conditioning: Scope 3 Emissions (tCO ₂ e)	-	-
Total Revenue (£)	106,312,259	125,171,202
Intensity Ratio (kwh/£ of revenue)	0.76	0.64
Total energy use (kwh of electricity, gas and steam)	80,767,527	80,592,220

For the intensity ratio, we have computed emission per pound of revenue earned. This will enable comparison to emissions in future years and other similar organisations. Please refer to the Strategic Report under "Environmental responsibility" for compliance related to ISO 14001 framework.

Measurement and data collection

The Company has collated its data per the guidance of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting standard. Our data is obtained from supplier invoices, meter readings and estimations.

Omissions

The Company's consumption of gas and water at our datacentres is outside our control scope and hence data is not obtainable.

Further measures to reduce our carbon footprint have not been taken during 2021 as a result of the Covid pandemic.

Future likely developments

The directors aim to maintain the management policies and processes that support the principal activity of the Company. The Company is continually reviewing and refining these policies and processes to improve the framework of financial control and to manage costs effectively.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' report *(continued)*

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year.

Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors 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 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Rackspace Limited
Registered number: 03897010
Annual report and financial statements
31 December 2021

On behalf of the board.



A Marroquin
Director

Unit 5, 8 Millington Road
Hyde Park Hayes
Hayes
Middlesex
UB3 4AZ

22 December 2022

Independent auditors' report to the directors of Rackspace Limited

Report on the audit of the financial statements

Opinion

In our opinion, Rackspace Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: Balance sheet as at 31 December 2021; Statement of comprehensive income, Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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 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.

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

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

Independent auditors' report to the directors of Rackspace Limited (continued)

Reporting on other information

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

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

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Independent auditors' report to the directors of Rackspace Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to company laws, tax compliance legislation, environmental regulations, Data protection act and the General Data Protection Regulation 2016/679, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as company laws and tax compliance legislations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and potential management bias in the selection and application of significant accounting judgements and estimates. Audit procedures performed by the engagement team included:

- Evaluation of design effectiveness of management's controls to prevent and detect irregularities
- Enquiry with management about known or suspected instances of non-compliance with laws and regulations and fraud. Review of quarterly litigation summary and making necessary inquiry and inspection on management's estimate on legal claims. Review of legal expense account code to assess if there are any undisclosed litigation and claim. Reviewing minutes of meetings of management and board of directors.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's directors as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the directors of Rackspace Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Emma L Sowerby (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
22 December 2022

Statement of Comprehensive Income
for year ended 31 December 2021

	Note	2021 £	2020 £
Revenue	2	106,312,259	125,171,202
Cost of sales		(73,280,358)	(66,851,762)
Gross profit		33,031,901	58,319,440
Administrative expenses	4	(250,203,208)	(240,890,577)
Other operating income	3	234,886,528	202,499,549
Gain on sale of land	13	15,334,229	-
Operating profit	5	33,049,450	19,928,412
Interest receivable and similar income	8	267,102	1,326,289
Interest payable and similar expenses	9	(11,019,008)	(12,069,860)
		(10,751,906)	(10,743,571)
Profit before taxation		22,297,544	9,184,841
Tax on profit	10	(1,520,092)	(2,852,382)
Profit and total comprehensive income for the year		20,777,452	6,332,459

The notes on pages 23 to 46 are an integral part of these financial statements.

Balance Sheet

as at 31 December 2021

	Note	2021 £	2020 £
Fixed assets			
Investments	11	62,890,106	47,229,000
Tangible fixed assets	13	116,453,687	133,118,318
		<u>179,343,793</u>	<u>180,347,318</u>
Current assets			
Debtors			
(including £7,834,544 falling due after more than one year (2020: £6,171,947))	14	79,952,204	76,096,649
Amounts owed by group undertakings	15	-	28,769,237
Deferred tax assets			
(falling due after more than one year)	16	4,132,451	4,496,870
Cash at bank and in hand		19,491,930	8,688,469
		<u>103,576,585</u>	<u>118,051,225</u>
Creditors: amounts falling due within one year	17	98,724,405	99,534,912
Net current (liabilities)/assets		<u>4,852,180</u>	<u>18,516,313</u>
Total assets less current liabilities		<u>184,195,973</u>	<u>198,863,631</u>
Creditors: amounts falling due after more than one year	17	144,373,792	179,818,902
Net assets		<u>39,822,181</u>	<u>19,044,729</u>
Capital and reserves			
Called up share capital	20	1,000	1,000
Profit and loss account	20	39,821,181	19,043,729
Total equity		<u>39,822,181</u>	<u>19,044,729</u>

These financial statements on pages 20 to 46 were approved by the board of directors on 22 December 2022 and were signed on its behalf by:



A Marroquin
Director

The notes on pages 23 to 46 are an integral part of these financial statements.

Statement of Changes in Equity
for year ended 31 December 2021

	Note	Called up share capital £	Retained earnings £	Total equity £
Restated balance at 1 January 2020	20	1,000	46,211,270	46,212,270
Profit and total comprehensive income for the year		-	6,332,459	6,332,459
Group share based payments		-	5,353,461	5,353,461
Group share based payments intra-group arrangements		-	(5,353,461)	(5,353,461)
Dividends paid		-	(33,500,000)	(33,500,000)
Balance at 31 December 2020	20	1,000	19,043,729	19,044,729
Balance at 1 January 2021	20	1,000	19,043,729	19,044,729
Profit and total comprehensive income for the year		-	20,777,452	20,777,452
Group share based payments		-	2,757,318	2,757,318
Group share based payments intra-group arrangements		-	(2,757,318)	(2,757,318)
Dividends paid		-	-	-
Balance at 31 December 2021	20	1,000	39,821,181	39,822,181

The notes on pages 23 to 46 are an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Rackspace Limited ("the Company") is a private company limited by share capital, incorporated and domiciled in England in the United Kingdom under the company number 03897010. The address of its registered office and Company is Unit 5, 8 Millington Road, Hyde Park Hayes, Hayes, Middlesex, UB3 4AZ. It is a wholly owned subsidiary of Rackspace Benelux B.V., a company domiciled in the Netherlands.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 issued in March 2019 and effective immediately have been applied.

In preparing these financial statements, the company apply the recognition, measurement and presentation requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"), make amendments where necessary in order to comply with the Act and sets out below where advantage of the FRS 101 disclosure exemptions have been taken.

The Company is a member of a group of companies, where an intermediate parent company and largest group of undertakings, Rackspace Technology, Inc. (note 24) includes the Company in its consolidated financial statements. Therefore, the Company has taken advantage of the exemptions available under section 401 of the Companies Act from the requirement to prepare consolidated financial statements. The consolidated financial statements of this group may be obtained from ir.rackspace.com.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets;
- Disclosures in respect of transactions with any group related parties as per IAS 24;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures

As the consolidated financial statements of Rackspace Technology, Inc. (note 24) include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share-based payments as per section paragraph 45(b) and paragraph 46 to 52;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*
- Certain disclosures required by IFRS 15 Revenue from Contracts with Customers -Paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In some cases, the accounting treatment of a particular transaction is specifically dictated by adopted IFRS and does not require management's judgment in its application, while in other cases, significant judgment is required in making estimates, and selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. These judgments and estimates affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures.

The Company reviews its estimates and judgments on an ongoing basis, including those related to revenue recognition, service credits, allowance for doubtful accounts, property and equipment, intangibles, and taxation.

Notes to the financial statements

1 Accounting policies (*continued*)

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2021 that have had a material impact on the Company's financial statements. The Company has not early adopted any new standards or interpretations effective after the year ended 31 December 2021.

1.2 Going concern

The Company is in a net current asset position of £4,852,180 (2020: £18,516,313) and net asset position of £39,822,181 (2020: £19,044,729) at year-end. Having considered future cashflow forecast and financial support from the parent company Rackspace US, Inc., it is the opinion of the directors that the Company has adequate resources to continue to meet its ongoing financial obligations for at least 12 months from the date of signing the financial statements as Rackspace US, Inc has sufficient resources to support the Company. Therefore, the directors have adopted the going concern basis of preparation in the financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate at the date of the transaction and monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Notes to the financial statements

1 Accounting policies (continued)

1.5 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Right of use building and equipment	-	Over the life of the lease or useful life, if shorter
Leasehold improvements	-	Over the life of the lease or useful life, if shorter
Plant and machinery	-	Over the life of the lease or between 4 years and 6 years
Furniture and fittings	-	Between 5 years and 7 years
Land (held for sale)	-	Not depreciated

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.6 Intangible assets

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

Licences	-	1-4 years
----------	---	-----------

1.7 Investments

Investments in subsidiary undertakings are recorded at cost less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

1.8 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through statement of comprehensive income is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of comprehensive income.

Notes to the financial statements

1 Accounting policies (continued)

1.8 Impairment excluding deferred tax assets (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.9 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Share based payments

The Company has entered into an Intra-Group arrangement, whereby the ultimate parent company Rackspace Technology, Inc. (note 24) will issue equity-settled share-based payment awards to certain employees of the Company. Rackspace Technology, Inc. will grant its own shares and options to the employees and will recharge this cost to the Company. For the purpose of expense recognition in the Company financial statements, the market value of the shares is utilised, as the intercompany arrangement for recharging these expenses to the subsidiaries is based on market values at the point it becomes taxable to the employees. Refer to note 18.

Notes to the financial statements

1 Accounting policies (*continued*)

1.10 Revenue

All our revenue is from services rendered primarily within the United Kingdom to customers contracted with the Company. We account for a contract when it has approval and commitment from all parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We provide cloud computing to customers, which is broadly defined as the delivery of computing, storage and applications over the Internet. Cloud computing is a service transaction under which the services we provide vary on a daily basis. The totality of services provided represent a single integrated solution tailored to the customer's specific needs. As such, our performance obligations to our customers consist of a single integrated solution delivered as a series of distinct daily services. We recognise revenue on a daily basis as services are provided in an amount that reflects the consideration to which we expect to be entitled in exchange for the services. Our usage-based arrangements generally include variable consideration components consisting of monthly utility fees with a defined price and undefined quantity. Additionally, our contracts contain service level guarantees that provide discounts when we fail to meet specific obligations and certain products may include volume discounts based on usage. As these variable consideration components consist of a single distinct daily service provided on a single performance obligation, we account for this consideration as services are provided and earned. In accordance with the series guidance regarding modification to a single performance obligation, when contracts are modified to add, remove or change existing services, the modification will only affect the accounting for the remaining distinct goods and services provided. As such, our contract modifications are accounted for prospectively.

Our largest source of revenue relates to fees associated with Managed Hosting & Private Cloud arrangements. We recognise revenue as services are performed. Contracts for Managed Hosting & Private Cloud arrangements generally have a fixed term usually not exceeding 36 months with a monthly recurring fee based on the computing resources reserved and provided to the customer, the complexity of the underlying infrastructure, and the level of support we provide. Timing of revenue recognition may differ from timing of invoicing. We record a contract asset when revenue is recognised prior to invoicing and we record deferred revenue when revenue is recognised subsequent to invoicing. At the end of the initial term, contracts may be renewed or automatically extended on a month-to-month basis. Customers generally have the right to cancel their contracts by providing prior written notice to us of their intent to cancel the remainder of the contract term. Many of our contracts require our customers to pay early termination fees in the event they cancel a contract prior to the end of its term. These fees are recognised as revenue in the period of contract termination as we have no further obligation to perform.

Our other primary sources of revenue are for our OpenStack public cloud, Managed public cloud and Managed security services offerings. Customers are generally invoiced monthly based on usage. Contracts for these arrangements typically operate on a month-to-month basis and can be cancelled at any time without penalty.

We also offer customers the flexibility to select the best combination of offerings in order to meet the requirements of their unique applications and provide the technology to seamlessly operate and manage multiple cloud computing environments. Arrangements can contain multiple performance obligations that are distinct, which are accounted for separately. Each performance obligation is recognised as services are provided based on their standalone selling price.

Notes to the financial statements

1 Accounting policies (*continued*)

1.11 Leases

The Company has applied IFRS 16 using the modified retrospective approach whereby the lease liability will equal the right of use asset. IFRS 16 has resulted in almost all leases being recognised on the balance sheet by the Company, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use of the leased item) and a financial liability to pay rentals are recognised. The lease term corresponds to the non-cancellable period of each contract except in cases where the Company is reasonably certain of exercising the renewal options contractually foreseen. The only exceptions are short-term (less than 12 months) and low-value leases.

(i) *Measurement of right of use asset*

At the commencement date, the right-of-use asset is measured at cost and comprises:

- the amount of the initial measurement of the lease liability, to which is added, if applicable, any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee for the conclusion of the contract. These are incremental costs which would not have been incurred if the contract had not been concluded; estimated costs for restoration and dismantling of the leased asset according to the terms of the contract. At the date of the initial recognition of the right-of-use asset, the lessee adds to its costs, the discounted amount of the restoration and dismantling costs through a return obligation liability or provision. These costs also include fixed maintenance obligations;
- right of use assets are presented within 'Property, plant and equipment'. The Company has no investment property.

Following the initial recognition, the right-of-use asset will be depreciated in accordance with property, plant and equipment accounting policy above.

(ii) *Measurement of lease liability*

At the commencement date, the lease liability is recognised for an amount equal to the present value of the lease payments over the lease term.

Amounts involved in the measurement of the lease liability are:

- fixed payments (including in-substance fixed payments; meaning that even if they are variable in form, they are in-substance unavoidable);
- variable lease payments that depend on an index or a rate, initially measured using the index or the rate in force at the lease commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Notes to the financial statements

1 Accounting policies (continued)

1.11 Leases (continued)

(ii) Measurement of lease liability (continued)

- The lease liability is subsequently measured based on a process similar to the amortised cost method using the discount rate;
 - the liability is increased by the accrued interests resulting from the discounting of the lease liability, at the beginning of the lease period;
 - less payments made.
- The interest cost for the period as well as variable payments, not taken into account in the initial measurement of the lease liability and incurred over the relevant period are recognised as costs.
- In addition, the lease liability may be remeasured in the following situations:
- change in the lease term;
 - modification related to the assessment of the reasonably certain nature (or not) of the exercise of an option;
 - remeasurement linked to the residual value guarantees;
 - adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Vendor Financing

We enter into an instalment payment arrangements with certain equipment and software vendors from time to time. These arrangements are generally for more than a year with costs spread across the period. These arrangements have been assessed to have financing components and have been calculated using imputed interest rates.

1.12 Contract assets

Timing of revenue recognition may differ from the timing of invoicing to customers. Invoiced amounts and accrued unbilled usage is recorded in accounts receivable and either deferred revenue or revenue.

Trade accounts receivable are recorded at the invoiced amount and generally do not bear interest. Our accounts receivable balance also includes unbilled amounts representing revenue recorded for usage-based services provided in the period, but which are invoiced in arrears. We record an allowance for doubtful accounts for estimated losses resulting from uncollectible receivables. When evaluating the adequacy of the allowance, we consider historical bad debt write-offs and all known facts and circumstances such as current economic conditions and trends, customer creditworthiness, and specifically identified customer risks (see 1.20 Accounting estimates and judgements).

Our arrangements contain service level commitments with our customers. To the extent that such service levels are not achieved or are otherwise disputed, we are required to issue service credits for a portion of the service fees paid by our customers. At each reporting period, we accrue for credits which are due to customers, but not yet issued.

We recognise revenue for certain fixed term contracts in which services are provided in advance of the first invoice. This revenue is recognised as a contract asset, separate from accounts receivable. Whereas a contract liability, included as deferred revenue within Trade Creditors on our Statement of Financial Position, is recognised when services are invoiced, or payment received, prior to being provided.

1.13 Contract fulfilment assets

We recognise an asset for the incremental costs to obtain and fulfil a contract with a customer. Costs to obtain a contract primarily include sales commissions and costs to fulfil a contract which include implementation and set-up related expenses. These costs are capitalised within the Balance Sheet and are recognised as expense over the period the related services are expected to be delivered to the customer. The capitalised commission is amortised over the average contractual life which can vary from 24 months to 36 months for hosting services and cloud revenue. If such period is less than 12 months, we have elected to apply the practical expedient and will expense costs as incurred. Sales commissions expense is recorded in administrative expenses and implementation and set-up costs are recorded in cost of sales within the Statement of Comprehensive Income. Capitalised costs are included in trade and other receivables on the Balance Sheet.

Notes to the financial statements

1 Accounting policies (*continued*)

1.14 Other operating income

Other operating income represents compensation for the provision of services to customers of a related company.

1.15 Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in statement of comprehensive income using the effective interest method and unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable is recognised in statement of comprehensive income as it accrues, using the effective interest method.

1.16 Cost of sales and administrative expenses

Cost of revenue primarily consists of expenses related to personnel, software licenses, the costs to operate our data centre facilities, including depreciation expense, and infrastructure expense related to our service offerings bundled with third party clouds. Personnel expenses include the salaries, non-equity incentive compensation and related expenses of our support teams and data centre employees. Data centre facility costs include rent, utility costs, maintenance fees, and bandwidth.

Selling and general and administrative expenses primarily consist of: (i) employee-related costs for functions such as management, sales and marketing, R&D, finance and accounting, human resources, information technology, and legal; (ii) costs for advertising and promoting our services and to generate customer demand; (iii) general costs such as professional fees, office facilities, software, and equipment expenses, including the related depreciation, and other overhead costs; and (iv) definite-lived intangibles amortization expense.

1.17 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.18 Cash at bank and in hand

Cash at bank and in hand include cash in hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in creditors: amounts falling due within one year.

1.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The Company is a member of a qualifying group of UK resident companies which are considered a tax group under the group relief tax system. Under this system, current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Beginning in 2019, payment for group relief is made equal to the tax benefit and amounts are included within the current tax disclosures.

Notes to the financial statements

1 Accounting policies (continued)

1.19 Taxation (continued)

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The only temporary differences not provided for are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.20 Accounting estimates and judgements

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 issued in March 2019 and effective immediately have been applied.

In preparing these financial statements, the company apply the recognition, measurement and presentation requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"), make amendments where necessary in order to comply with the Act and sets out below where advantage of the FRS 101 disclosure exemptions have been taken.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. No accounting judgements were made by management.

Useful economic lives of tangible and intangible assets

The annual depreciation and amortisation charge for tangible and intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 12 and 13 for the carrying amount and notes 1.5 and 1.6 for the useful economic lives, for each class of assets.

Impairment of trade receivables

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the ageing profile of receivables and historical experience. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The adoption of IFRS 9 from 1 January 2019 did not have a material effect on the Company's financial statements. See note 14 for the net carrying amount of the receivables.

Impairment on investments

The Company performs an impairment assessment annually on each of its trading subsidiaries to determine if there is any indication of impairment on these assets by assessing the asset position against carrying value of the investment. If any such indication exists, then an estimated recoverable amount is calculated using EBITDA multiple derived from estimating revenue by considering historical trend multiplied with EBITDA margin for hosting services. Following the workings, an impairment is recognised if the EBITDA multiple is exceeding 8 years. For the year ending 31 December 2021, all subsidiaries were deemed profitable and therefore no impairment was recognised. In calculating the EBITDA multiple, an additional income is recognised as compensation for UK customers who novated from Adapt Limited to Rackspace International GMBH. The additional income enhances the subgroup's revenue hence the subgroup's EBITDA multiple.

For the year ending 31 December 2021, there was an indicator of impairment as Datapipe Europe Limited was in a net liability position of £(59,864,602) which included intercompany loans of £(68,000,000) with Datapipe Inc. It was concluded by management in order to assess the net assets, the intercompany debt should be excluded as the Datapipe group if sold to third party will be excluding intercompany debt. In case of shortfall, the entity calculated estimated recoverable amount is calculated using EBITDA multiple derived from estimating revenue by considering historical trend multiplied with EBITDA margin for hosting services. Following the workings, an impairment is recognised if the EBITDA multiple is exceeding 8 years. For the year ending 31 December 2021, all subsidiaries were deemed profitable and therefore no impairment was recognised.

Notes to the financial statements

1 Accounting policies (continued)

1.20 Accounting estimates and judgements

Recoverability of deferred tax asset

The company recognises deferred tax asset arising from temporary differences in relation to capital allowance. Under UK tax laws, the deferred tax asset associated with capital allowances is recoverable as it forms part of group relief. Therefore, the deferred tax asset recognised is recoverable.

2. Revenue

	2021 £	2020 £
United Kingdom	103,494,960	122,947,381
Rest of the world	2,817,299	2,223,821
Total	<u>106,312,259</u>	<u>125,171,202</u>

The majority of revenue generated from the Company is from the dedicated cloud (also referred to as managed hosting), which is based upon a subscription-based business model. Customers are contracted with the Company and pay a recurring fee based on the capacity and complexity of the IT systems managed and the level of service intensity provided. This is pursuant to service agreements that typically provide for monthly payments.

2a. Assets and liabilities related to contracts with customers	2021 £	2020 £
Current contract assets	325,569	389,757
Non-current contract assets	106,137	909,836
Total contract assets	431,706	1,299,593
Contract liabilities	(6,136,521)	(1,195,347)
Net contract assets	<u>(5,704,815)</u>	<u>104,246</u>

Revenue recognised in relation to contract liabilities

	2021 £	2020 £
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,195,347	1,062,004

Assets recognised from costs to fulfil a contract

	2021 £	2020 £
Asset recognised from costs incurred to fulfil a contract at 31 Dec	431,706	1,299,594
Amortization recognised as cost of providing services during year	803,700	149,918

3. Other operating income

	2021 £	2020 £
Intercompany hosting services income	230,003,827	194,457,374
Other intercompany income	3,951,965	6,790,586
Other income	930,736	1,251,589
	<u>234,886,528</u>	<u>202,499,549</u>

Notes to the financial statements

3. Other operating income (continued)

The Company provides services to customers of Rackspace International GmbH, other operating income represents arms-length compensation received for the provision of these services from Rackspace International GmbH under relevant agreements.

4. Administrative expenses

	2021	2020
	£	£
Staff expenses	47,008,349	48,301,721
Administrative expenses	179,033,880	177,588,747
Intercompany strategic management and oversight expense	24,160,979	15,000,109
	<u>250,203,208</u>	<u>240,890,577</u>

The Company receives strategic management and oversight from Rackspace International GmbH, a related company registered in Switzerland, for which it pays arms-length compensation to Rackspace International GmbH under a relevant agreement.

5. Operating profit

	2021	2020
	£	£
Operating profit is stated after charging the following:		
Depreciation of property, plant and equipment:		
- Owned	24,695,105	33,279,021
- Right of use (RoU) assets	4,332,669	2,966,811
Impairment on RoU asset (note 13)	52,690	-
(Gain)/Loss on disposal of plant and equipment	949,733	530,228
(Gain)/Loss on disposal of held for sale land	(15,334,229)	-
Auditors' remuneration:		
- Audit-related assurance services	382,000	355,000

The Company with other entities in the group incurred total audit-related assurance services in the period of £530,416 (2020: £524,000).

6. Staff numbers and costs

	2021	2020
	Number	Number
Technical	581	694
Sales	192	236
Administration	112	147
	<u>885</u>	<u>1,077</u>

The above staff numbers analysed by category are the monthly average number of persons that were employed by the Company (including directors) during the year.

The aggregate payroll costs of these persons were as follows:

	2021	2020
	£	£
Wages and salaries	73,092,564	78,847,674
Employee benefits	1,716,438	1,946,447
Social security costs	9,284,661	10,680,705
Other pension costs	3,164,627	3,559,077
Share based payments	2,757,318	5,353,461
	<u>90,015,608</u>	<u>100,387,364</u>

The Company operates a number of defined contribution pension plans. The total expense relating to the plans in the current year was £3,164,627 (2020: £3,559,077).

Notes to the financial statements

7. Directors' remuneration

	2021	2020
	£	£
Highest paid	1,728,732	1,869,694
Other	-	931,009
	<u>1,728,732</u>	<u>2,800,703</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £1,728,732 (2020: £1,869,694) and company pension contributions of £43,500 (2020: £43,221) were made to a money purchase scheme on their behalf. Some directors are remunerated by other related group entities.

During the year, no payments were made in respect of termination of directors' services directly remunerated by the Company in the ordinary course of employment (2020: £380,500). Benefits receivable under long-term incentive schemes by the highest paid director comprise of 243,555 share options, 67,173 restricted stock units and 500 shares in Rackspace Technology, Inc. valued at £905,834 as at 31 December 2021.

No consideration was provided to or receivable by third parties for making available directors' services (2020: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2020: none).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2020: none).

8. Interest receivable and similar income

	2021	2020
	£	£
Interest income on short term bank deposits	588	13,258
Intercompany interest income	266,514	1,313,031
	<u>267,102</u>	<u>1,326,289</u>

9. Interest payable and similar expenses

	2021	2020
	£	£
Finance charges as obligations under finance leases:		
- from group undertakings	3,276,390	4,084,902
- from third party lessors	6,447,908	7,881,647
- from third party vendor financing	1,294,710	103,311
	<u>11,019,008</u>	<u>12,069,860</u>

10. Tax on profit

	2021	2020
	£	£
<u>Recognised in the profit and loss account</u>		
<i>Current tax expense</i>		
Current tax on profit for the current year	(108,737)	665,254
Adjustments in respect of prior periods	(343,007)	(498,065)
Movement in tax provisions	1,607,417	1,447,272
Total current tax expense	<u>1,155,673</u>	<u>1,614,461</u>
<i>Deferred tax expense</i>		
Deferred tax charge for the current year	4,665,500	1,449,343
Adjustments in respect of prior periods	308,609	463,259
Deferred tax – Rate change	(1,065,855)	(674,681)
Other adjustments to deferred tax	(3,543,835)	-
Total deferred tax expense	<u>364,419</u>	<u>1,237,921</u>
Tax on profit	<u>1,520,092</u>	<u>2,852,382</u>

Notes to the financial statements

10. Tax on profit (continued)

	2021 £	2020 £
<u>Reconciliation of standard tax rate</u>		
Profit before taxation	22,297,544	9,184,841
Tax at the UK corporation tax rate of 19% (2020: 19%)	4,236,533	1,745,120
Non-deductible expenses	(600,426)	369,477
Other	(3,543,836)	-
Income subject to tax not recorded on books	-	-
Group relief received	920,657	-
Adjustments in respect of prior years	(34,398)	(34,806)
Movement in tax provisions	1,973,867	1,447,272
Tax rate change differences	(1,432,305)	(674,681)
Total tax expense	1,520,092	2,852,382
<u>Current taxes receivable</u>		
	2021 £	2020 £
Current taxes receivable/(payable) per the balance sheet	(1,475,580)	2,592,906

Included in the Company's current taxes payable is consideration of £1,512,695 (2020: £1,638,517) that will be payable to an affiliated company when that affiliated company's tax losses are utilised by the Company under the group relief tax system.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. This new law has been substantively enacted at the balance sheet date therefore the deferred tax assets and liabilities are measured using the rate which will be applicable when the underlying temporary differences will unwind.

Notes to the financial statements

11. Investments

	2021 £	2020 £
Shares in subsidiary undertakings		
Cost as at 1 January	47,229,000	47,229,000
Capital contribution to Datapipe Europe Limited	15,661,106	-
Cost as at 31 December	62,890,106	47,229,000

Subsidiary undertakings	Dissolution date	Country of incorporation	Share holding	Proportion held	Nature of business
Datapipe Europe Limited*	n/a	England	Ordinary Shares	100%	Trading
Adapt Services Limited	n/a	England	Ordinary shares	100%	Trading
Centric Telecom Limited	n/a	England	Ordinary shares	100%	Trading
Elinia Limited	n/a	England	Ordinary shares	100%	Holding company
Elinia Webservices Limited	n/a	England	Ordinary shares	100%	Trading
Sleek Networks Limited	n/a	England	Ordinary shares	100%	Trading
Datapipe Israel Limited	n/a	Israel	Ordinary shares	100%	Dormant
Datapipe Germany GmbH	28 January 2021	Germany	Ordinary shares	100%	Dormant

*directly held investments.

All entities have a registered address of Unit 5, 8 Millington Road, Hayes, UB3 4AZ except for Datapipe Israel Limited (registered address is Ahad Ha'Am St 27, Tel-Aviv-Yafo 6520202, Israel) and Datapipe Germany GmbH (registered address is Mainzer Landstrasse. 50, 60325 Frankfurt).

12. Intangible assets

	Licences 2021 £	Licences 2020 £
Cost		
At 1 January and 31 December	76,448	111,598
Accumulated amortisation		
At 1 January and 31 December	(76,448)	(111,598)
Net book value at 1 January and 31 December	-	-

Licences include Internet Protocol version 4 addresses to facilitate the hosting business. These are being amortised over the useful economic life of 4 years.

Notes to the financial statements

13. Tangible assets

	Held for Sale 2020 £	Leasehold improvements 2020 £	Plant and Machinery 2020 £	Furniture and Fittings 2020 £	RoU Assets		Total 2020 £
					Buildings 2020 £	Equipment 2020 £	
Cost							
At beginning of year	7,634,016	59,475,608	244,899,238	9,673,474	77,978,238	309,925	399,970,499
Additions	-	71,971	25,541,881	94,332	2,181,347	43,960	27,933,491
Disposals	-	-	(31,533,908)	(3,686,556)	-	-	(35,220,464)
Transfers	-	-	(131,619)	-	-	-	(131,619)
At end of the year	7,634,016	59,547,579	238,775,592	6,081,250	80,159,585	353,885	392,551,907
Accumulated depreciation							
At beginning of year	-	(33,592,928)	(201,936,366)	(8,237,304)	(14,077,046)	(34,352)	(257,877,996)
Depreciation charge	-	(3,186,353)	(25,928,228)	(686,272)	(6,398,107)	(46,869)	(36,245,829)
Disposals	-	-	31,006,557	3,683,679	-	-	34,690,236
At end of the year	-	(36,779,281)	(196,858,037)	(5,239,897)	(20,475,153)	(81,221)	(259,433,589)
Net book value at 31 December 2020	7,634,016	22,768,298	41,917,555	841,353	59,684,432	272,664	133,118,318
Net book value at 31 December 2019	7,634,016	25,882,680	42,962,872	1,436,170	63,901,192	275,573	142,092,503
	Held for Sale 2021 £	Leasehold improvements 2021 £	Plant and Machinery 2021 £	Furniture and Fittings 2021 £	RoU Assets		Total 2021 £
					Buildings 2021 £	Equipment 2021 £	
Cost							
At beginning of year	7,634,016	59,547,579	238,775,592	6,081,250	80,159,585	353,885	392,551,907
Additions	-	9,370	18,407,059	12,872	3,844,837	-	22,274,138
Disposals	(7,634,016)	(412,108)	(25,028,318)	(271,991)	(649,900)	-	(33,996,333)
Impairment	-	-	(239,468)	-	(52,690)	-	(292,158)
Transfers	-	-	(1,577,155)	-	-	-	(1,577,155)
At end of the year	-	59,144,841	230,337,710	5,822,131	83,301,832	353,885	378,960,399
Accumulated depreciation							
At beginning of year	-	(36,779,281)	(196,858,037)	(5,239,897)	(20,475,153)	(81,221)	(259,433,589)
Depreciation charge	-	(4,059,890)	(17,401,016)	(393,469)	(7,124,405)	(48,994)	(29,027,774)
Disposals	-	412,108	23,486,531	270,577	463,616	-	24,632,832
Impairment	-	-	176,435	-	52,690	-	229,125
Transfers	-	(621)	1,093,315	-	-	-	1,092,694
At end of the year	-	(40,427,684)	(189,502,772)	(5,362,789)	(27,083,252)	(130,215)	(262,506,712)
Net book value at 31 December 2021	-	18,717,157	40,834,938	459,342	56,218,580	223,670	116,453,687
Net book value at 31 December 2020	7,634,016	22,768,298	41,917,555	841,353	59,684,432	272,664	133,118,318

Leased plant and machinery

The Company had entered into a Leasing arrangement with a related party, Rackspace UK Leasing Limited, for certain movable plant and machinery. During the year ending 31 December 2021, it was decided to unwind the leasing structure and transfer the asset back to Rackspace Limited. At balance sheet date, the net carrying value of plant and machinery held under finance lease from related parties was therefore £0 (2020: £3,872,215).

Notes to the financial statements

13. Tangible assets (continued)

Disposal of Held for Sale land

Land situated in Crawley was sold in the year for net proceeds of £23,601,990 achieving a net profit of £15,334,229.

14. Debtors

	2021	2020
	£	£
<i>Debtors: amounts falling due within one year</i>		
Amounts due from group undertakings	48,819,757	43,398,712
Trade receivables	16,082,189	15,618,735
Prepayments	3,639,268	5,692,702
Other receivables	3,250,878	4,824,798
Contract assets	325,569	389,757
	<u>72,117,661</u>	<u>69,924,704</u>
<i>Debtors: amounts falling due after more than one year</i>		
Prepayments	1,832,171	1,274,879
Contract assets	106,137	909,836
Contract fulfilment assets	5,896,235	3,987,230
	<u>7,834,543</u>	<u>6,171,945</u>
Total debtors	<u>79,952,204</u>	<u>76,096,649</u>

Amounts due from group undertakings at the end of the reporting year are as follows:

	Receivables outstanding 2021	Receivables outstanding 2020
	£	£
Centric Telecom Limited	10,695	-
Elinia Webservices Limited	175,403	275,609
Sleek Networks Limited	1,065	3,887
Rackspace Leasing Limited	859,637	-
Datapipe Europe Limited	-	4,810,364
Adapt Services Limited	1,418,595	2,274,503
Rackspace Hosting Australia Pty Ltd	112	-
Rackspace US, Inc.	-	2,028
Rackspace Benelux B.V.	-	145,857
Rackspace International GmbH	46,354,250	35,886,464
	<u>48,819,757</u>	<u>43,398,712</u>

Amounts due from group undertakings are unsecured, repayable on demand and interest free. There is no expected credit losses for intercompany receivables. Trade receivables are stated net of provisions for impairment of £1,266,537 (2020: £1,066,151).

15. Amounts owed by group undertakings

	2021	2020
	£	£
Loans receivable from group undertakings falling due after more than one year	-	28,769,237

Loan with Rackspace UK Leasing Limited

Loans receivable from group undertakings of Enil (2020: £28,769,237) relate to the Revolving Credit Facility Agreement between the Company (the Lender) and Rackspace UK Leasing Limited (the Borrower). The facility bore interest at three months GBP LIBOR plus 1% and was payable in arrears not later than the end of the calendar month following the last day of the previous quarter. The revolving credit facility cannot exceed £400 million. The term of each loan drawdown was more than one year. This was repaid during the year ending 31 December 2021.

Notes to the financial statements

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2021	2020	2021	2020
	£	£	£	£
Non-Current				
Tangible fixed assets	3,026,790	3,112,328	-	-
Allowance for doubtful debts	-	140,106	-	-
Employee incentives, including stock-based compensation	1,243,259	1,339,975	-	-
Employee benefits	88,020	84,216	-	-
Capitalised interest	-	-	(225,618)	(179,755)
Tax assets / (liabilities)	<u>4,358,069</u>	<u>4,676,625</u>	<u>(225,618)</u>	<u>(179,755)</u>

Movement in deferred tax during the year:

	1 January 2021 £	Recognised in income £	31 December 2021 £
Tangible fixed assets	3,112,328	(85,537)	3,026,791
Allowance for doubtful debts	140,106	(140,106)	-
Employee incentives, including stock-based compensation	1,339,975	(96,718)	1,243,257
Employee benefits	84,215	3,805	88,020
Capitalised interest	(179,754)	(45,863)	(225,617)
Adjustments in respect of prior years	-	-	-
	<u>4,496,870</u>	<u>(364,419)</u>	<u>4,132,451</u>
	1 January 2020 £	Recognised in income £	31 December 2020 £
Tangible fixed assets	4,988,086	(1,875,758)	3,112,328
Allowance for doubtful debts	61,554	78,552	140,106
Employee incentives, including stock-based compensation	851,949	488,026	1,339,975
Employee benefits	28,643	55,572	84,215
Capitalised interest	(168,246)	(11,508)	(179,754)
Adjustments in respect of prior years	(27,195)	27,195	-
	<u>5,734,791</u>	<u>(1,237,921)</u>	<u>4,496,870</u>

Notes to the financial statements

17. Creditors

	2021 £	2020 £
<i>Creditors: amounts falling due within one year</i>		
Lease liabilities (note 23)	7,976,899	31,229,494
Tax payable (note 10)	7,072,627	4,041,081
Amounts owed to group undertakings	26,667,474	18,948,805
Trade payables	10,967,553	5,824,753
Non-trade payables	19,246,530	24,558,176
Accrued expenses	20,667,820	13,753,168
Deferred income	6,125,502	1,179,435
	<u>98,724,405</u>	<u>99,534,912</u>
<i>Creditors: amounts falling due after more than one year</i>		
Non-trade payables	2,046,802	1,888,487
Lease liabilities (note 23)	72,081,776	130,535,363
Amounts owed to group undertakings (note 19)	70,234,195	47,379,140
Deferred income	11,019	15,912
	<u>144,373,792</u>	<u>179,818,902</u>

The amounts payable to related parties at the end of the reporting year are as follows:

	Payables outstanding 2021 £	Payables outstanding 2020 £
Centric Telecom Limited	-	35,155
Datapipe Europe Limited	106,439	325,345
Datapipe Inc.	355,370	358,294
Rackspace Asia Limited	91,849	92,428
Rackspace Germany GmbH	38,396	16,037
Rackspace US, Inc.	16,073,059	11,055,110
Rackspace International GmbH	-	6,999,632
Elinia Webservices Limited	-	37,590
Rackspace Benelux B.V.	10,000,000	-
Rackspace Leasing Limited	-	4,930
Rackspace Singapore Pte. Ltd	-	2,946
Rackspace Australia Pty Ltd	-	20,232
Rackspace Israel	2,361	1,106
	<u>26,667,474</u>	<u>18,948,805</u>

Amounts due to group undertakings are unsecured, repayable on demand and interest free.

Notes to the financial statements

18. Share Based Compensation

On 20 July 2020, a 12-for-1 forward stock split was implemented. Therefore, for every 1 share or option held, an employee will now have 12.

The fair value of options and units granted under the Group share scheme is recognised as an expense allocated from Group undertakings with a corresponding increase in equity reserves. Furthermore, a corresponding liability is created and a reduction in equity reserves is recognised to reflect the amounts due to Group undertakings with respect to these share-based payment expenses. The capital contribution and the equity impact of the share-based payments offset therefore the Company has disclosed these movements within equity on a nil basis. Upon exercise, the equivalent amounts are invoiced to the Company by the ultimate parent undertaking, Rackspace Technology, Inc. and settled in cash.

Prior to being publicly listed, Rackspace Technology, Inc. offered only a Non-Qualified Stock Option scheme. The characteristics of such a scheme included:

- Exercising occurs at employee's discretion i.e. immediately upon vesting or any time before expiration date (10 years from the grant date).
- Vesting occurs over a three, five or ten-year period.
- A terminated employee has 90 days to exercise any vested options, else will be forced to forfeit them
- Equity settled arrangement

This scheme has the same terms and conditions in 2021, however there are no more grants from 2021 under this scheme. These are replaced with Restricted Stock Units as below.

Following the IPO, Rackspace Technology, Inc. launched two new schemes as follows:

Restricted Stock Units – All Employee Plan

On 5 August 2020, every employee within the Company was granted 100 shares at no cost to the employee. The characteristics of such a scheme included:

- A six-month vesting period, ending 5 February 2021.
- Equity settled arrangement.
- Only applicable to 2020; will not be repeated from 2021 onwards.

Restricted Stock Units (Other)

In September, November and December of 2020, other RSU grants were issued to senior management only. This has continued in 2021. The characteristics of such a scheme included:

- Vesting typically occurs over a two or three-year period.
- Equity settled arrangement. Upon vesting, employee will have ownership of shares in the company, not options.
- New grants will be most likely of this nature from 2021 going forward.

Employee Share Purchase Plan

This program enables the Company's employees to buy Rackspace Technology, Inc. shares at a discount.

- Employee elected deductions from monthly salary over a six-month period.
- At the end of the six-month period, the collected funds will be utilised to buy stock at a discount.
- Equity settled arrangement

Notes to the financial statements

18. Share Based Compensation (*continued*)

<u>Exercised options</u>	2021 No. of Options	2021 Weighted Average US\$	2020 No. of Options	2020 Weighted Average US\$
Exercised during the year	521,540	12.21	446,071	10.16
<u>Outstanding options</u>				
			2021 Outstanding Options	2020 Outstanding Options
2017 Grants				
\$8.33			110,100	269,405
2018 Grants				
\$14.34			-	3,380
\$15.54			88,928	236,512
2019 Grants				
\$12.88			198,406	390,186
2020 Grants				
\$11.41			54,756	54,756
\$13.62			976,771	1,190,944
At 31 December			1,428,961	2,145,183
Weighted average remaining contractual life at 31 December			7.68 years	8.45 years

19. Other interest-bearing loans and borrowings

<i>Creditors: amounts falling due after more than one year</i>	2021 £	2020 £
Loans payable to group undertakings	70,234,195	47,379,140
	<u>70,234,195</u>	<u>47,379,140</u>

The Company has Revolving Credit Facility Agreements with Rackspace Benelux B.V. and Rackspace International GmbH. Each facility bears interest at three months LIBOR plus 1%, which is determined on a quarterly basis and is payable in arrears not later than the end of the calendar month following the last day of the previous quarter. Both facilities are repayable on demand, the Rackspace Benelux B.V. facility cannot exceed £75,000,000 and the Rackspace International GmbH facility cannot exceed £20,000,000. Each facility is available for a one-year period, which will automatically roll over into further one-year revolving credit agreements, if no notice has been given. At balance sheet date neither facility is drawn upon (2020: £nil).

Notes to the financial statements

19. Other interest-bearing loans and borrowings (continued)

Loan with Datapipe, Inc.

Loans payable to group undertakings of £21,929,000 (2020: £21,929,000) relate to the Revolving Credit Facility Agreement between the Company (the Borrower) and Datapipe, Inc. (the Lender). The facility bears interest of 6.5% per annum is payable in arrears not later than the end of the calendar month following the last day of the previous quarter. The revolving credit facility cannot exceed £35,229,000. The term of each loan drawdown is more than one year. The first payment is due by 13 February 2025.

Loan with Rackspace Asia Limited

Loans payable to group undertakings of £8,554,866 (2020: £8,554,866) relate to the Revolving Credit Facility Agreement between the Company (the Borrower) and Rackspace Asia Limited (the Lender). The facility bears interest at 4% per annum is payable in arrears not later than the end of the calendar month following the last day of the previous quarter. The revolving credit facility cannot exceed £15,686,275. The term of each loan drawdown is more than one year. The first payment is due by 24 October 2025.

Loan with Rackspace B.V.

Loans payable to group undertakings of £39,750,329 (2020: £nil) relate to the intercompany balance resultant from the unwind of Rackspace Leasing Limited now transferred to an intercompany loan. The loan exists between the Company (the Borrower) Rackspace Limited and Rackspace B.V (the Lender). The facility bears interest at 6.5% per annum is payable in arrears not later than the end of the calendar month following the last day of the previous quarter. The term of the loan is more than one year.

Loans with Centric Telecom Limited, Elinia Webservices Limited and Adapt Services Limited of nil (2020: £16,900,000)

Loans payable to group undertakings of £5,700,000, £4,200,000 and £7,000,000 related to the Revolving Credit Facility Agreement between the Company (the Borrower) and Centric Telecom Limited, Elinia Webservices Limited and Adapt Services Limited (the Lenders), respectively. Each facility bore interest at three months LIBOR plus 3.5%, which was determined on a quarterly basis and was payable in arrears not later than the end of the calendar month following the last day of the previous quarter. The revolving credit facility cannot exceed £8,000,000 for Centric Telecom Limited and Elinia Webservices Limited and cannot exceed £16,000,000 for Adapt Services Limited. The term of each loan drawdown was more than one year. These loans were all repaid during the year ending 31 December 2021.

20. Capital and reserves

	2021 £	2020 £
<u>Called up share capital</u>		
On issue at 1 January 2021 and 31 December 2021 – fully paid	1,000	1,000
<u>Authorised</u>		
100,000 (2020: 100,000) ordinary shares of £1 each	100,000	100,000
<u>Allotted, called up and fully paid</u>		
1,000 (2020: 1,000) ordinary shares of £1 each	1,000	1,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Movement in reserves:

	2021 £	2020 £
<i>Retained earnings</i>		
Opening balance at 1 January	19,043,729	46,211,270
Profit and total comprehensive income for the year	20,777,452	6,332,459
Dividends paid	-	(33,500,000)
Closing balance at 31 December	39,821,181	19,043,729

Notes to the financial statements

21. Contingent assets and liabilities

The Company will accrue for contingent obligations, including estimated legal costs, when the obligation is probable, and the amount is reasonably estimable. As facts concerning contingencies become known, the Company reassesses the position and makes appropriate adjustments to the financial statements.

Estimates that are particularly sensitive to future changes include those related to tax, legal, and other regulatory matters, changes in the interpretation and enforcement of international laws, and the impact of local economic conditions and practices, which are all subject to change as events evolve and as additional information becomes available during the administrative and litigation process.

Management has the opinion that there are no contingent assets or liabilities at the end of the year (2020: £nil).

22. Branch Operation

In January 2020, the Company opened a branch in Dubai with the trade name Rackspace Limited – Dubai Branch. The branch's operational license is due to expire in January 2023. The Company owns 100% of the branch and plan to renew the licence.

23. Lease liabilities

	Equipment 2020 £	Building 2020 £
Restated lease liability as at 1 January 2020	83,796,445	82,260,186
New lease	43,960	-
Lease from group undertaking	28,170,816	-
Lease renewals	-	121,443
Lease modification	-	1,757,728
Interest on leases previously classified as finance leases	-	5,702,043
Interest	40,857	2,138,747
Interest from group undertaking	1,639,202	-
Finance lease payments	-	(8,014,837)
Lease payments	(76,340)	(5,652,745)
Lease payment to group undertaking	(30,162,648)	-
Lease liability as at 31 December 2020	83,452,292	78,312,565
	Equipment 2021 £	Building 2021 £
Lease liability as at 1 January 2021	83,452,292	78,312,565
Opening balance adjustment	654,354	-
New lease	6,731,089	3,683,897
Lease renewals	-	160,940
Lease modification	91,609	-
Interest on leases previously classified as finance leases	-	5,510,349
Interest	1,230,688	848,721
Finance lease payments	-	(4,823,315)
Lease payments	(1,511,527)	(5,208,234)
Lease terminations	(88,539,235)	(535,518)
Lease liability as at 31 December 2021	2,109,270	77,949,405

Notes to the financial statements

23. Lease liabilities (continued)

	Equipment 2020 £	Building 2020 £
Lease liability 2020		
Due within one year	24,785,582	6,443,912
Between 1-5 years	58,519,647	24,058,641
More than 5 years	147,063	47,810,012
	83,452,292	78,312,565
	Equipment 2021 £	Building 2021 £
Lease liability 2021		
Due within one year	890,040	7,086,859
Between 1-5 years	1,054,109	25,476,377
More than 5 years	165,121	45,386,169
	2,109,270	77,949,405
	2021 £	2020 £
Depreciation charge of right of use assets		
Buildings	7,124,405	6,398,107
Equipment	48,994	46,869
	7,173,399	6,444,976
Interest expense	7,589,758	9,520,849
Cash outflow for leases	11,543,076	43,906,570

The Company does not hold any short term, low value or variable payment leases.

During the year ending 31 December 2021, it was decided to unwind the leasing structure with Rackspace Leasing Limited and transfer the assets back to Rackspace Limited. This resulted in lease terminations of £88,539,238. The remaining leases are primarily for office space and data centres. The lease clauses include an early termination clause which the Company is not expected to utilise in the future.

24. Immediate, intermediate and ultimate controlling party

The Company is a wholly owned subsidiary of Rackspace Benelux B.V., which is incorporated in the Netherlands. The ultimate parent undertaking is Rackspace Technology, Inc.. The ultimate controlling party is Apollo Global Management, LLC, a limited liability company incorporated in Delaware, the United States of America, via its management of certain funds which hold the controlling interest in Rackspace Technology, Inc., previously Inception Topco, Inc.. Inception Topco, Inc.'s name changed to Rackspace Corp. as at 31 March 2020 and subsequently changed to Rackspace Technology, Inc. in June 2020. Rackspace Technology, Inc. listed on the Nasdaq Global Select Market on 5 August, 2020. The smallest and largest group to consolidate these financial statements is Rackspace Technology, Inc. These financial statements are publicly available at <https://ir.rackspace.com/>.

25. Events occurring after the reporting period

On 24 February 2022, Russia invaded Ukraine, marking this as a major advance in the ongoing Russo-Ukrainian conflict that commenced in 2014. The Company is closely monitoring the development of the ongoing conflict and its related impact on the Company's business. Principal concern areas include supply chain and resource disruptions, loss of business relationships and financial restrictions but are not deemed material for the Company.

We do not consider this an adjusting event in accordance with IAS 10 as this war was not foreseen at year end.

The Company is not aware of any additional material impact on the financial statements arising from subsequent events.

Notes to the financial statements

26. COVID-19

The outbreak of Coronavirus Disease 2019 in early 2020 (the "COVID-19 pandemic") has affected businesses and economic activities to varying extents worldwide. The Company has taken a number of health and safety measures to monitor and reduce the COVID-19 impact on staff including working from home. Management have performed an assessment of the Company's ability to meet supplier and employee obligations, implementing new revenue collectability measures, ensuring existing revenues are collected etc. In addition, the Company is closely monitoring the development of the COVID-19 pandemic and its related impact on the Company's businesses. As at the date of these financial statements, the Company is not aware of any material impact on the financial statements arising from the COVID-19 pandemic.