Canonical UK Limited

Report and Financial Statements

Year Ended

31 December 2021

Company Number 05055134

Canonical UK Limited

Report and financial statements
for the year ended 31 December 2021

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Director

N French

Secretary

K Ollerhead

Registered office

5 New Street Square, 5 New Street Square, London, England, EC4A 3TW

Company number

05055134

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Canonical UK Limited

Strategic report
for the year ended 31 December 2021

The director presents the strategic report together with the audited financial statements for the year ended 31 December 2021

Principal activities and business review

Canonical UK Limited is a wholly owned subsidiary of Canonical Group Limited, the leading provider of support services for Ubuntu deployments in the market. Ubuntu is a free, open-source platform for client, server and cloud computing. Since its launch in 2004, Ubuntu has become a natural choice for users of all kinds, from Fortune 500 companies to hardware makers, content providers, software developers and individual technologists.

During the period Canonical UK continued to provide UK based engineering and support operations and worked with other group companies to provide services and support for the Ubuntu product group.

Review of development, performance and position of the business

Most cloud deployments, across most machines, containers and Kubernetes, and spanning both public and private clouds, run Ubuntu at their core. Most large-scale private clouds built with OpenStack are on Ubuntu, using both Kernel-based Virtual Machines ("KVM") and the LXD pure-container hypervisor for the world's fastest private clouds. The majority of new smart gateways, self-driving cars and advanced humanoid robots are running Ubuntu as well. Canonical provides enterprise support and services for commercial users of Ubuntu.

In addition to producing Ubuntu, Canonical leads the development of key differentiating technologies which allow customers to operate efficiently at scale. Canonical leads the development of Juju, and MAAS (Metal-as-a-Service), which provides unified tooling for building and managing data centres from the ground up. Further, Canonical leads the development of the snap universal Linux packaging system for secure, transactional device updates and app stores. Ubuntu Core is an all-snap, lightweight instantiation of Ubuntu, perfect for devices and appliances.

Building on these technologies, Canonical offers Canonical OpenStack and Canonical Kubernetes which harness the power of Juju for their deployment and operation. Both offer enterprise, telecom providers and OEMs mechanisms to run multi and hybrid cloud infrastructure that's cost efficient to build and operate. Canonical consulting, training and managed services offerings mean companies can get started with their multi and hybrid cloud infrastructure in weeks.

To support its technology and go-to-market strategies, Canonical continues to build world class global engineering, support and managed service operational teams. The combination of these highly skilled individuals and Canonical's class leading management tools, positions the group to be a leading player in the markets where it competes.

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Key performance indicators

Canonical UK Limited measures its performance through the use of key performance indicators ('KPIs'). These KPIs are focussed on revenue and operating profit. Given the nature of operations, the Board considers these most relevant and the KPIs form the basis of operational reports provided to the Board and management.

KPIs	2021	2020
Revenue ($m)	20.11	21.64
Operating profit ($m)	1.52	2.81

The Board is satisfied with the overall performance as indicated by these metrics. The decrease in revenue for the period when compared to the same period in the prior year reflects the decrease in staffing levels in the company as Canonical Group Limited becomes the hiring lead and thus the service levels offered to other group companies dropped.

Financial risk management objectives and policies

The company uses various financial instruments including loans and cash. Canonical UK Limited is principally funded by inter-company loans from group companies. It has no trade debtors and all trade is through the provision of support and development services to other Canonical companies.

The existence of these financial instruments exposes the company to a number of financial risks which are described in more detail below. The risk arising from the group's financial instruments are currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk - The company has some exposure to currency translation risk arising on intercompany arrangements denominated in currencies that are not the functional currency of the company. The majority of trading transactions are, however, denominated in USD.

Credit risk - As Canonical UK Limited has no external clients, credit risk is managed through its parent Canonical Group Limited.

Liquidity risk - Current and projected working capital demand is assessed on a monthly basis and parent company loans are drawn down as required.

Going concern

As the company carries out services on behalf of, the Canonical Group this commentary reflects that of the combined group headed by Canonical Holdings Limited (the "Group").

The Directors are confident of building on the successes of 2021 and expect to further improve financial performance in 2022. However, despite the successful 2021, with high levels of recurring revenue and cash in the business as at December 2021, the Directors have considered their response to the likely effects of the continued Covid-19 pandemic conditions and other systemic risks.

Canonical, as a remote-based software development and services provider, was, and remains, naturally well placed to deal with the challenges that Covid-19 have caused many other businesses. The vast majority of staff were already home based, and with the exception of some customer-centric physical delivery requirements, most customer service operations are remotely delivered. _Thus, the impact of global lockdown on our operations has been minimal and is predicted to continue as such.

The ongoing conflict in Eastern Europe has had a negligible impact on operations. Canonical has terminated relationships with several customers, representing approximately one quarter of one percent of total revenue. Additionally, approximately 15 members of staff are based in and around the conflict zone, and their physical and financial security has become a priority for Canonical. While responding to this conflict, and especially the needs of team members, has consumed some time, the Directors have not noted a measurable impact on other operations.

The nature of Canonical's business and operational strategy have allowed the business to absorb rising input costs associated with the current inflationary environment globally. Canonical's most significant expense, by a large margin, is payroll related costs, and the company's strategy to hire globally diversifies the risk of rising local salaries even when there is widespread inflation. Coupled with strong revenue growth and economies of scale, Canonical has been able to remain highly competitive in the labour markets while increasing margins.

Rising interest rates have a limited direct impact on Canonical given the lack of debt on the balance sheet generally, and the Directors do not expect material headwinds on future revenue growth due to Canonical's product and pricing strategies. Additionally, given Canonical's general policy to bill in advance, the Directors are not expecting large increases in bad debts. The biggest risk the current macroeconomic environment poses to Canonical is reduced future renewal bookings caused by customer bankruptcies or consolidation, as the business currently enjoys both high recurring revenue relative to total revenue, and very high net retention rates.

The base case budget for the year ended 2022, involves a plan for the group to reach an underlying (i.e., after temporary travel cost savings) positive cash flow position, despite increasing annualised costs by almost 50%. The CHL Group has not received any cash funding since mid-2018, owing to the ability of the Directors to limit cost growth to less than sales growth.

Given the high level of planned, but unexecuted investment in people in the 2022 plan and 2023 long-range plan, there is a high level of immediate control available to the Directors in order to respond to the current uncertain economic environment and any additional crises that emerge. Furthermore, the level of committed, non-cancellable costs in the business is very low, being primarily comprised of relatively small rents and annual software licenses.

Going concern *(continued)*

In assessing the risks posed to the going concern assumptions, a set of forecasts have been prepared that show the effects of various scenarios on the group in an effort to approximate a 95% confidence interval in the worst-case potential outcome. In particular, the Directors' have considered the potential impacts that the various risks outlined above may have on the ability to achieve adequate levels of cash inflows, impacts to both committed and non-committed cost bases, and the various levers available to management to respond to such scenarios.

The forecasts prepared by the Directors include scenarios where the group's sales and renewal performance is significantly impacted, by an approximate 50% reduction in sales which can be comfortably sustained before enacting cost-cutting measures. This level of reduction is not expected by management due to the nature of the services provided and due to the fact that a large portion of income throughout the going concern period has already been contracted with large customers that are expected to succeed in these economic conditions (e.g., public cloud operators with market capitalizations in excess of a trillion USD).

Based on the forecasts noted above, the various scenarios considered and the sensitivities applied thereto, including the CHL Group's inherent remote operating capabilities, and the high level of management's ability to reduce future costs rapidly, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and is able to meet its liabilities as they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Approval

This strategic report was approved by order of the Board on 30 January 2023.

DocuSigned by:
Neil French
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N French
Director

The director presents his report together with the audited financial statements for the year ended 31 December 2021.

Directors

The directors of the company throughout the year were:

Neil French

Results and dividends

The income statement is set out on page 11 and shows the profit for the year. Further details on results of the company are explained in the principal activities and business review section within the Strategic Report on page 1.

During the year, no dividends were paid (2021 - $Nil). The director does not recommend the payment of a final dividend (2021 - $Nil).

Employee policies

Applications for employment by disabled persons are given full and fair consideration for all vacancies, having regard to their particular aptitudes and abilities. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Employee involvement

The company maintains an HR intranet site that provides employees with information on matters of concern to them as employees, including the financial and economic factors affecting the performance of the company. The intranet site includes functionality that enables employees to express views on matters that affect them anonymously and the company also undertakes staff surveys to canvas views on significant matters.

High engagement and employee well-being are key priorities for Canonical Holdings Limited.
Our human capital is the most valuable asset we have. The collective sum of the individual differences, life experiences, knowledge, inventiveness, innovation, self-expression, unique capabilities and talent that our team members invest in their work represents a significant part of not only our culture but our reputation and organisation's achievement as well.

We embrace and encourage our team members' differences in age, colour, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other characteristics that make our team members unique.

Measuring engagement and satisfaction is something we take very seriously at Canonical as an engaged workforce is paramount to the success in delivering our organisational goals. Disengaged employees can have a detrimental impact to everything from customer service to sales, quality, productivity, retention and other critical business areas.

Employee involvement *(continued)*

Engaged employees are more motivated, committed and focused on their work, their team and the future of the organisation they work for. We invest a lot of time and money in ensuring we are hiring the top people in the industry and we work hard to ensure we provide an environment to foster a culture of engaged employees.

Understanding what motivates and keeps people engaged is key to supporting retention and productivity. For this reason we collate feedback via the Canonical People Survey each year, providing team members with an opportunity to share candid, confidential feedback to the business on motivating factors and areas we could improve.

What motivates a person is individual, differing from financial rewards to social connections and involvement. There is no 'one size fits all' but the people survey provides us with an opportunity to understand the temperature of the company and to support a culture of transparency and open communication.

We partner with Best Companies, an industry leader in employee engagement practices. They are an independent research organisation that compiles the "Best Companies to Work For" lists which are published in The Sunday Times (UK only). The Best Companies Index (BCI) Measure, is widely recognised as the most academically rigorous measure of workplace engagement, providing a strong basis for industry benchmarking.
Part of the feedback within our latest engagement survey was an ask that we communicated HR updates more widely. To answer this, we decided to create the HR Newsletter to distribute and highlight pertinent information regarding the business.

Auditors

The director has taken all the steps that he ought to have taken to make himself aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The director is not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board

DocuSigned by:
Neil French
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N French

Director

30 January 2023

Director's responsibilities statement
for the year ended 31 December 2021

The director is responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial period. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is 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 these financial statements, the director is required to:

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

The director is 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. The director is 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Canonical UK Limited ("the Company") for the year ended 31 December 2021 which comprise statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity and notes forming a part of the financial statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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.

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

Other information

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

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

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

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

Canonical UK Limited

Independent auditor's report (continued)

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

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:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those relating to the reporting framework, Companies Act, data privacy and the relevant tax regulations including but not limited to, Corporate and sales tax legislation, and Employment Taxes.
- We assessed how the Company is complying with legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance procedures. We also reviewed the tax computation and return and financial statements disclosures against the requirements of the relevant tax legislation and applicable accounting frameworks respectively.
- We communicated relevant legal and regulatory frameworks and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was a susceptibility to fraud.
- Our audit planning identified fraud risks in relation to management override and risk of fraud in revenue recognition. We considered the processes that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how management monitors such processes.
- In response to the risk of management override of control, our procedures included journal entry testing, with a focus on unusual transactions based on our knowledge of the business which were agreed to supporting documentation where applicable; and enquiries with Management and those charged with governance regarding any instances of known or suspected fraud during the year. We challenged management's assessments, assumptions and evaluated data used as the basis for making estimates to assess whether judgements made in making accounting estimates are indicative of potential bias by management.
- With regards to the risk of fraud in revenue recognition, our procedures included assessing whether the revenue recognition policies adopted by the Company comply with accounting standards. We sample tested sales transactions in year to supporting evidence.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:
BDO LLP
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Leighton Thomas (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

30 January 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Canonical UK Limited

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000 Restated
Turnover	2	**20,111**	21,641
Administrative expenses		**(18,591)**	(18,829)
Operating profit		**1,520**	2,812
Interest receivable and similar income	4a	**-**	1,060
Interest payable and similar charges	4b	**(1)**	-
Profit on ordinary activities before taxation		**1,519**	3,872
Taxation	5	**12**	(136)
Profit for the financial period and total comprehensive income		**1,531**	3,736

All amounts relate to continuing activities. There was no other comprehensive income in the current or prior year.

The details of restatements are provided in note 4 to the Appendix (page 28).

The notes on pages 15 to 25 form part of these financial statements.

Canonical UK Limited

Company statement of financial position
at 31 December 2021

Company number 05055134	Note	2021	2021	2020	2020	1 January 2020	1 January 2020
		US$'000	**US$'000**	US$'000	US$'000	US$'000	US$'000
				Restated		Restated	
Non current assets							
Intangible fixed assets		-		289		577	
		-		289		577	
Current assets							
Debtors	6	**16,423**		17,990		38,646	
Contract costs		**132**		52		62	
Deferred tax asset		**298**		-		-	
Cash at bank and in hand		**3,583**		78		63	
Total current assets		**20,436**		18,120		38,771	
Creditors: amounts falling due within one year	7	**(1,822)**		(1,578)		(26,595)	
Net current assets			**18,614**		16,542		12,176
Total assets less current liabilities			**18,614**		16,831		12,753
Capital and reserves							
Share capital	8		**-**		-		-
Capital Contribution			**960**		708		366
Retained earnings			**17,654**		16,123		12,387
Shareholder's funds			**18,614**		16,831		12,753

The financial statements were approved by the Director and authorised for issue on 30 January 2023.

The details of restatements are provided in note 4 to the Appendix (page 28).

DocuSigned by:

Nil French

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N French
Director

The notes on pages 15 to 25 form part of these financial statements.

Canonical UK Limited

Statement of changes in equity
for the year ended 31 December 2021

	Share capital US$'000	Capital Contribution US$'000	Retained earnings US$'000	Total equity US$'000
1 January 2021	**-**	**708**	**16,123**	**16,831**
Share based payment	**-**	**252**	**-**	**252**
Total comprehensive profit for the year	**-**	**-**	**1,531**	**1,531**
31 December 2021	**-**	**960**	**17,654**	**18,614,**

Statement of changes in equity
for the year ended 31 December 2020

	Share capital US$'000	Capital Contribution US$'000	Retained earnings US$'000	Total equity US$'000
1 January 2020	-	366	12,387	12,753
Share based payment	-	342	-	342
Total comprehensive profit for the year	-	-	3,736	3,736
31 December 2020	-	708	16,123	16,831

The details of restatements are provided in note 4 to the Appendix (page 28).

The notes on pages 15 to 25 form part of these financial statements.

1 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

Canonical UK Limited is a private company limited by shares, incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the strategic report. age and the nature of the company's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101)

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006. The financial statements have been prepared using the US Dollar as the presentational currency on the basis that the directors believe the US Dollar to be the functional currency of the company. The period-end exchange rate between US dollar and Sterling was 1.3514 (2020: 1.311).

Going concern

The financial statements have been prepared using the going concern basis of accounting. The directors have reviewed the Company's and Group's going concern position taking into account its current business activities, budgeted performance and factors likely to affect its future development. Based on the information contained within the accounts and including specific consideration with the risks associated with the Covid- 19 situation, the directors have reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

As at 31 December 2021, the Group had cash resources of $93.5m (2020: $46.6m), current assets of $136.8m (2020: $81.4m) and had net current assets of $ $72.2m (2020: $28.9m). The Company and Group have no external loans or borrowings. In the year to 31 December 2021 the Group made a profit before tax of $41.2 m (2020: $21.0m) and net cash generated from operations was $59.2m (2020 net cash generated by operations $37.6m). The Group has become profitable in 2021 due to revenue growing by 29% year on year. Whilst the Group continues to invest heavily in R&D in order to preserve the products market-leading nature, contractual revenues are rising to the point that they are forecast to overtake costs in 2021 and beyond.

The directors have considered the potential impact COVID-19 may have on the ability to achieve budgeted sales. Whereas a large proportion of the income throughout the going concern period has already been contracted with large companies that are expected to succeed the economic conditions (e.g. public cloud operators), the rapid emergence of the Covid-19 pandemic has caused significant disruption to some of the group's customers and this may lead to lower new sales, or a lower level of renewals from existing customers.

The results of the Group's stress test show that owing to the Group's strong cash position on entering the crisis, high level of contracted sales and low level of fixed costs the business can comfortably sustain an approximate 50% reduction in sales before enacting cost-cutting measures. Furthermore, in the most extreme case, the business could sustain the removal of sales to the contracted minimum, if necessary, with an appropriate reduction in variable cost that would not impede short to medium term mandatory customer and internal operations.

After making enquiries of the shareholders the directors consider it appropriate to prepare the financial statements on a going concern basis.

1 Accounting policies *(continued)*

The company provides services to other group companies. It has no external borrowings.

As at 31 December 2021, the company had cash resources of $ 3.583 m (2020: $0.078m), current assets of $20.4 m (2020: $18.4m) and had net current assets and net assets of $18.6m (2019: $16.8m).

After making enquiries of the shareholders and having given consideration to the fact that the immediate parent company, Canonical Group Limited, as confirmed that it will not recall the amounts due to related undertakings within one year of the date of signing of these financial statements, the directors are satisfied that the company has sufficient resources to continue in operational existence for at least 12 months from the date of signing of these financial statements and consequently continue to adopt the going concern basis in preparing these financial statements.

Turnover

Turnover represents the amount receivable from fellow group companies, in respect of charges for outsourced business services. Fees are recognised as the work is performed.

Leases

Canonical UK Limited has no operating or finance leases.

Contributions to pension funds

The company makes contributions to individual's personal pension plans. Pension costs are charged against profits in respect of the accounting period in which they are paid.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at a rate of exchange ruling at the balance sheet date. Any differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction.

Exemption from preparing a cash flow statement

The company has taken the exemption within Chapter 1 of FRS 101, not to prepare a cash flow statement as it is included within the consolidated financial statements of its intermediate parent, Canonical Group Limited, which are publicly available.

Financial instruments

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

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The company only has basic financial instruments and have not chosen to designate any as fair value through profit and loss.

1 Accounting policies *(continued)*

Financial instruments (continued)

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors or creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the company can control their reversal and such reversal is not considered probable in the foreseeable future..

1 Accounting policies *(continued)*

Taxation (continued)

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Research and development tax credit

The company is entitled to claim special tax allowances in relation to qualifying research and development expenditure (e.g. R&D tax credits), using the above the line ('ATL') R&D tax credit scheme. The company accounts for such allowances as tax credits, which means that they are recognised when it is probable that the benefit will flow to the company and that benefit can be reliably measured. R&D tax credits are accounted within administrative expenses reducing the expenditure incurred on the R&D project to which the credit relates. To the extent the amounts due in respect of them are not settled by the balance sheet date, they reduce current tax payable or are held as a receivable.

Share-based payments

The immediate parent comment ie Canonical Holdings Limited (CHL) operates two equity-settled share based remuneration schemes for its staff and staff of its subsidiary companies.

The first scheme is open to all global staff members who are eligible to participate in the scheme, the only vesting condition being that the individual remains contracted with the group over the vesting period. The options vest 25% immediately upon grant, and subsequently in equal tranches over the three year remaining vesting period.

The exercise price of all options outstanding at the end of the period was $670. The second scheme is limited to senior management and differs in that the vesting period is 4 years from grant and the exercise price is $nil.

Each employee share option converts into one ordinary share of the CHL on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. Options are exercisable at a price equal to the average quoted market price of CHL's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Company before the options vest.

1 Accounting policies *(continued)*

Share-based payments (continued)

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value are presented in note 21. At each reporting date, CHL revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

CHL's scheme, which awards shares in the parent entity, includes recipients who are employees in all subsidiaries. In the subsidiaries' financial statements, the awards, in proportion to the recipients who are employees in said subsidiary, are treated as an equity-settled share-based payment, as the subsidiaries do not have an obligation to settle the award. An expense for the grant date fair value of the award is recognised over the vesting period, with a credit recognised in equity. The credit is treated as a capital contribution, as the parent is compensating the subsidiaries' employees with no cost to the subsidiaries as there is no expectation to recharge the cost.

Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

3 Employees

	2021 US$'000	2020 US$'000
Staff costs consist of:		
Wages and salaries	**15,431**	14,832
Social security costs	**1,822**	1,758
Pension	**726**	706
Share based payments	**342**	252
	18,321	17,548

The average monthly number of employees (including executive directors) was:

3 Employees *(continued)*

	2021 US$'000	2020 US$'000
Software development	**41**	48
Technical and sales support	**48**	52
Operations	**2**	2
Other	**18**	21
	109	123

Remuneration in the sum of $318,425 (2020 - $267,140) was paid to the Director during the year ended 31 December 2021 via other group companies. The key management of the company are the director and the directors of Canonical Holdings Limited, who are remunerated via other group companies.

The highest paid director did not exercise any share options in the year and had no shares granted under long-term incentive schemes.

4a Interest receivable and similar income

	2021 US$'000	2020 US$'000
Unrealised foreign exchange gain	**-**	695
Realised foreign exchange gain	**-**	365
	-	1,060

4b Interest payable and similar charges

	2021 US$'000	2020 US$'000
Realised foreign exchange loss	**-**	-
Unrealised foreign exchange loss	**1**	-
	1	-

Canonical UK Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

5 Taxation

	2021 US$'000	2020 US$'000
Current tax		
Adjustment to tax charge in respect of prior years	**153**	136
Current tax on profits in for the year	**133**	-
Total current tax	**286**	136
Deferred tax		
Current year	**(285)**	-
Effect of changes in tax rate	**(13)**	-
Total deferred tax	**(298)**	-
Tax per income statement	**(12)**	136

The tax assessment for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2021 US$'000	2020 US$'000
Loss on ordinary activities before tax	**1,519**	4,257
UK corporation tax rate of 19% (2020 - 19%)	**289**	809
Expenses not deductible for taxation purposes	**-**	20
Group relief surrendered	**-**	(398)
Deferred tax not recognised	**-**	(273)
Brought forward losses utilised	**-**	-
Tax rate changes	**(13)**	(22)
Adjustments in respect of prior years	**153**	-
Share based payments	**48**	-
Temporary differences	**(489)**	-
Tax for the period	**(12)**	136

6 Debtors

	2021 US$'000	2020 US$'000
Amounts owed by related undertakings	**15,241**	17,072
Other debtors	**1**	4
Prepayments	**39**	238
Corporation tax	**1,142**	676
	16,423	17,990

All debtors are due within one year. A proportion of amounts owed by related undertakings are denominated in Sterling and thus give rise to foreign currency exposure to the company. These are interest free, unsecured and repayable on demand.

7 Creditors: amounts falling due within one year

	2021 US$'000	2020 US$'000
Trade creditors	**20**	12
Accruals	**1,802**	1,526
Amounts owed to related undertakings	**-**	40
	1,822	1,578

A proportion of amounts owed to related undertakings are denominated in Sterling and thus give rise to foreign currency exposure to the company. These are interest free, unsecured and repayable on demand.

8 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and company and movements thereon during the current and prior reporting period.

Group	**Fixed asset US$'000**	**Temporary differences trading US$'000**	**RDEC Step 2 US$'000**	**Total US$'000**
	2022	**2021**	**2022**	**2021**
	£	**£**	**£**	**£**
At 1 January 2021	-	-	-	-
Charge/(credit) to profit or loss	(41)	(20)	(237)	(298)
At 31 December 2021	**(41)**	**(20)**	**(237)**	**(298)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

9 Share capital

	Allotted, called up and fully paid			
	2021 Number	**2020 Number**	**2021 £**	**2021 £**
Ordinary shares of £1 each	1	1	1	1
			$	**$**
Converted to USD			**2**	**2**

10 Share-based payments

Equity-settled share option plan

Canonical has been loss making historically and turned profitable in March 2020, therefore we have considered EV/Revenue multiples to be the most accurate method to derive the EV as at each date using the market approach. Furthermore, we understand that within the software technology sector, this metric is commonly used in the valuation of comparable companies.

Calculation of IFRS 2 expense

Using the Equity Value we derive the share price, this is then used as an input to calculate the grant date fair values of the awards. Option valuation methodology: The options have a exercise price of $670 and are not subject to any further performance conditions except the requirement for continued employment. Under IFRS 2 a Black Scholes model is an appropriate model to calculate the fair value per share of the options as at each valuation date.

Restricted Stock Units ("RSUs"): In order to receive the RSUs participants do not need to pay an exercise price therefore the fair value of the RSUs is equivalent to the share price at the valuation date less dividends. The expense was calculated based on the number of options / RSUs granted at each of the respective grant dates.

Fair value

The equity value at each date and the capital structure were used to derive the fair value per share for the options and RSUs.

IFRS 2 charge

These fair values have then been used to calculate the IFRS 2 expense which Canonical will suffer in respect of each granting of shares.

1. *Vesting conditions of the options and RSU awards*

25% of the options granted vest on the grant date and the remaining 75% vest evenly over a 3 year period. The RSU awards vest evenly over a 4 year period with the final vesting taking place 4 years after grant date. The expense has been spread over the different vesting periods i.e. from the grant date to the vesting date. So as an example, in relation to the RSU awards 25% of the expense is spread over the 12 months from grant date, then 25% is spread over the 24 months from grant date. This results in the expense associated with the awards being higher in the earlier years and tapering down for the remainder of the period.

11 Share-based payments *(continued)*

Details of the share options outstanding during the year are as follows.

Company	Number of share options 2021	Weighted average exercise price (in US$'000) 2021	Number of share options 2020	Weighted average exercise price (in US$'000) 2020
Outstanding at beginning of year	**5,684**	**670**	5,780	670
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**(106)**	**670**	(96)	670
Exercised during the year	**-**	**-**	-	-
Expired during the year	**-**	**-**	-	-
Outstanding at the end of the year	**5,578**	**670**	5,684	670
Exercisable at the end of the year	**-**	**-**	-	-

The second scheme is limited to senior management, and differs in that the vesting period is 4 years from grant and the exercise price is £nil. During the period the senior management scheme granted no shares (2020 – 1,026). Of the total number of shares outstanding at the beginning of the year, 157 were forfeited. Of the 869 outstanding at the end of the year, 451 had vested.

Under both schemes, shares become exercisable once fully vested, upon certain realization events.

Both schemes have an ultimate termination date of 10 years from grant.

Under IFRS 2 a Black Scholes model is an appropriate model to calculate the fair value per share of the options as at each valuation date. The inputs into the Black Scholes model are as follows:

	Options Granted 2019	2018	Restricted Stock Units 2020	2019	2018
Share price at grant	$123	$70	$620	$530	$424
Exercise price	$670	$670	-	-	-
Expected life	5 years	5 years	-	-	-
Risk free rate	2.2%	2.5%	-	-	-
Dividend yield	0%	0%	0%	0%	0%
Volatility	31%	32%	-	-	-

Volatility assumptions were based on the 5 year historical trend of comparable companies as at each date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

11 Share-based payments *(continued)*

The Company recognised total expenses related to equity-settled share-based payment transactions as per the schedule below:

	Company US$'000
Share based payments expensed before 1 January 2020	366
Share based payments expensed during 2020	342
Total at 31 December 2020	708
Share based payments expensed during 2021	252
Total at 31 December 2021	**960**

12 Auditors remuneration

Canonical UK Limited has taken advantage of the exemption not to disclose fees paid to the company's auditor, BDO LLP, and its associates for services other than the statutory audit of the company as the company is included in the consolidated financial statements of Canonical Group Limited, which are prepared in accordance with Companies Act 2006 and are audited by the same auditor.

13 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 101 not to disclose transactions with certain group companies on the grounds that 100% of the voting rights in the company are controlled by the group headed by Canonical Holdings Limited.

Further disclosure of loans with related parties is included within note 7 and 8.

14 Events after the reporting period

There have been no events after the reporting period.

15 Ultimate parent company and control

At 31 December 2021 the company's immediate parent company was Canonical Group Limited. The largest group into which the company's results are consolidated is Canonical Holdings Limited. The company's ultimate controlling party is Mark Shuttleworth.

Appendix 1 – transition to FRS 102 to FRS 101

Background

Canonical UK Limited is a private company, limited by shares, incorporated in the UK under the Companies Act 2006. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the directors' report. The 2021 financial statements have been prepared in accordance with the FRS 101.

These financial statements, for the year ended 31 December 2021, are the first the Company has prepared in accordance with FRS 101. For periods up to and including the year ended 31 December 2020, the Company prepared its financial statements in accordance with the provisions of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

Accordingly, the Company has prepared financial statements that comply with FRS 101 applicable as at 31 December 2021, together with the comparative period data for the year ended 31 December 2020, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2020, the Company's date of transition. This note explains the principal adjustments made by the Company in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2020 and the financial statements as of, and for, the year ended 31 December 2020.

Company reconciliation of Equity as at 1 January 2020

	Note	FRS 102	Correction of error (note 4)	Reclassifications and remeasurements	FRS 101 at 1 January 2020
		US$'000's		US$'000's	US$'000's
Non-current assets					
Intangible assets		-		577	577
Total non-current assets		**-**		**577**	**577**
Current assets					
Contract costs		-		62	62
Trade and other receivables		38 669		(23)	38 646
Cash and cash equivalents		63		-	63
Total current assets		**38 732**		**39**	**38 771**
Total assets		**38 732**		**616**	**39 348**
Current liabilities					
Trade and other payables		(26 595)		-	(26 595)
Total current liabilities		**(26 595)**		**-**	**(26 595)**
Total Assets less Current Liabilities		**12 137**		**616**	**12 753**
Capital and Reserves					
Share capital		-		-	-
Capital Contribution		-	**(366)**	-	**(366)**
Retained earnings		**(12 137)**	**366**	**(616)**	**(12 387)**
Total capital and reserves		**(12 137)**	**-**	**(616)**	**(12 753)**

Company reconciliation of Equity as at 31 December 2020

	Note	FRS 102 US$'000's	Correction of error (note 4)	Reclassifications and remeasurements US$'000's	IFRS at 1 January 2020 US$'000's
Non-current assets					
Intangible assets		-		289	289
Total non-current assets		**-**		**289**	**289**
Current assets					
Contract costs		-		52	52
Trade and other receivables		17 757		233	17 990
Cash and cash equivalents		78		-	78
Total current assets		**17 835**		**285**	**18 120**
Total assets		**17 835**		**574**	**18 409**
Current liabilities					
Trade and other payables		(1 578)		-	(1 578)
Total current liabilities		**(1 578)**		**-**	**(1 578)**
Total Assets less Current Liabilities		**16 257**		**574**	**16 831**
Capital and Reserves					
Share capital		-			
Capital Contribution		-	**(708)**		**(708)**
Retained earnings		**(16 257)**	**708**	**(574)**	**(16 123)**
Total capital and reserves		**(16 257)**	**-**	**(574)**	**(16 831)**

Company reconciliation of Comprehensive Income for the year ended 31 December 2020

	Note	FRS 102	Corrections	Reclassifications and Remeasurements	IFRS at 31 December 2020
Turnover		21 384	-	257	21 641
Administrative expenses		(18 188)	(342)	(299)	(18 829)
Operating profit		**3 196**	(342)	(42)	2 812
Interest Receivable		1 060	-	-	1 060
Interest Payable		-	-	-	-
Profit/(Loss) before tax		**4 256**	(342)	(42)	**3 872**
Income tax expense		(136)	-	-	(136)
Profit/(Loss) from for the period		**4 120**	**(342)**	**(42)**	**3 736**

Notes to the reconciliation tables

1. Intangible assets – capitalisation of development costs

Under FRS 102 the capitalisation of such expenses is optional whereas the Company now capitalises such expenses under FRS 101. Therefore, the Company has thoroughly analysed its research and development process and its relation to revenue. Subsequently, it has defined the moment in which costs related to R&D projects can be considered as development costs as it is certain that they will generate economic benefits and are controllable and separable. This also impacted amortization in comparison with previous GAAP. Capitalised costs have been amortised over two years. The reported impact of the capitalization of development costs are as follows:

Capitalised Costs:

	2019	2020
Staff costs	577	-
Total	**577**	**-**

Amortisation of Capitalised Costs:

	2019	2020
Staff costs	289	288
Total	**289**	**288**

2. Financial instruments

The Group adopted the Expected Credit Loss ("ECL") impairment model by using the simplified approach, therefore it has developed a provision matrix setting out the expected credit losses, considering credit sales uncollected after 90 days as a predictor of future credit losses.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Historically, the Group has always had an immaterial level of bad debts due to the efficient and effective nature of the cash collection processes used and therefore, there have been no material adjustments when converting to IFRS 9 ECL for both the Canonical Group Ltd Consolidated and Company.

3. Sales Commissions:

Under FRS 102, commissions are calculated and accrued for (expensed) in the relevant 'performance quarter' that the product or service was 'booked' in (i.e., when the customer signs up to a contract). Commissions are paid two months later. Initial and renewal commissions relating to sales contracts with amortisation periods (i.e., contract terms) of greater than one year will be capitalised. Capitalised sales commissions will be amortised using the same amortisation profile corresponding to the underlying pattern of revenue recognition (i.e., either back-ended or straight-line, as applicable, over the contract period, excluding renewal periods). This mainly relates to the multi-year licensing and operations contracts. Commissions relating to sales contracts with amortisation periods of one year or less will be expensed as incurred.

Notes to the reconciliation tables

Sales Commissions *(continued):*

1 January 2020:

	US$'000
Sales Commission Capitalised	62

31 December 2020:

	US$'000
Sales Commission Capitalisation	52
Retained Revenue	-62
Bonus & Commissions	-46
Sales Commission Amortisation	56

4. Correction of Error

Restatement of share based payment relate to IFRS 2 charge to be recognised over the vesting period from the date of the grant. Previously the directors believed that the schemes shares are exercisable upon realisation and certainty of exit events, the timing and probability of which was not predicable and was treated as vesting condition. The directors believe the exit event is considered as non-vesting condition taking into account the exit event is not deemed to be necessary for the employee to retain their proportionate vested shares awards. Previously no charge was recognised, hence the directors have corrected the position and the charge related to prior periods has been adjusted.

The impact of above correction has been adjusted in the primary statements. There is an increase in capital contribution and corresponding impacted on retained earnings by $366k (as at 1/Jan/20) and cumulative amount of $708k (as at 31/Dec/20). The profit before tax has reduced due to the share based payment charge (administrative expenses) of $342k for the year end 31/Dec/20.

5. Income taxes

There is no impact on income taxes in prior years

6. Retained earnings

The effect on retained earnings has been shown above in the individual adjustments.

7. Transfer Pricing Adjustment

The adjustments above have had an overall effect on transfer pricing which has been performed in each financial year. The adjustments for transfer pricing are as follows:

Transfer Pricing Adjustments	**1 Jan 2020**	**31 Dec 2020**
Trade & Other Receivables	(23)	233
Turnover	23	(233)