

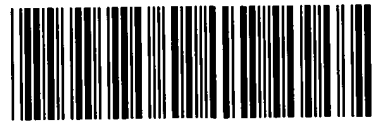
Rackspace Limited

Registered number: 03897010

Annual report and financial statements

For the year ended 31 December 2020

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Strategic report

The directors present their strategic report for the year ended 31 December 2020 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 also provides services to customers of Rackspace International GmbH, receiving arms-length compensation for the provision of services to Rackspace International GmbH under a relevant agreement, recognised as other operating income in the statement of comprehensive income.

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.

Managed public cloud

These offerings address the challenges of managing applications and data on the AWS, Microsoft Azure ("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.

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 organisation's vulnerability and threats.

Open stack public cloud

We offer customers our OpenStack Public Cloud solution, our third reporting segment. This offering appeals to customers who (i) want to run applications on a public cloud that is built on open-source technology with no risk of vendor lock-in; (ii) value the expertise and exceptional customer service for which we are renowned; and (iii) want their public cloud and managed hosting platforms to work smoothly together, through technologies such as our proprietary RackConnect tool. Rackspace is not marketing this offer going forward.

Managed applications

Our managed application services include running large-scale software-as-a-services (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 utilise both traditional analytics platforms and new, machine learning approaches to build repeatable, scalable and automated platforms that extract meaningful insights.

Strategic report (continued)

Professional services

Professional services are at the core of our consultative sales model. For new business opportunities, our professional services organisation engages closely with a customer to assess and design the best cloud solution for that customer. This can be the first step toward a long-term services agreement with a customer where we manage a customer's cloud operations and give them the flexibility to evolve their spend with us as their needs change over time.

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.
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 control of cost of sales, revenue and administrative expenses combined. 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.

Strategic report (*continued*)

Results and performance

Revenue in the year amounted to £125,171,202 (2019: £141,614,804). The primary reason for the decrease was due to customer churn. During the year, the Company's combined cost of sales and administrative expenses increased marginally in the current year (2020: £307,742,339, 2019: £305,766,543). Other income in the year amounted to £202,499,549 (2019: £189,200,615). The primary reason for the increase was due to higher income from intercompany hosting services.

The results of the Company for the year ended 31 December 2020 are set out in the statement of comprehensive income on page 15. Profit before taxation for the year amounted to £9,184,841 (2019: £13,807,314).

The net assets of the Company at the end of the year amounted to £19,044,729 (2019: £46,212,270). The decrease is primarily caused by dividend paid of £33,500,000 which is offset by profit after tax for the year of £6,332,459.

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 23) group wide control framework.

Principal risks and uncertainties

Management has considered numerous risks that may affect the business such as competition, security breaches, interruptions to infrastructure, failure to maintain adequate internal systems, maintaining a high level of customer care, maintaining our corporate culture, managing our growth effectively, data centre capacity, current economic conditions, protecting and enforcing our intellectual property rights. These risks are disclosed in the financial statements of the Company's intermediate parent, Rackspace Technology, Inc.

Management use the experts at Rackspace International GmbH, a related company registered in Switzerland, to manage a number of these risks.

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 factor such as ageing profile and historic default rates. See Note 14 for exact provision details.

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 Leasing Limited, Rackspace Asia Limited, Datapipe, Inc., Centric Telecom Limited, Elinia Webservices Limited and Adapt Services Limited, fellow subsidiary companies. 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.

Strategic report (*continued*)

Financial instruments (*continued*)

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.

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.

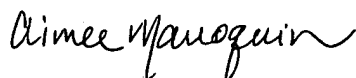
Environmental responsibility

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.

On behalf of the board.



A Marroquin
Director

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

Dated 28 September 2021

Directors' report

The directors present their directors' report and audited financial statements for the year ended 31 December 2020 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 Rackpace 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 (appointed on 7 January 2020)
Stefanie Box (appointed on 30 June 2020)
Aimee Marroquin (appointed 26 February 2021)
Darren Norfolk (resigned on 6 January 2020)
Reinhard Walldinger (resigned on 30 June 2020)
Christopher Rosas (resigned on 26 February 2021)

Dividend

During 2020, the Company paid an interim dividend of £33,500,000 (2019: £37,628,490). No final dividend has been recommended by Directors during the year or at the date of the report (2019: £nil).

Financial risks management

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

Stakeholder engagement

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.

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.

Directors' report (*continued*)

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 charitable donations of £250 (2019: £2,761). The Company did not make any political donations during the year (2019: £nil).

Qualifying directors' indemnification

The Company has entered into 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

Given the Company's current and previous year profitability, and net current asset position, the directors consider it appropriate to adopt the going concern basis of accounting in these financial statements.

Events occurring after the reporting period

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 2022. The Company owns 100% of the branch.

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 2020. This is the first year of the disclosure therefore 2019 comparative figures are not provided.

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

- HPH2 - Hyde Park Hayes 2; vacated office building
- HPH3 - Hyde Park Hayes 3; comprises of onsite gym and training facilities
- 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.

Directors' report *(continued)*

Carbon Emission Reporting *(continued)*

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.

	2020
Emission from purchase of heat, electricity, steam and cooling: Scope 2 Emissions (tCO ₂ e)	18,931
Indirect emissions from business travel and air conditioning: Scope 3 Emissions (tCO ₂ e)	-
Total Revenue (£)	125,171,202
Intensity Ratio (kwh/£ of revenue)	0.64
Total energy use (kwh of electricity, gas and steam)	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 at our datacentres, and gas, diesel and water at our offices at HPH2 and HPH3 are charged within an overall service charge, the breakdown for which is not obtainable.

Further measures to reduce our carbon footprint have not been taken during 2020, as a result of the Covid pandemic, access to the sites have been restricted.

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.

Directors' report (*continued*)

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.

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.

On behalf of the board.



A Marroquin
Director

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

Independent auditors' report to the members 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 2020 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, which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the 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 members 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 2020 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 members 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 workplace regulations, employment related laws, 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 the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to 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 legal expense account code to assess if there are any undisclosed litigation and claim,
- Identifying and testing the validity of journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management,
- reviewing minutes of meetings of management and the board of directors,
- testing the assumptions and supporting documents over significant estimates.

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 members 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 members 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.

A handwritten signature in black ink, appearing to be 'Lee Jarrett', with a long horizontal stroke extending to the right.

Lee Jarrett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
28 September 2021

Statement of Comprehensive Income
for year ended 31 December 2020

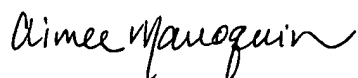
	Note	2020 £	2019 £
Revenue	2	125,171,202	141,614,804
Cost of sales		(66,851,762)	(62,806,497)
Gross profit		58,319,440	78,808,307
Administrative expenses	4	(240,890,577)	(242,960,046)
Other operating income	3	202,499,549	189,200,615
Operating profit	5	19,928,412	25,048,876
Interest receivable and similar income	8	1,326,289	951,596
Interest payable and similar expenses	9	(12,069,860)	(12,193,158)
		(10,743,571)	(11,241,562)
Profit before taxation		9,184,841	13,807,314
Tax on profit	10	(2,852,382)	(3,829,305)
Profit for the financial year		6,332,459	9,978,009

The notes on pages 18 to 40 are an integral part of these financial statements.

Balance Sheet
as at 31 December 2020

	Note	2020 £	2019 £ Restated
Fixed assets			
Investments	11	47,229,000	47,229,000
Tangible fixed assets	13	133,118,318	142,092,503
		<u>180,347,318</u>	<u>189,321,503</u>
Current assets			
Debtors ¹ (including £6,171,947 falling due after more than one year (2019: £5,015,275))	14	76,096,649	55,747,043
Amounts owed by group undertakings ¹ (including £28,769,237 falling due after more than one year (2019: £30,286,460))	15	28,769,237	63,786,460
Deferred tax assets (falling due after more than one year)	16	4,496,870	5,734,791
Cash at bank and in hand		8,688,469	2,195,144
		<u>118,051,225</u>	<u>127,463,438</u>
Creditors: amounts falling due within one year²	17	99,534,912	84,702,933
Net current assets		<u>18,516,313</u>	<u>42,760,505</u>
Total assets less current liabilities		<u>198,863,631</u>	<u>232,082,008</u>
Creditors: amounts falling due after more than one year²	17	179,818,902	185,869,738
Net assets		<u>19,044,729</u>	<u>46,212,270</u>
Capital and reserves			
Called up share capital	20	1,000	1,000
Profit and loss account	20	19,043,729	46,211,270
Total equity		<u>19,044,729</u>	<u>46,212,270</u>

These financial statements on pages 15 to 40 were approved by the board of directors on 04 December 2020 and were signed on its behalf by:



A Marroquin
Director

The notes on pages 18 to 40 are an integral part of these financial statements.

¹ Prior year receivables have been restated to reclassify between "Trade and other receivables" and "Loans receivable from group undertakings. See note 14 and 15 for details.

² Prior year Balance Sheet's lease liabilities have been restated to reclassify between 'Creditors: amounts falling due within one year' and 'Creditors: amounts falling due after more than one year. See note 22 for details.

Statement of Changes in Equity

for year ended 31 December 2020

	Note	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2019	20	1,000	73,861,751	73,862,751
Profit and total comprehensive income for the year	20	-	9,978,009	9,978,009
Group share based payments ¹		-	2,425,963	2,425,963
Group share based payments intra-group arrangements ¹		-	(2,425,963)	(2,425,963)
Dividends paid		-	(37,628,490)	(37,628,490)
Restated balance at 31 December 2019	20	<u>1,000</u>	<u>46,211,270</u>	<u>46,212,270</u>
Restated balance at 1 January 2020	20	<u>1,000</u>	<u>46,211,270</u>	<u>46,212,270</u>
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	<u>1,000</u>	<u>19,043,729</u>	<u>19,044,729</u>

The notes on pages 18 to 40 are an integral part of these financial statements.

¹ Share based payment was erroneously shown as net in SOCI and therefore has been corrected under IAS 1 para 32.

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 23) 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 Global (note 23) 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*

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*)

Prior year Balance Sheet's lease liabilities have been restated due to incorrect mapping between equipment and buildings. 'Creditors: amounts falling due within one year' have been increased by £25,632,730 and 'Creditors: amounts falling due after more than one year' have been reduced by the same amount.

Further, a loan receivable of £33,500,000 has been restated to reclassify from "Trade and other receivables" to "Loans receivable from group undertakings". There was no impact to the profit before taxation in the Statement of Comprehensive Income for the year ended 31 December 2019 and the Statement of Changes in Equity for the year ended 31 December 2019. Rackspace Limited has also taken exemption from presenting a third balance sheet.

The disclosures for shared based compensation (SOCIE and note 18) and contract asset disclosure within the revenue note (note 2) were erroneously omitted in prior year financial statements and thus have been restated within the respective notes.

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 2020 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 2020.

1.2 Going concern

Given the Company's current and previous year profitability, and net current asset position, the directors consider it appropriate to adopt the going concern basis of accounting in these 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.

Notes to the financial statements

1 Accounting policies (*continued*)

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.

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:

Leasehold improvements	-	Over the life of the lease or useful life, if shorter
Plant and machinery	-	Over the life of the lease or between 3 years and 5 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
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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

Notes to the financial statements

1 Accounting policies (continued)

1.8 Impairment excluding deferred tax assets (continued)

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.

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.

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

Notes to the financial statements

1 Accounting policies (continued)

1.9 Employee benefits (continued)

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 23) 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.

1.10 Revenue

All our revenue is from services rendered wholly 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 represents 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 undelivered 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.

Notes to the financial statements

1 Accounting policies (*continued*)

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.

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*)

- 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.

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 1.19 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 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. 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.

1.14 Other operating income

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

Notes to the financial statements

1 Accounting policies (*continued*)

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 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.

1.17 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.

1.18 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.

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 are 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.

1.19 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.

Notes to the financial statements

1 Accounting policies (continued)

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. If any such indication exists, then an estimated recoverable amount is calculated using EBITDA multiple and an impairment is recognised.

For the year ending 31 December 2020, there was an indicator of impairment as Datapipe Europe Limited was in a net liability position of £(65,409,900) which included intercompany loans of £(68,000,000) and £(15,700,000) with Datapipe Inc. It was concluded by management however that an impairment adjustment was not required, as Datapipe Europe Limited can be sold to a third party without the intercompany debt. Further, a letter of support has been obtained outlining that in the likelihood of default, Rackspace Technology, Inc. will step in to settle any outstanding liabilities. Therefore, adjusted net assets excluding the intercompany loans for Datapipe Europe Limited is £18,291,000 and as such there are no issues with recoverability noted.

2. Revenue

	2020 £	2019 £
Customer revenue	125,171,202	141,614,804

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

	2020 £	2019 restated £
Current contract assets	389,757	361,283
Non-current contract assets	909,837	759,919
Loss allowance	-	-
Total contract assets	1,299,594	1,121,202
Contract liabilities	(1,195,347)	(1,062,004)
Net contract assets	104,247	59,198

Notes to the financial statements

2. Revenue (continued)

Revenue recognised in relation to contract liabilities

	2020 £	2019 £
Revenue recognised that was included in the contract liability balance at the beginning of the period	1,062,004	1,821,149

Assets recognised from costs to fulfil a contract

	2020 £	2019 £
Asset recognised from costs incurred to fulfil a contract at 31 Dec	909,837	759,919
Amortization recognised as cost of providing services during period	149,918	476,193
Total	<u>1,059,755</u>	<u>1,236,112</u>

The contract asset disclosure was erroneously omitted from this note in prior year and as such this has been restated.

3. Other operating income

	2020 £	2019 £
Intercompany hosting services income	194,457,374	181,310,401
Other intercompany income	6,790,586	7,627,889
Other income	1,251,589	262,325
	<u>202,499,549</u>	<u>189,200,615</u>

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

	2020 £	2019 £
Staff expenses	48,301,721	49,065,960
Administrative expenses	177,588,747	162,618,272
Intercompany strategic management and oversight expense	15,000,109	31,275,814
	<u>240,890,577</u>	<u>242,960,046</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

	2020 £	2019 £
Operating profit is stated after charging / (crediting) the following:		
Depreciation of property, plant and equipment:		
- Owned	33,279,021	37,858,944
- Right of use (RoU) assets	2,966,811	2,924,121
Impairment on RoU asset (note 13)	-	1,063,793
Loss / (Gain) on disposal of plant and equipment	530,228	423,518
Auditors' remuneration:		
- Audit-related assurance services	355,000	257,000

Notes to the financial statements

6. Staff numbers and costs

	2020	2019
	Number	Number
Technical	694	719
Sales	236	225
Administration	147	131
	<u>1,077</u>	<u>1,075</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:

	2020	2019
	£	£
Wages and salaries	78,847,674	80,752,839
Employee benefits	1,946,447	1,549,409
Social security costs	10,680,705	11,304,483
Other pension costs	3,559,077	3,527,361
Share based payments	5,353,461	2,425,963
	<u>100,387,364</u>	<u>99,560,055</u>

The Company operates a number of defined contribution pension plans. The total expense relating to the plans in the current year was £3,559,077 (2019: £3,527,361).

7. Directors' remuneration

	2020	2019
	£	£
Highest paid	1,869,694	714,568
Other	931,009	-
	<u>2,800,703</u>	<u>714,568</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £1,869,694 (2019: £714,568) and company pension contributions of £43,221 (2019: £33,325) were made to a money purchase scheme on their behalf. Some directors are remunerated by other related group entities.

During the year, payments totalling £380,500 were made in respect of termination of directors' services directly remunerated by the Company in the ordinary course of employment (2019: nil). Benefits receivable under long-term incentive schemes by the highest paid director comprise of 142,486 share options and 500 shares in Rackspace Technology, Inc. valued at £775,956 as at 31 December 2020.

No consideration was provided to or receivable by third parties for making available directors' services (2019: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2019: 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 (2019: none).

8. Interest receivable and similar income

	2020	2019
	£	£
Interest income on short term bank deposits	13,258	201,624
Intercompany interest income	1,313,031	749,972
	<u>1,326,289</u>	<u>951,596</u>

Notes to the financial statements

9. Interest payable and similar expenses

	2020 £	2019 £
Finance charges as obligations under finance leases:		
- from group undertakings	4,084,902	3,866,296
- from third party lessors	7,881,647	8,146,569
- from third party vendor financing	103,311	180,293
	<u>12,069,860</u>	<u>12,193,158</u>

10. Tax on profit

	2020 £	2019 £
<u>Recognised in the profit and loss account</u>		
<i>Current tax expense</i>		
Current tax on profit for the current year	665,254	2,472,806
Adjustments in respect of prior periods	(498,065)	(547,671)
Movement in tax provisions	1,447,272	1,432,305
Total current tax expense	<u>1,614,461</u>	<u>3,357,440</u>
<i>Deferred tax expense</i>		
Deferred tax charge for the current year	1,449,343	443,080
Adjustments in respect of prior periods	463,259	75,425
Deferred tax – Rate change	(674,681)	(46,640)
Other adjustments to deferred tax	-	-
Total deferred tax expense	<u>1,237,921</u>	<u>471,865</u>
Tax on profit	<u>2,852,382</u>	<u>3,829,305</u>

	2020 £	2019 £
<u>Reconciliation of standard tax rate</u>		
Profit before taxation	<u>9,184,841</u>	<u>13,807,314</u>
Tax at the UK corporation tax rate of 19% (2018: 19%)	1,745,120	2,623,390
Non-deductible expenses	369,477	294,909
Other	-	(2,413)
Income subject to tax not recorded on books	-	-
Group relief received	-	-
Adjustments in respect of prior years	(34,806)	(472,246)
Movement in tax provisions	1,447,272	1,432,305
Tax rate change differences	(674,681)	(46,640)
Total tax expense	<u>2,852,382</u>	<u>3,829,305</u>

	2020 £	2019 £
<u>Current taxes receivable</u>		
Current taxes receivable per the balance sheet ²	<u>2,592,906</u>	<u>850,037</u>

Included in the Company's current taxes receivable is consideration of £692,951 (2019: £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.

² Prior year tax receivable was misinterpreted for the tax payable balance, therefore restated this year.

Notes to the financial statements

10. Tax on profit (continued)

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 not yet been substantively enacted. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to decrease the tax expense for the year by £1,420,064 and to increase the deferred tax asset by £1,420,064.

11. Investments

	2020 £	2019 £
Shares in subsidiary undertakings		
Cost as at 1 January	47,229,000	-
Acquisition of RSUS5, LLC	-	35,229,000
Liquidation of RSUS5, LLC	-	(35,229,000)
Reallocation of investment to Datapipe Europe Limited	-	35,229,000
Capital contribution to Datapipe Europe Limited	-	12,000,000
Transfer in of investment in subsidiaries	-	28,146,906
Transfer out of investment in subsidiaries	-	(28,146,906)
Cost as at 31 December	47,229,000	47,229,000

	2020 £
Datapipe Europe Limited	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
Adapt Group Limited	20 October 2020	England	Ordinary shares	100%	Dormant
Altimus Acquisitions Limited	17 March 2020	England	Ordinary shares	100%	Dormant
Sleek Holdco Limited	17 March 2020	England	Ordinary shares	100%	Dormant
Sleek Network Holdings Limited	17 March 2020	England	Ordinary shares	100%	Dormant
Adapt Holdco Limited	17 March 2020	England	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 Limited GmbH (registered address is Mainzer Landstrasse. 50, 60325 Frankfurt).

Notes to the financial statements

12. Intangible assets

	Licences 2020 £
Cost	
At 1 January and 31 December	111,598
Accumulated amortisation	
At 1 January and 31 December	(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.

13. Tangible assets

	Land	Leasehold improvements	Plant and Machinery	Furniture and Fittings	RoU Assets		Total
	2019 £	2019 £	2019 £	2019 £	2019 £	2019 £	2019 £
Cost							
At beginning of year	7,634,016	119,188,180	258,797,064	10,623,989	-	-	396,243,249
Effects of adoption of IFRS 16: Leases	-	(81,531,919)	(309,925)	-	78,971,484	309,925	(2,560,435)
Additions	-	21,835,177	21,493,147	26,402	70,547	-	43,425,273
Disposals	-	(15,830)	(35,081,048)	(976,917)	-	-	(36,073,795)
Impairment	-	-	-	-	(1,063,793)	-	(1,063,793)
At end of the year	7,634,016	59,475,608	244,899,238	9,673,474	77,978,238	309,925	399,970,499
Accumulated depreciation							
At beginning of year	-	(37,292,320)	(205,932,787)	(8,109,986)	-	-	(251,335,093)
Effects of adoption of IFRS 16: Leases	-	11,272,278	34,352	-	(11,152,925)	(34,352)	119,353
Depreciation charge	-	(7,588,716)	(29,165,993)	(1,104,235)	(2,924,121)	-	(40,783,065)
Disposals	-	15,830	33,128,062	976,917	-	-	34,120,809
At end of the year	-	(33,592,928)	(201,936,366)	(8,237,304)	(14,077,046)	(34,352)	(257,877,996)
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
Net book value at 31 December 2018	7,634,016	81,895,860	52,864,277	2,514,003	-	-	144,908,156

Notes to the financial statements

13. Tangible assets (continued)

	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

Leased plant and machinery

The Company has entered into a Leasing arrangement with a related party, Rackspace UK Leasing Limited, for certain movable plant and machinery. At balance sheet date, the net carrying value of plant and machinery held under finance lease from related parties was £3,872,215 (2019: £4,224,845).

Notes to the financial statements

14. Debtors

	2020 £	2019 restated £
<i>Debtors: amounts falling due within one year</i>		
Amounts due from group undertakings	43,398,712	29,220,989
Trade receivables	15,618,735	13,471,296
Prepayments	5,692,702	5,735,663
Other receivables	4,824,798	1,942,537
Contract assets	389,757	361,283
	<u>69,924,704</u>	<u>50,731,768</u>
<i>Debtors: amounts falling due after more than one year</i>		
Prepayments	1,274,879	707,566
Contract assets	909,836	759,919
Contract fulfilment assets	3,987,230	3,547,790
	<u>6,171,945</u>	<u>5,015,275</u>
Total debtors*	<u>76,096,649</u>	<u>55,747,043</u>

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

	Receivables outstanding 2020 £	Receivables outstanding 2019 £
Centric Telecom Limited	-	59,281
Elinia Webservices Limited	275,609	311,811
Sleek Networks Limited	3,887	9,959
Rackspace Leasing Limited	-	17,483
Datapipe Europe Limited	4,810,364	2,847,366
Adapt Services Limited	2,274,503	1,756,604
Rackspace Singapore Pte. Ltd.	-	18,187
Rackspace Germany GmbH	-	19,431
Rackspace Australia Pty Ltd	-	753
Rackspace US, Inc.	2,028	1,142
Rackspace Benelux B.V.	145,857	6,795
Rackspace International GmbH	35,886,464	24,172,177
	<u>43,398,712</u>	<u>29,220,989</u>

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

*A loan receivable of £33,500,000 has been restated to reclassify from "Trade and other receivables" to "Loans receivable from group undertakings". There was no impact to the profit before taxation in the Statement of Comprehensive Income for the year ended 31 December 2019 and the Statement of Changes in Equity for the year ended 31 December 2019. Rackspace Limited has also taken exemption from presenting a third balance sheet.

15. Loans receivable from group undertakings

	2020 £	2019 £
Loans receivable from group undertakings falling due within one year*	<u>-</u>	<u>33,500,000</u>

Loan with Rackspace US, Inc.

Loans receivable from group undertaking as at 31 December 2019 of £33,500,000 related to the Revolving Credit Facility Agreement between the Company (the Lender) and Rackspace US, Inc. (the Borrower). The facility bears interest at three months GBP LIBOR plus 4% is payable in arrears not later than the end of the calendar month following the last day of the previous quarter. The loan was repayable by 1 June 2020 however the agreement was extended with payment due by 1 August 2020. The payment was settled through in July 2020.

Notes to the financial statements

15. Loans receivable from group undertakings (continued)

*A loan receivable of £33,500,000 has been restated to reclassify from "Trade and other receivables" to "Loans receivable from group undertakings". There was no impact to the profit before taxation in the Statement of Comprehensive Income for the year ended 31 December 2019 and the Statement of Changes in Equity for the year ended 31 December 2019. Rackspace Limited has also taken exemption from presenting a third balance sheet.

	2020 £	2019 £
Loans receivable from group undertakings falling due after more than one year	28,769,237	30,286,460

Loan with Rackspace UK Leasing Limited

Loans receivable from group undertakings of £28,769,237 (2019: £30,286,460) relate to the Revolving Credit Facility Agreement between the Company (the Lender) and Rackspace UK Leasing Limited (the Borrower). The facility bears interest at three months GBP LIBOR plus 1% 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 £400 million. The term of each loan drawdown is more than one year. The first payment is due by 30 June 2022.

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2020 £	2019 £	2020 £	2019 £
Non-Current				
Tangible fixed assets	3,112,328	4,988,086	-	-
Allowance for doubtful debts	140,106	61,554	-	-
Employee incentives, including stock-based compensation	1,339,975	851,949	-	-
Employee benefits	84,216	45,010		(16,367)
Capitalised interest		-	(179,755)	(168,246)
Adjustments for previous years		-		(27,195)
Adoption of IFRS 15 under the cumulative effect method		-		-
Tax assets / (liabilities)	4,676,625	5,946,599	(179,755)	(211,808)

Notes to the financial statements

16. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year:

	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>
	1 January 2019 £	Recognised in income £	31 December 2019 £
Tangible fixed assets	6,075,223	(1,087,137)	4,988,086
Allowance for doubtful debts	44,282	17,272	61,554
Employee incentives, including stock-based compensation	439,535	412,414	851,949
Employee benefits	34,190	(5,547)	28,643
Capitalised interest	(175,660)	7,414	(168,246)
Adjustments in respect of prior years	(210,915)	183,720	(27,195)
	<u>6,206,655</u>	<u>(471,864)</u>	<u>5,734,791</u>

17. Creditors

	2020 £	2019 £
<i>Creditors: amounts falling due within one year</i>		
Lease liabilities (note 22)	31,229,494	30,252,702
Tax payable (note 10)	4,041,081	2,287,098
Amounts owed to group undertakings	18,948,805	11,296,599
Trade payables	5,824,753	6,260,240
Non-trade payables	24,558,176	21,816,946
Accrued expenses	13,753,168	11,779,133
Deferred income	1,179,435	1,010,215
	<u>99,534,912</u>	<u>84,702,933</u>
<i>Creditors: amounts falling due after more than one year</i>		
Non-trade payables	1,888,487	2,373,910
Lease liabilities (note 22)	130,535,363	135,803,929
Amounts owed to group undertakings (note 19)	47,379,140	47,640,060
Deferred income	15,912	51,839
	<u>179,818,902</u>	<u>185,869,738</u>

Notes to the financial statements

17. Creditors (continued)

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

	Payables outstanding 2020 £	Payables outstanding 2019 £
Centric Telecom Limited	35,155	38,872
Datapipe Europe Limited	325,345	270,488
Datapipe Inc.	358,294	463,489
Rackspace Asia Limited	92,428	258,608
Rackspace Germany GmbH	16,037	-
Rackspace US, Inc.	11,055,110	4,694,390
Rackspace International GmbH	6,999,632	5,570,752
Elinia Webservices Limited	37,590	-
Rackspace Leasing Limited	4,930	-
Rackspace Singapore Pte. Ltd	2,946	-
Rackspace Australia Pty Ltd	20,232	-
Rackspace Israel	1,106	-
	<u>18,948,805</u>	<u>11,296,599</u>

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

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. The Company has disclosed these movements within equity on a nil basis in the prior year, but has restated this year and prior year comparatives to present at gross level per IAS 1 para 32. 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 continued with the same terms and conditions post IPO.

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.

Notes to the financial statements

18. Share Based Compensation (continued)

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

<u>Exercised options</u>	2020 No. of Options	2020 Weighted Average US\$	2019 No. of Options	2019 Weighted Average US\$
Exercised during the year	446,071	10.16	-	-

Outstanding options

	2020 Outstanding Options	2019 Outstanding Options
2017 Grants		
\$8.33	269,405	1,012,000
2018 Grants		
\$14.34	3,380	3,480
\$15.54	236,512	391,812
2019 Grants		
\$12.88	390,186	581,652
2020 Grants		
\$11.41	54,756	-
\$13.62	1,190,944	-
At 31 December	2,145,183	2,169,144
Weighted average remaining contractual life at 31 December	8.45 years	7.29 years

The share-based compensation disclosure was erroneously omitted in prior year and as such this has been restated in this note.

19. Other interest-bearing loans and borrowings

From 1 January 2019, the Company has recognised certain leases as right-of-use assets (note 13) and lease liabilities (note 22) on adoption of IFRS 16 except for short-term and low-value leases.

Finance lease liabilities from third party lessors represent the present value of minimum lease payments on finance leases for various plant and machinery.

<i>Creditors: amounts falling due after more than one year</i>	2020 £	2019 £
Loans payable to group undertakings	47,379,140	47,640,060
	47,379,140	47,640,060

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 (2019: £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 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 £8,550,140 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.

Loans with Centric Telecom Limited, Elinia Webservices Limited and Adapt Services Limited

Loans payable to group undertakings of £5,700,000, £4,200,000 and £7,000,000 relate 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 bears interest at three months LIBOR plus 3.5%, 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. The revolving credit facility cannot exceed £8,000,000 for Centric Telecom Limited and Elinia Web Services Limited and cannot exceed £16,000,000 for Adapt Services Limited. The term of each loan drawdown is more than one year. The first payment is due by 25 October 2024.

20. Capital and reserves

	2020 £	2019 £
<u>Called up share capital</u>		
On issue at 1 January 2020 and 31 December 2020 – fully paid	1,000	1,000
<u>Authorised</u>		
100,000 (2019: 100,000) ordinary shares of £1 each	100,000	100,000
<u>Allotted, called up and fully paid</u>		
1,000 (2019: 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:

	2020 £	2019 £
<u>Retained earnings</u>		
Opening balance at 1 January	46,211,270	73,861,751
Profit and total comprehensive income for the year	6,332,459	9,978,009
Dividends paid	(33,500,000)	(37,628,490)
Closing balance at 31 December	19,043,729	46,211,270

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.

22. Lease liabilities

	Equipment 2019 £	Building 2019 £
Lease liability discounted		
Operating lease commitments as at 31 December 2018	-	34,679,544
Commitments adopted under IFRS 16	584,583	-
Finance lease commitments as at 31 December 2018	107,958	139,044,024
Discounting effect	(274,659)	(7,048,904)
Lease liability as at 1 January 2019	417,882	166,674,664
New lease	-	66,572
Lease from group undertaking	21,158,716	
Lease renewals	-	171,327
Interest on leases previously classified as finance leases	-	5,658,266
Interest	39,344	2,448,959
Finance lease payments	-	(6,230,904)
Lease payments	(62,099)	(7,219,543)
Lease payment to group undertaking	(16,933,871)	-
Currency impact	-	(132,682)
Lease liability as at 31 December 2019	4,619,972	161,436,659
Adjustment*	79,176,473	(79,176,473)
Restated lease liability as at 31 December 2019	83,796,445	82,260,186
	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

Notes to the financial statements

22. Lease liabilities (continued)

Lease liability 2019

Due within one year	22,719,850	7,532,852
Between 1-5 years	60,862,018	29,313,569
More than 5 years	214,577	45,413,765
	83,796,445	82,260,186

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

*Closing balances for 2019 are misstated by £79,176,473 due to incorrect mapping between equipment and buildings at 31 December 2019. These have been restated in the note above and closing balances in the Balance Sheet under 'Creditors: amounts falling due within one year' and 'Creditors: amounts falling due after more than one year' have also been restated. See Note 1 for further details.

The 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.

23. 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/>.

24. Events occurring after the reporting period

No matters of circumstances have occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

25. COVID-19

The recent 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.