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Company Registration Number 07619797

**UKCloud Ltd**

**Financial Statements**

**For the year ended 31 March 2018**

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**REPORT AND FINANCIAL STATEMENTS 2018**

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## Officers and professional advisors

### Directors

J R Sanders  
S J Hansford  
S Brittan  
W T Ginn

### Registered Office

Hartham Park  
Corsham  
Wiltshire  
SN13 0RP

### Independent Auditors

Grant Thornton UK LLP  
2 Glass Wharf  
Bristol  
BS2 0EL

## Strategic Report for the year ended 31 March 2018

The directors present their Strategic Report for the year ended 31 March 2018.

### Business Review and future developments

The Company's principal activity is the supply of sovereign, public, multi-cloud platforms that are dedicated for the use of the UK public sector. These have distinct characteristics including giving customer choice, reducing technology lock-in and the costs and risk of migrating applications to the cloud, data sovereignty, security certifications, assurance and connectivity to secure government networks.

As the main cloud partner for government agencies and their major system integrators and ICT suppliers, UKCloud currently serves central government departments, health, defence, police and local authorities on a large number of active revenue generating cloud projects and has a leading position at the heart of a very rapidly growing UK public sector Public Cloud market. This is supported by the Government's "Cloud First" policy and the cloud adoption guidance set out in Government's Technology Code of Practice through a number of contractual frameworks including Technology Services 2 (TS2) and the G-Cloud framework.

A combination of a highly flexible and scalable hourly consumption revenue model, credible track record with UK public sector customers, government-grade security and direct government network connectivity creates a compelling proposition for our market and led directly to the Company being awarded the Queen's Award for Enterprise for Innovation. By developing a unique multi-cloud platform, it brings together the best public cloud technologies and traditional Enterprise technologies on a single platform hosted within its secure, government-grade UK data centre facilities. It enables resource-constrained public sector organisations a low risk way of modernising existing IT (such as VMware and Oracle), whilst also facilitating the development of modern cloud native digital solutions which require services such as Azure, Docker and Kubernetes.

Success in winning contracts has driven significant economies of scale and continuous improvements in efficiency.

### Key performance indicators

Revenue decreased from £42.9m for FY17 to £40.2m in FY18 as a result of reductions in usage by a small number of customers. Operating Profit decreased from £4.4m for FY17 to £3.2m in FY18. Profit for the Financial Year increased from £2.2m for FY17 to £3.2m in FY18.

### Business environment and strategy

The Company's vision "to be the power behind public sector technology" is highly realisable and it remains laser focused to make this a reality.

In 2017, the brand UKCloud Health was launched which provides specialised compliant compute and storage platforms to the Health and Life Sciences community which through its market positioning and acceptance, has grown rapidly to be over 25% of the Group's business. In mid-2018, the company launched UKCloudX which will deliver the UK's first cloud platform suitable for the most sensitive needs of the UK's Defence and National Security community.

These three platforms (UKCloud, UKCloud Health and UKCloudX) are all hosted entirely within the secure Crown Hosting Campus and operated by security-cleared experts to provide a safe and trusted environment for government workloads classified at OFFICIAL and above. *Importantly they bring together previously disconnected datasets and systems to provide a foundation for more effective collaboration and greater use of digital technologies such as artificial intelligence to create new insights.*

Further, the Company creates clear opportunities for its partners to specialise and provide value-added services that help customers achieve their outcomes. The UKCloud partner programme consists of more than 300 partners including leading system integrators, managed service providers and independent software vendors delivering Software-as-a-Service solutions specific to public sector communities.

Our proven ability to many government departments drive trust and uniquely position the Company to capture increased usage from current contracts by expanding existing workloads and adding new workloads. The Company will also benefit significantly from the upcoming wave of large legacy hosting contracts that are due for renewal in the coming years by working closely with the partner ecosystem and incumbent vendors.

## Strategic Report for the year ended 31 March 2018 (continued)

### Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered by the Directors as:

- Securing and maintaining sufficient demand to support the incumbent technology investments and on-going overhead. Key to this will be the extent and speed with which the UK Public Sector transitions from a traditional procurement approach to sourcing assured cloud solutions. We believe that the benefits of cloud computing are sufficiently compelling and procurement frameworks increasingly understood, that this trend will continue unabated and on a scale that will enable UKCloud to meet its business plan targets.
- The risk that one or more aspects of our technology platform fails to deliver to the service levels that we are committing to our customers. The company has mitigated this risk not only through the use of proven technologies from world class technology vendors, who are committed to supporting our new model of operation, but also by developing a robust management, compliance and assurance regime accredited by recognised bodies (Lloyds Registry and NCSC).
- Bidding and winning large scale contracts requires appropriate risk management in order to ensure that onerous contract terms and services, which do not fit our technology or service model and could lead to the loss of a material contract or potential contractual penalties, are avoided. Robust risk management, a formal bid review process and certified service delivery processes are in place to mitigate these risks along with the adoption of simple terms and conditions aligned to both the Technology Services 2 (TS2) and G-Cloud procurement frameworks.
- Our ability to continue to recruit and retain appropriate technical, operational, commercial and leadership talent to build UKCloud into the leading provider of assured cloud services to the UK Public Sector. UKCloud has a comprehensive recruitment and human resource management program to identify, recruit, develop, motivate and retain talent.
- The uncertainty of Brexit and the changing political landscape slows down decision-making or policy implementation.

In addition, we continuously monitor and refine our cost base against our service model to ensure that this remains aligned and optimised at all times. Our reporting processes and internal systems are managed by experienced, qualified professionals who ensure that we contract, deliver and administer each service correctly.

Approved by the Board and signed on its behalf by



William Ginn  
Director  
21 December 2018

## **Directors Report for the year ended 31 March 2018**

The directors present their report and the financial statements for the year ended 31 March 2018.

### **Directors of the company**

The directors who held office during the period were as follows:

S Brittan

W T Ginn

S J Hansford

J R Sanders

### **Principal activity**

The principal activity of the company is the provision of assured ICT cloud computing services to the UK Public Sector exclusively from UK sovereign facilities.

### **Charitable donations**

Charitable donations of £7,000 (2017: £202,000) were made during the period. The Company has made a clear commitment to Corporate and Social Responsibility, and sees this as a key element of the business. In terms of social responsibility, we are proud of our local and national approach through the giving of time and money as charitable donations, alongside a matched funding policy for all Company employees.

We are committed to creating initiatives to be proud of and we continue to invest in local projects in the communities where we operate our business, such as the Farnborough-based CMPP which supports local community initiatives. As well as supporting the partnership financially, the volunteer days have significantly improved facilities and our contribution has been recognised within the local community.

On a national level we continue to support activities with Princes Trust and National Trust, alongside new STEM-based opportunities being created working with the Hampshire & Isle of Wight Air Ambulance. We offer a paid charity day to each of our employees and this year many of the Company's employees used their Volunteer Day to support a UK charity of their choice.

Over the next 12 months, the Company will continue to help support the well-being of society through engagement in community and educational activities, donations, match funding for employees, individual charitable activities and the provision of volunteer days to help change peoples' lives.

### **Research and development**

Our markets have a unique set of requirements and are rapidly evolving. UKCloud continues to invest in the use of new technology and service development to enhance the quality of its products and in order to remain competitive and respond to the changing needs of customers, the company makes significant investments in talented people and research and development.

The company will continue to invest in people and emerging standards, and is working collaboratively with partners to develop new pioneering products and assured service levels.

### **Dividend**

The directors cannot recommend a dividend.

## Directors Report for the year ended 31 March 2018 (continued)

### Going Concern

The directors have prepared cash flow forecasts for a period exceeding 12 months from the date of approval of these financial statements, and additionally the directors have applied sensitivity analysis to these forecasts. Whilst the Company has a net current liabilities position, this is primarily due to the amount funded by its parent (which has no investments other than that in the Company) being stated within Creditors: Amounts Falling Due Within One Year.

Following the balance sheet date, the company launched UKCloudX which will deliver the UK's first cloud platform suitable for the most sensitive needs of the UK's Defence and National Security community. The Company's parent, Virtual Infrastructure Group Limited, expects to secure a strategic minority investment to help fund the development and roll-out of this new platform by the Company. This is expected to be closed in January 2019.

Given the funding available via its parent and via the revolving credit facility, the directors have a reasonable expectation that the company has sufficient resources to continue to trade, including making the expected investment in the new platform, for at least 12 months from the date of signing this report. Whilst the renewal of the revolving credit facility is being rolled forward on a monthly basis pending completion of the minority investment referred to above, the directors, based on discussions with the provider, Barclays Bank, expect this facility to be renewed once this investment is complete. The directors have also received comfort from shareholders that they will continue to support the group should additional equity be required in the event of the new investment not materialising. The directors have therefore adopted the going concern basis in preparing the financial statements.

### Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have 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 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; 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 responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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**UKCLOUD LTD**

**Directors Report for the year ended 31 March 2018 (continued)**

**Independent auditors**

Grant Thornton UK LLP having expressed their willingness to continue in office as auditor will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

Approved by the Board and signed on its behalf by:



William Ginn  
Director  
21 December 2018



## Independent auditors report to members of UKCloud Ltd

We have audited the financial statements of UKCloud Ltd (the "company") for the year ended 31 March 2018 which comprise the statement of Comprehensive income, the Statement of Financial Position, the Statement of Changes in Equity and the related 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 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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.

### Opinion on 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 March 2018 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.

### Basis for opinion

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

### Who we are reporting to

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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Independent auditors report to members of UKCloud Ltd (continued)**

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' Report set out on pages 4 to 8, 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. 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where 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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 controls as the directors determine are 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 members of UKCloud Ltd (continued)

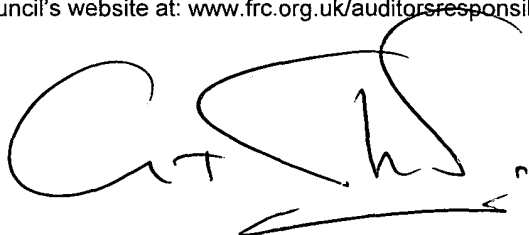
### Auditors responsibilities for the audit of the financial statements

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 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.

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

A handwritten signature in black ink, appearing to read 'Tim Lincoln', with a horizontal line drawn underneath it.

Tim Lincoln BA ACA  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants, Bristol, 21 December 2018

**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 March 2018

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
<b>TURNOVER</b>	5	40,208	42,918
Cost of sales		(14,304)	(12,499)
<b>GROSS PROFIT</b>		25,904	30,419
Administrative expenses		(24,987)	(22,489)
<b>OPERATING PROFIT BEFORE SHARE BASED PAYMENT</b>		917	7,930
Share Based Payment	21	2,317	(3,550)
<b>OPERATING PROFIT</b>		3,234	4,380
Interest receivable		5	-
Interest payable and similar charges	6	(917)	(958)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	7	2,322	3,422
Tax on profit/loss on ordinary activities	8	882	(1,216)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		3,204	2,206

The above results relate entirely to continuing activities. There were no recognised gains and losses for 2018 or 2017 other than those included in the statement of comprehensive income. There was no other comprehensive income for 2018 (2017: £Nil). The notes on pages 15 to 28 form part of these financial statements.

**UKCLOUD LTD**

**BALANCE SHEET**  
**At 31 March 2018**

	Note	2018 £'000	2017 £'000
<b>FIXED ASSETS</b>			
Intangible assets	11	2,323	2,277
Tangible assets	10	15,610	19,470
		<u>17,933</u>	<u>21,747</u>
<b>CURRENT ASSETS</b>			
Debtors	12	8,039	8,396
Cash at bank and in hand		2,262	390
		<u>10,301</u>	<u>8,786</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	13	<u>(29,440)</u>	<u>(32,626)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(19,137)</u>	<u>(23,840)</u>
<b>NET LIABILITIES</b>		<u>(1,206)</u>	<u>(2,093)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital		1	1
Capital Contribution Reserve		7,646	9,963
Profit and loss account carried forward		(8,853)	(12,057)
<b>SHAREHOLDERS' DEFICIT</b>		<u>(1,206)</u>	<u>(2,093)</u>

The financial statements of UKCloud Ltd (registered number 07619797) were approved by the board of directors and authorised for issue on 21 December 2018

They were signed on its behalf by:



William Ginn  
Director

The notes on pages 15 to 28 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 March 2018

	Share Capital £'000	Capital Contribution Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1 April 2016	1	6,413	(14,263)	(7,849)
Recognition of share based payment (note 21)	-	3,550	-	3,550
Profit for the financial year	-	-	2,206	2,206
At 31 March 2017	1	9,963	(12,057)	(2,093)
Recognition of share based payment (note 21)	-	(2,317)	-	(2,317)
Profit for the financial year	-	-	3,204	3,204
At 31 March 2018	1	7,646	(8,853)	(1,206)

The notes on pages 15 to 28 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2018**

**1. COMPANY INFORMATION**

UKCloud Ltd, a private company limited by shares and incorporated in England and Wales (Registered Number 07619797). Its registered office is at Hartham Park, Corsham Wiltshire, SN13 0RP. The principal activity of the company is the provision of assured ICT cloud computing services to the UK Public Sector exclusively from UK sovereign facilities.

**2. BASIS OF PREPARATION**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (“FRS102”), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The particular accounting policies adopted, which have been applied consistently throughout the current and prior financial periods are described below.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements as permitted by the FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland:

- The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- The requirements of Section 7 Statement of Cash Flows;
- The requirements of Section 3 Financial Statement Presentation 3.17(d);
- The requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(b) and 11.48(c);
- The requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Virtual Infrastructure Group Limited for the year ended 31 March 2018 and these financial statements may be obtained from Hartham Park, Corsham, Wiltshire, SN13 0RP.

**3. SIGNIFICANT JUDGEMENTS AND ESTIMATES**

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

**Share-based payment**

Share-based compensation is measured at the grant date, based on the estimated fair value of the award, and is recognised as an expense over the employee's service period. The fair value of options granted is measured by the use of a Black-Scholes model, taking into account the terms and conditions under which the options were granted. The expected life used in the model has been adjusted, based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural conditions. The volatility used in the model is based on comparable companies as the shares of the Company's parent (over which the options are granted) are not publicly traded.

Judgements are made at the balance sheet date about the vesting date, and the likely attrition of option holders.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2018**

**4. ACCOUNTING POLICIES**

**Turnover**

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due, excluding Value Added Tax. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life, which is assumed as 5 years for all assets. The rates of depreciation are as follows:

Computer equipment	20% per annum on straight line basis
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**Intangible fixed assets**

Intangible fixed assets are stated at cost, net of accumulated amortisation and any provision for impairment. Amortisation is provided at the following annual rates in order to write off each asset over its estimated useful life, which is assumed as 5 years for all assets. The rates of amortisation are as follows:

Computer software	20% per annum on straight line basis
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**Foreign currency**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

**Taxation**

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

the group has a legally enforceable right to set off current tax assets against current tax liabilities,

and

the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2018**

**4. ACCOUNTING POLICIES (continued)**

**Leases**

Rental costs under contractual operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases. Where no contract exists, operating leases are charged on an invoiced basis.

**Cash flow statement**

The company has not prepared a cash flow statement as a consolidated group cash flow statement has been prepared by its parent, Virtual Infrastructure Group Limited.

**Pensions**

Payments to defined contribution retirement benefit schemes are charged to the income statement as they fall due. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**Share-Based Payment**

Share-based compensation is measured at the grant date, based on the estimated fair value of the award, and is recognised as an expense over the employee's service period. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

**Going concern**

The directors have prepared cash flow forecasts for a period exceeding 12 months from the date of approval of these financial statements, and additionally the directors have applied sensitivity analysis to these forecasts.

Whilst the Company has a net current liabilities position, this is primarily due to the amount funded by its parent (which has no investments other than that in the Company) being stated within Creditors: Amounts Falling Due Within One Year.

Following the balance sheet date, the company launched UKCloudX which will deliver the UK's first cloud platform suitable for the most sensitive needs of the UK's Defence and National Security community. The Company's parent, Virtual Infrastructure Group Limited, expects to secure a strategic minority investment to help fund the development and roll-out of this new platform by the Company. This is expected to be closed in January 2019.

Given the funding available via its parent and via the revolving credit facility, the directors have a reasonable expectation that the company has sufficient resources to continue to trade, including making the expected investment in the new platform, for at least 12 months from the date of signing this report. Whilst the renewal of the revolving credit facility is being rolled forward on a monthly basis pending completion of the minority investment referred to above, the directors, based on discussions with the provider, Barclays Bank, expect this facility to be renewed once this investment is complete. The directors have also received comfort from shareholders that they will continue to support the group should additional equity be required in the event of the new investment not materialising. The directors have therefore adopted the going concern basis in preparing the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2018**

**4. ACCOUNTING POLICIES (continued)**

**Holiday Pay Accruals**

The Company recognises an accrual for annual leave owed to employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 9 months. The accrual is measured at the salary cost payable for the period of absence plus the associated Employer's National Insurance contributions.

**Debtors**

Trade debtors are measured at transaction price, less any impairment.

**Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

**Financial instruments**

The accounts of the Company have adopted the exemptions from providing financial instrument disclosures including:

- categories of financial instruments
- items of income, expenses, gains or losses relating to financial instruments, and
- exposure to and management of financial risks

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 payables or receivables, 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 out-right 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 Profit and loss account.

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.

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 and is recorded at the proceeds received, net of direct issue costs.

To the extent that this definition of equity instruments is not met, financial instruments are classified as a financial liability. Where the instrument takes the legal form of the Company's own shares, amounts presented for called up share capital and share premium account excludes amounts in relation to those shares. Where a financial instrument is classified as a compound instrument, containing both equity and financial liability components, these components are separated and accounted for individually.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**4. ACCOUNTING POLICIES (continued)**

**Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost.

**5. TURNOVER**

All turnover arose within the United Kingdom and related to the Company's principal activity.

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interest payable to Group Companies	612	660
Loan interest	291	262
Amortisation of Loan issue costs	14	36
	<u>917</u>	<u>958</u>

**7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit on ordinary activities before taxation is after charging:		
Operating Leases – Land and Buildings	3,747	3,562
Depreciation of Tangible Fixed Assets	5,973	5,156
Amortisation of Intangible Fixed Assets	629	321
Share Based Payment Charges	(2,317)	3,550
Foreign Exchange	(3)	6
Auditors remuneration – audit of the company	22	21
Auditors remuneration – audit of group companies	4	4
Auditors remuneration – non-audit services	13	10
	<u></u>	<u></u>

Auditors remuneration – Audit of Group Companies above includes amounts paid on behalf of the Company's parent, Virtual Infrastructure Group Limited.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**8. TAX ON PROFIT ON ORDINARY ACTIVITIES**

Analysis of charge in the period:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Current tax:		
UK corporation tax on profits of the period	-	-
Adjustments in respect of prior periods	-	-
	<hr/>	<hr/>
Current tax charge for period	-	-
	<hr/>	<hr/>
Deferred tax:		
Origination and reversal of timing differences	(496)	1,239
Effects of tax rate change on opening balance	-	75
Adjustments in respect of prior periods	(386)	(97)
	<hr/>	<hr/>
Total deferred tax charge/(credit) (note 9)	(882)	1,217
	<hr/>	<hr/>
Total on profit on ordinary activities	(882)	1,217
	<hr/>	<hr/>

Factors affecting tax charge for the period:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit/(Loss) on ordinary activities before tax	2,322	3,422
	<hr/>	<hr/>
Tax on profit/(loss) at standard rate of tax of 19% (2017: 20%)	441	685
Effects of:		
Expenses not deductible for tax purposes	15	879
Income not taxable for tax purposes	(440)	
Research and Development tax credit	(576)	(156)
Other permanent differences	1	40
Movement in short term timing differences	-	
Fixed Asset Differences	5	10
Adjustment to tax charge in respect of prior periods	(386)	(98)
Adjust closing deferred tax to average rate of 19%	108	7
Adjust opening deferred tax to average rate of 19%	(50)	(150)
	<hr/>	<hr/>
Current tax charge for period	(882)	1,217
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**9. DEFERRED TAXATION**

Deferred taxation of £882,000 has been recognised (2017: £1,216,000 utilised) in the period. Deferred tax is made up as follows:

	<b>Recognised</b>		<b>Not recognised</b>	
	<b>Year ended 31 March 2018 £'000</b>	<b>Year ended 31 March 2017 £'000</b>	<b>Year ended 31 March 2018 £'000</b>	<b>Year ended 31 March 2017 £'000</b>
Accelerated capital allowances	(365)	12	-	-
Short term timing differences	(10)	(13)	-	-
Losses	(545)	(37)	-	-
	<u>(920)</u>	<u>(38)</u>	<u>-</u>	<u>-</u>

**10. TANGIBLE FIXED ASSETS**

	<b>Computer equipment £'000</b>
<b>Cost</b>	
At 1 April 2017	31,945
Additions	2,115
Disposals	(1,178)
At 31 March 2018	<u>32,882</u>
<b>Accumulated depreciation</b>	
At 1 April 2017	12,475
Charge in period	5,973
Disposals	(1,176)
At 31 March 2018	<u>17,272</u>
<b>Net book value</b>	
<b>At 31 March 2018</b>	<u>15,610</u>
At 1 April 2017	<u>19,470</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**11. INTANGIBLE FIXED ASSETS**

	<b>Computer Software £'000</b>
<b>Cost</b>	
At 1 April 2017	2,922
Additions	675
Disposals	(176)
	<hr/>
At 31 March 2018	3,421
	<hr/>
<b>Accumulated amortisation</b>	
At 1 April 2017	645
Charge in period	629
Disposals	(176)
	<hr/>
At 31 March 2018	1,098
	<hr/>
<b>Net book value</b>	
<b>At 31 March 2018</b>	<u>2,323</u>
	<hr/>
At 1 April 2017	<u>2,277</u>
	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**12. DEBTORS**

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Amounts falling due within one year:		
Trade debtors	4,847	6,796
Prepayments and accrued income	2,272	1,562
	<u>7,119</u>	<u>8,358</u>
Amounts falling due in more than one year:		
Deferred tax assets	920	38
	<u>920</u>	<u>38</u>
	<u>8,039</u>	<u>8,396</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**13. CREDITORS: AMOUNTS FALLING DUE  
WITHIN ONE YEAR**

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Trade creditors	2,947	2,093
Taxation and social security	397	313
VAT	418	1,019
Deferred income	596	1,756
Accruals and other creditors	2,050	4,565
Revolving Credit Facility	3,000	3,000
Intragroup creditors	20,032	19,880
	<u>29,440</u>	<u>32,626</u>

The amount shown under Intragroup creditors includes both interest and non-interest bearing loans from the Company's parent, Virtual Infrastructure Group Limited. The interest-bearing loan at the balance sheet date was composed of principal of £3,200,000 and accrued interest of £1,270,000. The interest on the loan accrues at a rate of 10% per annum. The non-interest-bearing loan has been stated at amortised cost.

The Revolving Credit Facility is provided by Barclays Bank plc and at the balance sheet date had a maturity date of June 2018 (which has subsequently been extended). At the balance sheet date, the total amount available under the Revolving Credit Facility was £5,000,000. Interest is charged on amounts drawn under the facility at a rate of 7.0% per annum above Barclays Bank Base Rate (currently 0.3%). A Commitment Fee is charged on amounts available under the facility, but undrawn, at a rate of 3.5% per annum. The Revolving Credit Facility is secured by a fixed and floating charge over the Company's assets.



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**14. SHARE CAPITAL**

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Allotted and fully paid Ordinary shares of 1p	1	1
	<u>1</u>	<u>1</u>

**15. REMUNERATION OF KEY MANAGEMENT PERSONNEL**

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
<b>Remuneration of Key Management Personnel</b>		
Emoluments	707	655
Contributions to money purchase pension schemes	20	47
Long term incentives	-	-
Compensation for loss of office	-	-
	<u>727</u>	<u>702</u>
<b>Remuneration of the highest paid director:</b>		
Emoluments	409	377
Long term incentives	-	-
Company contributions to money purchase schemes	9	27
	<u>418</u>	<u>404</u>

Company contributions to money purchase schemes were made on behalf of 2 directors (2017: 2 directors) during the year.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**16. EMPLOYEE REMUNERATION**

Staff Costs during the year were as follows:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Wages and salaries	11,447	9,541
Social security costs	1,398	1,183
Other pension costs	343	240
	<u>13,188</u>	<u>10,964</u>

The average monthly number of employees, including the directors, during the year was as follows:

	Year ended 31 March 2018	Year ended 31 March 2017
Sales and Marketing	28	26
Technical, general and administration	146	111
	<u>174</u>	<u>137</u>

**17. PENSIONS**

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of Trustees. The total cost recorded in the income statement of £343,000 (2017: £240,000) represents contributions payable to this scheme by the Company at rates specified in the plan and employee contractual arrangements. As at 31 March 2018, contributions of £nil (2017: £58,000) due in respect of the current reporting period had not been paid over to the scheme.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2018

**18. FINANCIAL COMMITMENTS**

Financial commitments under non-cancellable operating leases for land and buildings, relating to the Company's office facilities, are as follows:

	At 31 March 2018		At 31 March 2017	
	With Related Parties £'000	Other £'000	With Related Parties £'000	Other £'000
Financial Commitments falling due:				
- within one year	-	102	-	65
- between two and five years	-	7	-	-
- after five years	-	-	-	-
	<u>-</u>	<u>108</u>	<u>-</u>	<u>65</u>

**19. CAPITAL COMMITMENTS**

The Company periodically invests in additional fixed assets to increase the capacity of its platform as it grows. Prior to the balance sheet date, the Company had committed to purchase Computer Equipment and Computer Software of which it expects to take delivery following the balance sheet date.

The amount contracted for but not yet invoiced at the balance sheet date was £57,000 (2017: £164,000).

**20. RELATED PARTY TRANSACTIONS**

***Trading Transactions***

The Company incurred £217,000 during the year (2017: £238,000) relating to technical and consultancy services provided by Hadston Limited, a company controlled by one of the Company's Directors. The total amount relating to such services payable at the balance sheet date is £nil (2017: £nil).

The Company incurred £21,000 during the year (2017: £nil) relating to technical and consultancy services provided by Made By Brittan Too Limited, a company controlled by one of the Company's Directors. The total amount relating to such services payable at the balance sheet date is £nil (2017: £nil).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2018**

**21. SHARE OPTIONS**

Options to subscribe for B Ordinary Shares in the Company's parent, Virtual Infrastructure Group Limited, have been granted to employees of the Company, pursuant to the Virtual Infrastructure Group Enterprise Management Incentive Scheme. No options were granted during the year.

A total of 24,941 options were in issue at the balance sheet date, held by a total of 65 employees, all at a subscription price per share of 1p.

The options are exercisable on an exit event (which includes a sale or listing of the Company's parent) and became capable of exercise, subject to performance criteria, in equal tranches across the number of years from the grant date until March 2017. The options are equity settled once exercised.

The inputs to the Black Scholes model include an expected life of the number of years from the grant date to March 2020, an average share price for new options granted of £nil per share (2017: £nil), a risk free rate of 3% and a volatility based on the average of comparator companies of 50%.

The Company recognised a total credit of £2,317,000 (2017: £3,550,000 charge) during the period, correspondingly decreasing the Capital Contribution Reserve on the balance sheet by the same amount.

**22. ULTIMATE CONTROLLING PARTY**

The parent company and ultimate controlling party is Virtual Infrastructure Group Limited, a company incorporated in England and Wales with the registered number 08099285, whose registered office is at Hartham Park, Corsham, Wiltshire, SN13 0RP.