

VIRTUS Holdco Limited

Report and financial statements

Year Ended

31 December 2020

Registered number: 07670473



VIRTUS Holdco Limited

Report and financial statements for the year ended 31 December 2020

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Country of incorporation of immediate parent Company

Guernsey

Legal form

Limited Company

Principal place of business of Group

United Kingdom

Principal activities

The nature of the Group's operations and its principal activities are set out in the strategic report.

Directors

Sio Tat Hiang
Lim Ah Doo
Zulkifli Bin Baharudin
Stephen Geoffrey Miller
Neil David Cresswell
Bruno Lopez

VIRTUS Holdco Limited

Report and financial statements for the year ended 31 December 2020

Registered office

Kent House, 14-17 Market Place, London W1W 8AJ

Company number

07670473

The Company is a private company, limited by shares, registered and domiciled in England and Wales.

Auditor

KPMG LLP, 2 Forbury Place, 33 Forbury Road, Reading, RG1 3AD

VIRTUS Holdco Limited

Strategic report for the year ended 31 December 2020

Introduction

The directors present their strategic report on VIRTUS Holdco Ltd ("the Company") and its subsidiaries ("the Group" or "VIRTUS") for the year ended 31 December 2020.

Principal Activities

VIRTUS designs, builds, operates and maintains carrier neutral data centres in the United Kingdom. The Group's principal business is the provision of co-location services within these facilities to our customers.

Strategy

VIRTUS has a guiding vision to lead the data centre industry in Europe by being different by design – providing intelligent data centre services that are agile, connected and efficient, and delivering outstanding customer propositions based on best in class quality, flexibility, service and value. Looking ahead, VIRTUS is seeking to both pursue this vision and also to expand the portfolio of data centre sites either through organic growth or acquisition.

Business Review

The Group continued to experience strong levels of bookings through 2020 from customers across the cloud services, education and enterprise sectors – consistent with the strong demand for digital services that was evident and driving growth even before the onset of COVID-19. To cater for this current and expected future demand growth, VIRTUS has continued to expand the total capacity of its portfolio. In Q1 2020 a new lease was signed for the 24MW LONDON9 data centre in Slough, with construction progressing through the year and the first phase going live subsequent to the year-end in Q1 2021. The Group has also announced plans for LONDON11, a further site in Slough that will offer over 13MW of additional capacity to VIRTUS portfolio.

Sales of contracted capacity during the year were strong, driven by new orders with major hyperscale customers. At the end of 2020 VIRTUS had a portfolio of eight live sites and a further three sites at different stages of the planning and development process, collectively providing 180.2MW of design capacity (2019: 164.9MW across ten sites). 129.3MW of this capacity was contracted to customers, with 81.8MW billable as of the year-end (2019: 100.3MW contracted and 61.7MW billable).

Group revenue in 2020 was £129.5m (2019: £103.7m) representing an increase of 25% on 2019. This was driven by a 20MW increase in billable capacity across new and existing sites, primarily from further contractual commitments with existing hyperscale customers. Within the existing estate, a further 9.7MW of billable capacity came online during 2020. In addition, VIRTUS opened three new sites in 2020 with LONDON 6 (phase 1 delivered in Q1 2020), LONDON 10 (phase 1 delivered in Q3 2020) and LONDON7 (phase 1 delivered in Q4 2020). These three new data centres contributed 10.4MW of billable capacity as at the 2020 year-end.

The Group's loss for the financial year was £34.3m (2019: £22.0m), the year on year change in part due to the operating losses and financing costs associated with the construction and go-live of the newest sites in the portfolio that came online during the year.

During the year the Group negotiated the refinancing and upsizing of its existing Security Net 1 (SN1) debt financing facility to £411.7m, to include funding for LONDON9 and LONDON10. At the end of 2020 the Group had total debt facilities of £668.8m, divided between two separate security nets (SN1 and SN2). Of this, £492.7m was drawn and £176.1m remained available to draw. A total of £180.1m was drawn from these facilities during 2020 to fund ongoing site fit outs. The balance of cash on hand at the end of 2020 was £28.6m (2019: £48.7m).

VIRTUS Holdco Limited

Strategic report for the year ended 31 December 2020 (*continued*)

Business Environment

The UK data centre market continues to be geographically concentrated in and around the London / M25 area, with a focus on the Slough / West London area where VIRTUS data centre sites are located. The London market remained strong in 2020, despite the unforeseen challenges brought by the coronavirus pandemic and its impact on the wider economy.

The market is increasingly competitive, with new supply coming on stream from both established competitors and new entrants. Despite these supply side pressures, the Group has been able to consolidate its position as one of the largest providers of co-location services in the UK as at the end of 2020.

Impact of COVID-19 and Future Outlook

VIRTUS data centres have remained fully operational throughout the COVID-19 pandemic, and the business has adhered to the strict guidelines rolled out by our Epidemic Management Team (EMT) in Q1 2020 to prioritise safety to our own team and our supply chain and continuity of our core services to our client base.

During Q2 2020, the initial onset of the government imposed national lockdown meant the business had to react quickly to deal with the opposing challenges presented by higher demand for our services driven by for example remote working, whilst at the same dealing with the practical reality of it being harder to deliver those same services and new space and power to customers requiring those services. We are pleased to confirm that there were no service interruptions during 2020 as a result of COVID-19 challenges, however there was some impact to activity levels at our construction sites, resulting in minor delays to scheduled go-live dates. By the end of 2020 however, construction plans and live site operations were largely back in line with our original 2020 plans.

At the present time, VIRTUS continues to follow our EMT guidelines, notwithstanding the positive developments in UK vaccination programmes and progress of the Government's roadmap to easing the lockdown. We remain vigilant at our Data Centres and construction sites and anticipate a slow unwind of the lockdown precautions taken to protect the business and customer operations through the remainder of 2021.

We believe we have secured the vast majority of the supply and equipment necessary for the ongoing build out of the fit out activities planned for 2021, and have the liquidity to fund this planned development expenditure, through a combination of strong focus on collections, support from our parent company and pro-active management of our credit lines and debt facilities. The Group is currently in the process of negotiating a further upsizing and consolidation of the SN1 and SN2 facilities into a single security net to include funding for future site fit outs. The Group remains well funded on a cost-effective basis and continues to be in a strong financial position to be able to execute its growth plans.

Section 172 (1) statement

In carrying out the strategy of the Company, the directors have regard for their responsibilities in promotion of the success of the business for the benefit of its shareholders, in accordance with section 172 (1) of the Companies Act 2006. The sections relevant to our business are summarised below along with the actions undertaken by the Board to meet these requirements:

The likely consequences of any decisions in the long-term

The Board has set out in the strategic report its view of the business environment in which the Group operates, its strategy for achieving its objectives and the future outlook for the business. In developing this strategy, the Board is focused on maintaining and enhancing the long-term sustainability of the business model.

VIRTUS Holdco Limited

Strategic report for the year ended 31 December 2020 (*continued*)

Section 172 (1) statement (*continued*)

The strategy reflects the need to consider the interests of the Company's staff and external stakeholders, along with the need to keep pace with market developments and technological changes so the business is appropriately positioned to take advantage of evolving market conditions. Strategic priorities are cascaded down to individuals within the business through the process of personal objective setting for performance management.

The directors give consideration to the risks facing the business and employ an enterprise risk management matrix approach to identifying, measuring and mitigating risks that could negatively impact the business in the longer-term. Oversight of this process is provided by the Audit and Risk Management Committee of the Board and a summary of how key types of risk are managed is provided in the strategic report.

Business relationships with customers, suppliers and other stakeholders

VIRTUS's customers are key to the long-term success of the business. We seek to maintain and grow our customer base through building and preserving a reputation as a leading provider of high-quality and reliable data centre services to the UK market. Our customers are key business partners and we set out our relationship with them clearly in service-level agreements. We maintain continuous oversight of these arrangements and ensure our customers receive appropriate levels of information on how service levels are met. We are constantly assessing customer communications and proactively communicating with our customers at regular and need to know intervals.

We invest in industry-leading technology at our data centre sites as we believe it differentiates the VIRTUS service offering from that of our competitors, in terms of the quality and reliability of the service experienced by our customers. This includes features such as high connectivity and low latency that are needed to efficiently support the ultra-high-density computing requirements of many of our customers. The scale of our facilities and the technology employed allows us to offer customers premium data centre services on a highly cost-effective basis.

VIRTUS's dealings with suppliers are governed by an established procurement policy with oversight provided by our procurement steering committee. We seek to foster relationships with suppliers that are mutually beneficial over the longer-term as well as the near-term, and VIRTUS has worked with many suppliers on a recurring basis across the development of our data centre portfolio. This offers VIRTUS the potential to benefit from efficiencies arising from knowledge these suppliers have gained over time of our business and ways of working.

We also invest continuously in the training of our staff both to support their personal development and promote the quality of their interactions with customers, suppliers and colleagues. Transactional dealings with our customers and suppliers are also ultimately controlled through application of our approved delegation of authority matrix.

The impact of the company's operations on the community and environment

VIRTUS is a responsible member of its industry and community and has a strong set of corporate values that are embedded across the business. This includes caring about our staff wellbeing and impact of the business on the environment, in addition to delivery of quality and value to our customers.

All of our business is certified to ISO standards on environmental management, energy management and information technology systems, amongst others, demonstrating our ongoing commitment to environmental, energy and social (data protection) performance within our sphere of influence. The core of our certifications stems from implemented, trained, regularly reviewed and fully communicated policies such as those on compliance (covering environmental, energy, quality, information security and service delivery), occupational health and safety and ethical trading.

VIRTUS Holdco Limited

Strategic report for the year ended 31 December 2020 (continued)

Section 172 (1) statement (continued)

Further information on the nature and intensity of energy consumption by the business operations of VIRTUS in accordance with Streamlined Energy and Carbon Reporting Requirements (SECR) regulations is provided in the Report of the Directors.

The desirability of the company maintaining a reputation for high standards of business conduct

Our desire to maintain a reputation for high standards of business conduct is embodied in our corporate values of caring about our customers and the service we provide to them, pride in the VIRTUS business and what it delivers, dedication to quality in whatever we do and reliability in doing what we say we will do. Our teams work together in a constructive and helpful way to deliver together for our customers.

It is VIRTUS policy to conduct all business in an honest and ethical manner by acting professionally, fairly and with integrity in all our business dealings and relationships. This is emphasised in our policies developed in areas such as ethical trading and financial crime, covering anti-bribery, anti-corruption and anti-tax evasion initiatives.

We also maintain an ongoing dialogue with our majority shareholder through formal communication of operational and financial information on a quarterly basis, as well as through numerous other interactions periodically through the year. We use these interactions to ensure that both the strategic direction of the VIRTUS business and the standards we maintain in conducting our business is aligned with the group objectives and standards of our owners.

Going Concern

Notwithstanding a loss for the year of £34.3m (2019: £22.0m), the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides (including the potential impacts arising from the COVID-19 pandemic), the Group will have sufficient funds to meet its liabilities as they fall due for that period. The directors note that so far since the COVID-19 outbreak sales have increased as customers seek to obtain additional capacity to support expanded demand on cloud computing services from increased levels of remote working and people spending significantly more time at home.

However, in order to meet the committed operational expansion plans of the Group, it continues to also be reliant on financial support from its intermediate holding company, STT GDC Pte Ltd. STT GDC Pte Ltd has indicated its intention to continue to make available such funds as are needed by the Group for the period covered by the forecasts. The directors note that this intention is aligned with the expansion strategy of STT GDC Pte Ltd. The directors have further considered the financial position of STT GDC Pte Ltd (including the potential impacts arising from the COVID 19 pandemic) and consider there to be sufficient liquidity for the funding to be provided as needed. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

VIRTUS Holdco Limited

Strategic report for the year ended 31 December 2020 (*continued*)

Key Performance Indicators

The Group measures its financial performance primarily by reference to third party revenue.

Revenue in 2020 was £129.5m, a 25% increase from £103.7m in 2019 reflecting the continued growth of our portfolio and increasing occupancy levels at our data centres. The Group's recurring revenue, which is driven by contract-based co-location services, grew from £65.3m to £85.9m, an increase of 31%.

Financial Instruments and Risks

Financial risks facing the organisation are monitored through a process of regular assessment and review by the Management Team of an Enterprise Risk Matrix (ERM) which is then presented to the Audit and Risk Management Committee (ARMC). Key financial risks and their mitigants are set out below:

- External and contingent liabilities are managed through insurance where appropriate.
- Interest rate risk is managed through hedging via interest rate caps, interest rate floors and interest rate swaps on our Senior Secured Finance Facility. As a result of this, the Group has materially mitigated exposure to interest rate fluctuations on its long-term borrowing.
- Liquidity risk is managed through detailed cash-flow management and forecasting undertaken by the Finance team to ensure the Group has access to adequate financial resources to meet its ongoing needs.
- Customer renewal risk – as the business and external third-party debt has grown, the risk of significant customer churn impacting the Group's banking covenant levels grows. This risk is managed by taking a prudent approach to debt financing balanced with support from the Group's shareholder, STT GDC Pte Ltd, and pro-actively managing customer relationships in the estate well in advance of any renewals.
- Customer credit risk and recoverability of trade receivables in the current economic environment is carefully managed through daily monitoring of receipts and increased focus on credit control, with regular review by the management team. A large proportion of our customer portfolio consists of well-established global companies so it is not expected that levels of default on receivables will be significant.

Principal risks and uncertainties

Key risks faced by the Group are monitored through a process of regular assessment and review by the Company's Management Team, incorporated in the ERM and presented to the ARMC.

1. Strategic risks are considered regularly in what is an increasingly competitive marketplace. Risk of business concentration in a small number of large customers is mitigated where possible by entering into long-term contracts with customers and negotiating pre-let agreements to underpin all or part of each business case before construction commences on a particular site.
2. Operational risks to the business could come from a critical infrastructure (power or cooling) outage or security breach. Preventative measures to combat the risk of failure in this area is a primary focus for the Group - such an event would risk damage to the external credibility of the business and, depending on the severity, could threaten the performance and potentially the ongoing viability of the Group. This risk could arise from a number of factors, which are both within and outside of the business' direct control, ranging from human error to equipment failure to a deliberate act of sabotage. The Group has a robust process driven response to these risks through adherence to externally accredited operating procedures and certifications combined with rigorous application of these policies.

VIRTUS Holdco Limited

Strategic report for the year ended 31 December 2020 (*continued*)

Principal risks and uncertainties (*continued*)

3. Ongoing uncertainty around the long-term economic impacts of COVID-19 could present risks to the Group's future business performance. Although the business has thus far seen little evidence to suggest this is the case, it is possible that a slower than expected recovery from the economic downturn experienced in 2020 could have an adverse impact on the Group's plans and projections. While customer demand might be impacted, this risk is mitigated by the critical nature of our services, as well as the proportion of well-established global cloud services providers in our customer portfolio.
4. Uncertainty around the detail of future trading arrangements between the UK and the European Union post-Brexit may also potentially impact customer demand; however, this risk is mitigated by manifested growth in the digital economy. On the supply side, the impact of uncertainty and exchange rate fluctuations is mitigated by entering into fixed price design and build contracts for construction of new data centres.

The Board continue to assess new investment opportunities and growth plans with these risks in mind.

This report was approved by the Board on 9 July 2021 and signed on its behalf.



Neil Cresswell
Chief Executive Officer

Kent House
14-17 Market Place
London
W1W 8AJ

VIRTUS Holdco Limited

Report of the Directors for the year ended 31 December 2020

The directors present their report together with the audited financial statements of VIRTUS Holdco Limited ("the Company") and its subsidiaries (the "Group") for the year ended 31 December 2020.

Directors

The directors of the Company throughout the year were:

Sio Tat Hiang
Lim Ah Doo
Zulkifli Bin Baharudin
Stephen Geoffrey Miller
Bruno Lopez
Neil David Cresswell

Proposed dividend

No dividend was paid or declared during the year (2019: nil).

Political and charitable contributions

Neither the Company nor any of its subsidiaries made any political or charitable donations or incurred any political expenditure during the year (2019: nil).

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the Group and Parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the Parent Company financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 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 Group and Parent Company and of the Group's profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

VIRTUS Holdco Limited

Report of the Directors for the year ended 31 December 2020 (*continued*)

Directors' responsibilities (*continued*)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Environmental reporting Streamlined Energy & Carbon Reporting (SECR)

In accordance with new reporting requirements introduced by the UK government for accounting periods beginning on or after 1 April 2019, the directors present their report on greenhouse gas (GHG) emissions and energy usage by VIRTUS operations in the UK during the financial period ended 31 December 2020, including total gross emissions (tCO₂e) and intensity of usage metrics.

The framework of SECR reporting aims to simplify reporting on GHG emissions and deliver improved and more consistent disclosure of energy usage and carbon emission data to promote:

- Reduction of costs through action on energy efficiency, delivery of affordable energy and support to the shift to a low carbon economy;
- Greater awareness of energy efficiency and improved transparency for investors; and
- Provision of better quality information to the market.

The content of this report is complemented by VIRTUS's ISO credentials, namely ISO 14001:2015 (environmental management systems) and ISO 50001:2018 (energy management systems), as certified by a UKAS-accredited certification body. These demonstrate that VIRTUS is committed to protecting the environment and to minimising our impacts wherever possible through continuous improvement in our business processes. The Group has developed policies that define metrics for measuring the environmental impact (including emissions) of the business, establish monitoring and reporting mechanisms around them and set reduction/performance targets against them. We continuously assess our performance against the best available technologies and techniques, legal and statutory requirements and stakeholder expectations, resulting in a certified management system that is well-placed to govern the way we operate now and in the future.

VIRTUS is subjected to annual external audits against the full requirements of the standards including policies, processes, monitoring/measuring methodologies and reporting of energy consumption and the facilities, equipment and personnel that significantly affect energy consumption. The registered entity that is certified to these ISO standards is VIRTUS Holdco Ltd, meaning that all registered entities below this in the Group are in scope and have their activities, processes and performances audited. The Group companies that are included in the reporting below are those that have an operational capacity, i.e. those providing data centre services to customers, and our Head Office.

VIRTUS is also subject to an annual verification audit under the European Union Emissions Trading Scheme (EU ETS) that covers all the sites that hold a Greenhouse Gas Permit. This serves to verify the reporting data and methodology and to provide a verification report that is required in order to report against the permit and to enable surrender of annual EU ETS allowances.

VIRTUS Holdco Limited

Report of the Directors for the year ended 31 December 2020 (continued)

Environmental reporting Streamlined Energy & Carbon Reporting (SECR) (continued)

The Group also complies with climate change agreements (CCAs) entered into with the UK Environment Agency to reduce our energy usage and carbon dioxide emissions. VIRTUS utilises third-party specialists to administer, monitor and report against the CCA agreement requirements.

VIRTUS is dedicated to achieving net zero emissions by the year 2030 for all our reportable activities, in direct support of the UK Government's 'Path to Net Zero by 2050' and climate change commitments.

For the year ended 31 December 2020 the quantity of total emissions by the Group was 6,955.5 tonnes of carbon dioxide equivalent (CO₂e). We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK government's GHG Conversion Factors for Company Reporting to calculate the below disclosures. The standard requires a statement of relevant intensity ratios, which are an expression of the quantity of emissions in relation to a quantifiable factor of the business activity.

GHG emissions data for year ended 31 December 2020 (figures in tonnes of CO₂e)

	2020
<i>Mandatory reporting</i>	
Scope 1 – consumption of gas oil/natural gas and HVAC emissions	795.5
Scope 2 – consumption of electricity by site processes/systems	-
	<u>795.5</u>
<i>Optional reporting</i>	
Scope 3 – consumption of electricity in transmission/distribution; and business travel	6,160.0
	<u>6,160.0</u>
Total emissions for year	<u>6,955.5</u>

Energy consumption by site processes and systems used to calculate emissions in 2020 was 92,227 MWh.

Through our commitment to secure and procure 100% renewable, non-combusted energy for our data centres, VIRTUS has achieved 100% withdrawal of our Scope 2 emissions (barring transmission and distribution losses) related to service provision to our customers and 99% removal of our total GHG emissions inventory. Scope 2 emissions are therefore reported as nil.

Intensity ratios (tonnes of CO₂e per unit)

	2020
Ratio of carbon emissions to recurring revenue (tonnes CO ₂ e / £'m)	81.0
Ratio of carbon emissions to average installed kW of IT load (tonnes CO ₂ e / kW)	0.12
Ratio of carbon emissions to average billed kW of IT load (tonnes CO ₂ e / kW)	0.10

VIRTUS will continue to assess its sustainability and usage metrics in order to set annual goals that promote continued reduction in GHG emissions. We understand that 100% sustainability cannot in practice be attained, however VIRTUS is committed to closing the gap as much as is practicably possible.

VIRTUS Holdco Limited

Report of the Directors for the year ended 31 December 2020 (*continued*)

Disclosure of information to auditor

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

Auditor

Under the Companies Act 2006 section 487(2) KPMG LLP will be automatically re-appointed as auditor by the end of the next appointment period after these financial statements are sent to the members, unless the members exercise their rights under the Companies Act 2006 to prevent their re-appointment.

Approval

This Directors' report was approved by order of the Board on 9 July 2021.



**Neil Cresswell
Chief Executive Officer**

Kent House
14-17 Market Place
London
W1W 8AJ

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRTUS HOLDCO LIMITED

Opinion

We have audited the financial statements of VIRTUS Holdco Limited ("the company") for the year ended 31 December 2020 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated statement of cash flows, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group or the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRTUS HOLDCO LIMITED (Continued)

- Enquiring of Directors as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual or unexpected accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRTUS HOLDCO LIMITED (Continued)

Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Simon Baxter (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

2 Forbury Place, 33 Forbury Road, Reading, RG1 3AD

9 July 2021

VIRTUS Holdco Limited

Consolidated statement of comprehensive income for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	4	129,463	103,669
Facilities expenses		(54,969)	(41,310)
Staff costs	6	(19,967)	(14,988)
Depreciation of property plant and equipment	9	(30,008)	(23,728)
Depreciation of right-of use assets	10	(4,813)	(2,999)
Amortisation of intangible assets	11	(696)	(696)
Impairment gain/(loss) on receivables	3	37	(104)
Other operating expenses		(23,770)	(19,640)
Operating (loss)/profit	5	(4,723)	204
Finance income	7	22	22
Finance expense	7	(29,243)	(22,653)
Finance costs – net		(29,221)	(22,631)
Loss before tax		(33,944)	(22,427)
Tax (expense)/credit	8	(343)	461
Loss for the year and total comprehensive loss		(34,287)	(21,966)

All items dealt with in arriving at the total income for the year relate to continuing operations.

The notes on pages 19 to 71 form part of these financial statements.

VIRTUS Holdco Limited

Consolidated statement of financial position at 31 December 2020

Company number 07670473

	Note	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Property, plant and equipment	9	718,437	487,800
Right of use assets	10	190,939	156,319
Goodwill	11	27,668	27,668
Intangible assets	11	3,269	3,965
Trade and other receivables	14	7,292	4,272
Derivative financial instruments	12	650	90
		<u>948,255</u>	<u>680,114</u>
Current assets			
Trade and other receivables	14	65,397	41,921
Cash and cash equivalents	13	28,566	48,741
		<u>93,963</u>	<u>90,662</u>
Total assets		<u>1,042,218</u>	<u>770,776</u>

The notes on pages 19 to 71 form part of these financial statements.

VIRTUS Holdco Limited

Consolidated statement of financial position at 31 December 2020

Company number 07670473

	Note	31 December 2020 £'000	31 December 2019 £'000
Current liabilities			
Trade and other payables	15	68,357	55,894
Amounts due to related parties	23	136	136
Lease liabilities	16	3,937	2,229
Long term incentive plan liability	18	23,706	15,975
Other provisions	17	2,825	-
		98,961	74,234
Non-current liabilities			
Trade and other payables	15	3,072	-
Loans and borrowings	16	485,140	305,920
Lease liabilities	16	178,659	152,923
Long term incentive plan liability	18	3,661	2,769
Deferred tax liability	8	946	604
Other provisions	17	41,788	25,728
		713,266	487,944
Total liabilities		812,227	562,178
Net assets		229,991	208,598
Issued capital and reserves attributable to owners of the parent			
Share capital	19	22,544	20,582
Share premium reserve	19	365,044	310,706
Merger reserve		4,032	4,032
Retained earnings		(161,629)	(126,722)
Total equity		229,991	208,598

The financial statements on pages 14 to 71 were approved and authorised for issue by the Board of Directors on 9 July 2021 and were signed on its behalf by:



Neil Cresswell
Chief Executive Officer

The notes on pages 19 to 71 form part of these financial statements

VIRTUS Holdco Limited

Consolidated statement of cash flows at 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Loss before tax		(33,944)	(22,427)
Adjustments for:			
Depreciation of property, plant and equipment	9	30,008	23,728
Depreciation of right of use assets	10	4,813	2,999
Amortisation of intangibles	11	696	696
Impairment loss on receivables	3	(37)	104
Finance income	7	(22)	(22)
Finance expense	7	29,243	22,653
Movement in LTIP and share-based payment arrangements		8,066	7,060
Provision expense	17	2,825	-
Changes in:			
Decrease/(increase) in trade and other receivables		(24,526)	2,779
Increase in trade and other payables		3,546	13,119
Net cash flows from operating activities		20,668	50,689
Investing activities			
Purchases of property, plant and equipment		(242,954)	(130,165)
Net cash used in investing activities		(242,954)	(130,165)
Financing activities			
Interest paid	16	(15,275)	(17,777)
Proceeds from bank borrowings	16	180,106	48,800
Repayment of bank borrowings	16	-	(10,000)
Payment of transaction costs related to loans and borrowings	16	(8,341)	(2,915)
Proceeds from issue of share capital	19	56,300	99,000
Acquisition of interest rate cap	12	-	(40)
Payment of lease liability	16	(10,679)	(7,998)
Net cash generated in financing activities		202,111	109,070
Net (decrease)/increase in cash and cash equivalents		(20,175)	29,594
Cash and cash equivalents at the start of the period		48,741	19,147
Cash and cash equivalents at the end of the period	13	28,566	48,741

The notes on pages 19 to 71 form part of these financial statements

VIRTUS Holdco Limited

Consolidated statement of changes in equity for the year ended 31 December 2020

	Share Capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2019, as previously reported	16,654	215,634	4,032	(104,842)	131,478
Equity settled share-based payments	-	-	-	86	86
Comprehensive loss for the year	-	-	-	(21,966)	(21,966)
	<u>16,654</u>	<u>215,634</u>	<u>4,032</u>	<u>(126,722)</u>	<u>109,598</u>
Transaction with owners					
Issue of share capital	3,928	95,072	-	-	99,000
31 December 2019	<u>20,582</u>	<u>310,706</u>	<u>4,032</u>	<u>(126,722)</u>	<u>208,598</u>
1 January 2020	20,582	310,706	4,032	(126,722)	208,598
Equity settled share-based payments	-	-	-	(620)	(620)
Comprehensive loss for the year	-	-	-	(34,287)	(34,287)
	<u>20,582</u>	<u>310,706</u>	<u>4,032</u>	<u>(161,629)</u>	<u>173,691</u>
Transaction with owners					
Issue of share capital	1,962	54,338	-	-	56,300
31 December 2020	<u>22,544</u>	<u>365,044</u>	<u>4,032</u>	<u>(161,629)</u>	<u>229,991</u>

The notes on pages 19 to 71 form part of these financial statements

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020

1. Accounting policies

Company background

VIRTUS designs, builds, operates and maintains carrier neutral Data Centres in the United Kingdom. The Group's principal business is the provision of co-location services within these facilities to our customers.

Basis of preparation of consolidated financial statements

The consolidated financial statements relate to VIRTUS Holdco Limited (the Company) and its subsidiaries (together referred to as the "Group").

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

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs).

Functional and presentation currency

The consolidated financial statements are presented in pounds sterling, which is also the Group's functional currency.

Amounts are rounded to the nearest thousand, unless otherwise stated.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities which are stated at fair value.

Use of judgements and estimates

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Going concern

Notwithstanding a loss for the year of £34.3m (2019: £22.0m), the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides (including the potential impacts arising from the COVID-19 pandemic), the Group will have sufficient funds to meet its liabilities as they fall due for that period. The directors note that so far since the COVID-19 outbreak sales have increased as customers seek to obtain additional capacity to support expanded demand on cloud computing services from increased levels of remote working and people spending significantly more time at home.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 *(continued)*

1. Accounting policies *(continued)*

Going concern (continued)

However, in order to meet the committed operational expansion plans of the Group, it continues to also be reliant on financial support from its intermediate holding company, STT GDC Pte Ltd. STT GDC Pte Ltd has indicated its intention to continue to make available such funds as are needed by the Group for the period covered by the forecasts. The directors note that this intention is aligned with the expansion strategy of STT GDC Pte Ltd. The directors have further considered the financial position of STT GDC Pte Ltd (including the potential impacts arising from the COVID 19 pandemic) and consider there to be sufficient liquidity for the funding to be provided as needed. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Changes in significant accounting policies

A number of other new standards are also effective from 1 January 2020, but they do not have a material effect on the Group's financial statements.

Annual improvements to IFRS Standards 2018-2020

The Annual Improvements 2018-2020 cycle includes amendments to IFRS 1, "*First-time Adoption of International Financial Reporting Standards*", IFRS 9, "*Financial Instruments*", and IFRS 16 "*Leases*" applies for periods beginning on or after 1 January 2022.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

1. Accounting policies (*continued*)

Basis of consolidation

The Group financial statements consolidate the financial statements of VIRTUS Holdco Limited and all of its subsidiary undertakings ('subsidiaries') drawn up to 31 December 2020 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of the elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. The accounting policies of the subsidiaries are consistent with those adopted by the Group.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results acquired are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 11). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the date of acquisition and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Basis of consolidation (continued)

Where acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. In such instances, the consideration is allocated between the identifiable assets and liabilities assumed based upon their relative fair values at the acquisition date. Accordingly, no goodwill arises.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in the profit or loss.

Non-controlling interests ("NCI") are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Property, plant and equipment

Property, plant and equipment is initially recognised at cost. As well as the purchase price, cost includes directly attributable costs, capitalised borrowing costs, and the estimated present value of any future unavoidable costs of dismantling and removing items. Any corresponding liability is recognised within provisions.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in the statement of comprehensive income.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits, in excess of the originally assessed standard of performance of the existing asset, associated with the expenditure will flow to the Group. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Depreciation on assets under construction does not commence until they are complete and available for use. No depreciation is provided on freehold land.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives or, in the case of leasehold building and improvements, the shorter of estimated useful life and remaining lease term as follows:

• Freehold Building	60 years
• Freehold Improvements	20 years
• Leasehold Land & Building	Shorter of remaining lease term or 60 years
• Leasehold Improvements	Shorter of remaining lease term or 20 years
• Data Centre Equipment	5 - 20 years
• Network Equipment	15 years
• Computers & Telecommunication Equipment	2 years
• Office Equipment, Furniture & Fittings	3 years

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Property, plant and equipment (continued)

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

Leasehold improvements and data centre equipment are depreciated on a straight-line basis over their estimated useful lives of 5 to 20 years. Changes in the expected level of usage and technological developments could impact the useful lives and the residual values of these assets, and therefore future depreciation charges could be revised.

Goodwill

Recognition and initial measurement

The Group measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognised amount of any NCI in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Any goodwill that arises is tested annually for impairment.

Intangible assets

Intangible assets include customer contracts and relationships and rights to data centre sites that have been acquired by the Group. Intangible assets have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful lives of intangible assets for current and comparative periods are as follows:

- Customer contracts and relationship 9 years
- Acquired rights 60 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Amortisation of intangible assets with finite useful lives is calculated using the straight-line method to allocate their cost over their estimated useful lives.

Financial instruments

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

1. Accounting policies (*continued*)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments at FVOCI

On initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Financial instruments

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior period, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features)

Subsequent measurement of gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Financial instruments

Subsequent measurement of gains and losses (continued)

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Simplified approach

The Group applies the simplified approach to provide for ECLs for trade receivables and contract assets.

The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General approach

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Impairment (continued)

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due
- the Group considers a contract asset to be in default when the customer is unlikely to pay its contractual obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 360 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

- Loss allowances for financial assets measured at amortised cost and contract assets are deducted from the gross carrying amount of the assets.
- For debt investments at FVOCI, loss allowances are charged to profit or loss and recognised in OCI.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cashflows to repay the amounts subject to write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Group's procedures for recovery of amounts due.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Financial liabilities

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group classifies its financial liabilities into one category based on the purpose for which the liability was acquired.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following items:

- Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.
- Lease liabilities relating to leasehold land and buildings where the Group is a lessee. Accounting for lease liabilities is detailed in the accounting policy on leases.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred, or liabilities assumed) is recognised in the statement of comprehensive income.

Offsetting financial instruments

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

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Impairment of non-financial assets (excluding deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Where the carrying value of an asset exceeds its recoverable amount, (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment charges are included in the statement of comprehensive income, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. However, an impairment loss in respect of goodwill is not reversed.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Ordinary shares are classified as equity instruments.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Group as lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

1. Accounting policies (*continued*)

Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- amounts expected to be payable under a residual value guarantee.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract across each individual lease component identified. When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'lease revenue'.

Lease incentives awarded to customers are recognised as an integral part of the total lease revenue, over the term of the lease. Lease incentives primarily include up-front cash payments or rent-free periods.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Revenue from contracts with customers

Performance obligations and revenue recognition policies

Revenue from data centre co-location services is recognised when the Group satisfies a performance obligation ("PO") by transferring control of a promised good or service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied PO.

The transaction price is allocated to each PO in the contract on the basis of the relative standalone selling prices of the promised goods or services, including any POs that are identified to be lease components. The calculation of standalone selling price for lease components is based on the rental cost per unit area of the property that VIRTUS incurs, establishing an estimated fair value of the price per square metre of data centre space at the location in question, then adding a mark-up of 10% to give an estimated standalone selling price per square metre.

The individual standalone selling price of a good or service that has not previously been sold on a stand-alone basis is determined based on the residual portion of the transaction price after allocating the transaction price to goods and/or services with observable stand-alone selling prices. A discount or variable consideration is allocated to one or more, but not all, of the performance obligations if it relates specifically to those performance obligations.

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised goods or services. The transaction price may be fixed or variable and is adjusted for time value of money if the contract includes a significant financing component. Consideration payable to a customer is deducted from the transaction price if the Group does not receive a separate identifiable benefit from the customer. When consideration is variable, the estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

Revenue may be recognised at a point in time or over time following the timing of satisfaction of the PO. If a PO is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that PO.

Co-location revenue

Revenue is recognised on a straight-line basis over the period of the contract – i.e. over time. Invoices are issued according to contractual terms and are usually payable within 30 days.

Ancillary services income

This comprises fees from customers typically relating to standard and bespoke one-off customer installation and set-up works. Revenue from installation works is recognised at a point in time, when the installation is completed. Customers obtain control of the installation on completion of the project. Invoices are issued according to contract terms and are usually payable within 30 days.

Power recharges and connectivity income

Revenue is recognised over time as the services are provided. Invoices are issued according to contractual terms and are usually payable within 30 days.

The directors are of the opinion that the Group is engaged in a single business segment, being data centre ownership and operation in the UK only.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Revenue from contracts with customers (continued)

Contract assets

Contract assets are recognised when the Group has rights to consideration for services that the Group has transferred to a customer when that right is conditional on something other than the passage of time.

Contract liabilities

Contract liabilities are recognised when the Group receives an advance consideration from customers when there is an obligation to transfer services.

Change in accounting policy:

During the year, the Group amended its policy on the identification of lease components within service contracts with customers. Previously, contracts had only been reviewed for lease components where a customer occupied all, or the majority of, an entire data centre site and the policy has been changed to assess all customer contracts signed since the beginning of 2019. The reason for this change was for the UK Group to align with the accounting policies of its parent company.

There are no changes to the primary statements as a result of this change in policy. The prior year disclosure for unsatisfied performance obligations in note 4 has been restated to reduce the balance by £27,764k and the prior year disclosure for note 20 for operating leases where the Group acts as lessor has been restated to increase the balance by £27,764k. The current year impact is a reduction in the unsatisfied performance obligations in note 4 by £37,519k and additional disclosure in note 20 for operating leases where the Group acts as lessor, which has been restated to increase the balance by £37,519k.

Finance income and finance costs

Finance income

Finance income is recognised as interest accrues on cash balances held by the Group. Where any interest is charged to a customer on any overdue receivables, this would also be recognised within finance income. Interest income is recognised using the effective interest method.

Finance costs

Any finance costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that takes a period of time to complete are capitalised as part of the cost of the asset. All other finance costs are expensed in the period in which they relate. Finance costs consist of interest and other costs that an entity incurs in connection with bank and other borrowings. Interest expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Employee benefits

Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

Share based payment arrangements

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related services and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of the long-term incentive plan (LTIP), which is settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the LTIP. Any changes in the liability is recognised in profit or loss.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Provisions

Provisions relate principally to obligations arising from dilapidations arrangements in lease contracts for data centre sites and any claims arising from performance against the terms of customer contracts. A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of any discount is recognised as a finance cost.

Dilapidation provision

A dilapidation provision is recognised when there is a contractual obligation to return a leased property to its original condition at the end of the lease term. The Group recognises a dilapidation provision for all leasehold data centre properties based on detailed third-party estimates, on a current value basis, of the cost to remove installed equipment and restore the internal and external structure of the premises to their original condition on commencement of the lease. Current value estimates are inflation-adjusted to the end date of the lease and then discounted back to a present value at a risk-free rate representative of the remaining term of the lease.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. A number of the Group's accounting policies and the disclosures require the measurement of fair values, for both financial and non-financial financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and their fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Taxation

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

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred Tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for the unused tax losses, unused tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plan for individual subsidiaries of the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

2. Critical accounting estimates, judgements and assumptions

The Group makes certain estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assumptions and estimation uncertainties

(a) Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. More information on carrying values is included in note 11.

(b) Useful lives of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the Group's accounting policy. The selection of these estimated lives requires the exercise of management judgement. Useful lives are regularly reviewed, and should management's assessment of useful lives shorten, then depreciation charges in the financial statements would increase and carrying amounts of property, plant and equipment would reduce accordingly. The carrying amount of property, plant and equipment by each class is included in note 9.

(c) Measurement of provisions - dilapidation provision

The Group estimates the present value of any future unavoidable costs of restoring leasehold properties to their original condition at the commencement of the lease. In arriving at this estimate the Group makes assumptions, based on input from third-party subject matter experts, about the likelihood and magnitude of future outflows of economic resources to carry out the necessary restoration work. These estimates are in current value terms, so the Group also applies assumptions of cost inflation to determine the equivalent future cost of remediation and then applies an estimated discount rate, based on a risk-free rate over a term comparable to the remaining life of the lease, to determine a present value of these cash outflows.

(d) Measurement of provisions – claims

The Group estimates the value of any claims that it expects to be contractually obligated to pay in the future, using all relevant information available to management at the reporting date. Typically, this will be based on consideration of the terms of the relevant contracts, consultation with subject matter experts and other information made available by the counterparty to the contract. The best estimate of the cost to be incurred may be either the probability-weighted expected value taking into account all possible outcomes if the provision relates to a large population of items, or the most likely outcome if the provision is for a single item but there is uncertainty over inputs to the assessment of cost. Provisions are remeasured at each reporting date, or when better quality information becomes available if this results in a material change to the provision.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

2. Critical accounting estimates, judgements and assumptions (*continued*)

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are discussed below.

(a) Lease contracts with customers

The Group has acquired data centre assets that are subject to commercial property leases with some of its customers. For certain contracts with customers, the Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the arrangement conveys to the customer a right to use the asset, but the Group retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

(b) Lease components within contracts with customers

The Group has certain contracts with customers in which a lease component has been identified under IFRS16. For these contracts the Group has determined, based on an evaluation of the terms and conditions of the agreements, that the arrangement conveys to the customer a right to use the asset component, but the Group retains all the significant risks and rewards of ownership of the proportion of the properties and the proportion of the contract deemed a lease component and so accounts for the lease component of the contract as an operating lease.

The Group performs a calculation based on the area of space occupied by the customer in the data hall to establish a relative standalone selling price for the component and separates this amount from the total contract value for disclosure purposes. This calculation is based on the rental cost per unit area of the property that VIRTUS incurs, establishing an estimated fair value of the price per square metre of data centre space at the location in question, then adds a mark-up of 10% to give an estimated standalone selling price per square metre.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

3. Financial instruments – Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Market risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives quarterly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out in this note.

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Loans and other borrowings
- Interest rate derivatives
- Lease liabilities

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 *(continued)*

3. Financial instruments – Risk Management *(continued)*

(ii) Financial instruments by category

Financial assets

	Financial assets at fair value through profit and loss		Financial assets at amortised cost	
	2020 £ '000	2019 £ '000	2020 £ '000	2019 £ '000
Cash and cash equivalents	-	-	28,566	48,741
Trade and other receivables	-	-	43,147	25,353
Derivative financial instruments	650	90	-	-
	<u>650</u>	<u>90</u>	<u>71,713</u>	<u>74,094</u>

Financial liabilities

	Financial liabilities at fair value through profit and loss		Financial liabilities at amortised cost	
	2020 £ '000	2019 £ '000	2020 £ '000	2019 £ '000
Trade and other payables	-	-	68,357	55,894
Amounts due to related parties	-	-	136	136
Loans and other borrowings	-	-	485,140	305,920
Lease liabilities	-	-	182,596	155,152
Long term incentive plan liability	27,367	18,744	-	-
Derivative financial instruments	3,072	-	-	-
	<u>30,439</u>	<u>18,744</u>	<u>736,229</u>	<u>517,102</u>

iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, lease liabilities and loans and borrowings.

Due to their short-term nature, the carrying values of cash and cash equivalents, trade and other receivables trade and other payables and lease liabilities approximate their fair value.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

3. Financial instruments – Risk Management (*continued*)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted.

Cash in bank

A significant amount of cash is held with the following institutions:

	2020 Cash at bank £ '000	2019 Cash at bank £ '000
Barclays Bank PLC	27,477	44,786
Standard Chartered Bank	1,089	3,955
	<u>28,566</u>	<u>48,741</u>

Management monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

Trade and other receivables

The carrying amounts of financial assets and contract assets in the statement of financial position represent the Group's maximum exposures to credit risk.

The Group's primary exposure to credit risk arises through its trade receivables and contract assets. In monitoring customer credit risk, the Group allocates exposure to credit risk by segmenting the customers based on customer type.

Customers are segmented by customer type and an ECL rate is calculated for each customer type based on probabilities of default and loss given default. Lifetime probabilities of default are based on published external sources. Loss given default parameters generally reflect an assumed recovery rate of 0%. The Group monitors changes in credit risk by tracking the probabilities of default from published external sources. Loss allowances are adjusted for current conditions and the Group's view of economic conditions over the expected lives of the receivables only if these factors have a significant impact to the credit loss.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

3. Financial instruments – Risk Management (continued)

Credit risk (continued)

Trade and other receivables (continued)

The ageing analysis of gross trade receivables is as follows:

	2020 £ '000	2019 £ '000
Not past due	24,920	6,695
Past due 1-30 days	1,092	2,832
Past due 31-60 days	208	444
Past due 61-90 days	450	5,339
Past due 91-120 days	416	464
	<u>27,086</u>	<u>15,774</u>

Lifetime ECL on trade receivables and unbilled receivables

	2020 £ '000	2019 £ '000
At 1 January	235	131
Additional provision for impairment recognised during the year	-	104
Impairment reversed during the year	(37)	
At 31 December	<u>198</u>	<u>235</u>

The table below shows an analysis of exposure to credit risk for trade receivables and contract assets by customer type.

Customer type	Weighted average loss rate %	Gross carrying amount £ '000	Expected credit loss allowance £ '000
31 December 2020			
Cloud provider customers*	0.09	35,372	32
Other	1.47	11,288	166
		<u>46,660</u>	<u>198</u>
31 December 2019			
Cloud provider customers*	0.13	17,450	23
Other	2.07	10,249	212
		<u>27,699</u>	<u>235</u>

*Cloud provider customers are customers that deliver cloud computing-based services and solutions to businesses and/or individuals.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (*continued*)

3. Financial instruments – Risk Management (*continued*)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk arises for the Group from its use of variable interest-bearing instruments (interest rate risk).

The Group finances its operations through a mixture of retained profits, shareholder's equity and external borrowings. The Group borrows at floating rates of interest and then uses interest rate swap, caps and floors to generate the desired interest and risk profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligation as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group also seeks to reduce liquidity risk by fixing or reducing the exposure to variability in interest rates (and hence cash flows) of its long-term borrowings through the use of interest rate swaps, caps and floors as noted above.

The Board receives rolling 12-month cash flow projections on a regular basis as well as information regarding cash balances.

As disclosed in Note 16, the Group has secured bank loans which contain a debt covenant. A future breach of this covenant may require the Group to repay the loan earlier than indicated in the table below. Under the agreement, the covenant is monitored on a regular basis by management to ensure compliance with this agreement.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial assets and liabilities:

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 *(continued)*

3. Financial instruments – Risk Management *(continued)* *Liquidity risk (continued)*

At 31 December 2020	Carrying Amount £ '000	Up to 1 Year £ '000	Contractual cashflows		Total Cashflows £ '000
			Between 1 and 5 years £ '000	After 5 years £ '000	
Financial assets - Derivatives					
Derivative financial assets - inflows	650	-	650	-	650
	<u>650</u>	<u>-</u>	<u>650</u>	<u>-</u>	<u>650</u>
Financial liabilities - Derivatives					
Derivative financial liabilities – outflows	3,072	-	3,072	-	3,072
	<u>3,072</u>	<u>-</u>	<u>3,072</u>	<u>-</u>	<u>3,072</u>
Financial liabilities - Non-Derivative					
Trade and other payables	68,357	68,357	-	-	68,357
Lease liabilities	182,596	12,567	58,332	204,023	274,922
Bank borrowings	485,140	24,893	589,758	-	614,651
Amounts due to related parties	136	136	-	-	136
Long term incentive liability	27,367	23,706	3,661	-	27,367
	<u>763,596</u>	<u>129,659</u>	<u>651,751</u>	<u>204,023</u>	<u>985,433</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 *(continued)*

At 31 December 2019	Carrying Amount £ '000	Up to 1 Year £ '000	Contractual cashflows		Total Cashflows £ '000
			Between 1 and 5 years £ '000	After 5 years £ '000	
Financial assets - Derivatives					
Derivative financial assets - inflows	90	-	40	-	40
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities - Non-Derivative					
Trade and other payables	55,894	55,894	-	-	55,894
Lease liabilities	155,152	8,322	50,259	183,886	242,467
Bank borrowings	305,920	18,577	336,066	-	354,643
Amounts due to related parties	136	136	-	-	136
Long term incentive liability	18,744	15,975	2,769	-	18,744
	<u>535,846</u>	<u>98,904</u>	<u>389,094</u>	<u>183,886</u>	<u>671,884</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

4. Revenue

Revenue is made up of:

	2020 £ '000	2019 £ '000
Revenue from contracts with customers	125,488	100,167
Lease revenue	3,975	3,502
Total Revenue	<u>129,463</u>	<u>103,669</u>

Disaggregation of revenue from contracts with customers

Revenue from contracts with customers is disaggregated by major service lines as below:

		2020 £ '000	2019 £ '000
	Timing of transfer of service		
Co-location revenue	Over time	76,371	55,574
Power charges recoverable	Over time	36,527	31,189
Connectivity income	Over time	445	507
Ancillary services income	Point in time	12,145	12,897
Revenue from contracts with customers		<u>125,488</u>	<u>100,167</u>

Revenue represents amounts chargeable, net of value added tax, in respect of the sales of goods and services to customers in the United Kingdom.

In 2020, three customers each individually contributed more than 10% of total recurring co-location revenue, collectively contributing £53.5m (73%). In 2019, three customers each individually contributed more than 10% of total recurring revenue, collectively amounting to £34.6m (£62%).

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

4. Revenue (continued)

Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers.

	2020 £'000	2019 £'000
Receivables, which are included in trade and other receivables	33,452	20,614
Contract assets	8,875	3,840
Contract liabilities	6,596	6,770

The contract assets primarily relate to the Group's rights to consideration for services provided but not billed at the reporting date on co-location revenue. The contract assets are transferred to receivables when the rights become unconditional.

The contract liabilities primarily relate to the advance consideration received from customers for co-location revenue for which revenue is recognised over time.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract assets £ '000	Contract liabilities £ '000
31 December 2020		
Opening balance	3,840	6,770
Revenue recognised from prior year balance	-	(6,770)
Cash received in advance and not recognised as revenue	-	6,596
Transfers from contract assets recognised at the beginning of period to receivables	(3,840)	-
Modifications - IFRS15 change in transaction price	1,911	-
Contract assets recognised	6,964	-
Closing balance	8,875	6,596
31 December 2019		
Opening balance	5,111	4,437
Revenue recognised from prior year balance	-	(4,437)
Cash received in advance and not recognised as revenue	-	6,770
Transfers from contract assets recognised at the beginning of period to receivables	(5,111)	-
Contract assets recognised, net of reclassification	3,840	-
Closing balance	3,840	6,770

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

4. Revenue (continued)

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date

	2020	2019 (restated)
	£ '000	£ '000
Within 1 year	133,325	85,670
1 to 5 years	474,949	331,663
After 5 years	704,830	466,723
	1,313,104	884,056

Variable consideration that is constrained and therefore not included in the transaction price is excluded from the amounts presented above.

Disclosure of amounts relating to unsatisfied performance obligations has been restated as in 2020 the Group amended its policy on review of customer contracts for lease components to include all customers occupying all, or the majority of, any individual data hall within a data centre (see note 1, Revenue). Previously, contracts had only been reviewed for lease components where a customer occupied all, or the majority of, an entire data centre site. See note 20 for reconciliation of restated 2019 balances.

Contract costs

	2020	2019
	£ '000	£ '000
Costs to obtain contracts with customers	6,609	5,210

The Group pays success-based sales commissions to employees for securing long term sales contracts. Such commissions are incremental costs and are capitalised as contract costs as the Group expects to recover these costs. Contract costs are amortised consistent with the pattern of revenue recognition for the related contract. In the current period, the amount of amortisation was £0.94m (2019 £0.96m).

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

5. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2020 £ '000	2019 £ '000
Auditor's remuneration	350	425
Amortisation of contract costs	940	959
Depreciation of property, plant and equipment	30,008	23,728
Depreciation of right of use asset	4,813	2,999
Amortisation of intangibles	696	696
Provision for claims	2,825	-
	<u> </u>	<u> </u>

All auditor's remuneration in the current period and the prior period related to provision of audit services.

6. Staff costs

	2020 £ '000	2019 £ '000
Staff costs (including those of directors) comprise:		
Remuneration	9,376	6,488
Social security contributions and similar taxes	940	586
Company contributions to money purchase pension plans	247	174
Amounts receivable under long term incentive schemes	8,778	6,976
	<u> </u>	<u> </u>
	Number	Number
The average monthly number of persons (including directors) employed by the Group during the year was	<u>98</u>	<u>62</u>

Defined contribution plans

The Group operates a defined contribution pension plan. The total cost charged to the statement of comprehensive income in 2020 of £0.25 million (2019: £0.17 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. Contributions amounting to £0.1 million (2019: £0.14 million) were payable to the schemes at 31 December 2020 and are included in trade and other payables.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

6. Staff costs (continued)

Key management personnel

The compensation of key management personnel (including the directors) is as follows:

	2020 £ '000	2019 £ '000
Remuneration	850	1,063
Company contributions to money purchase pension plans	7	17
Amounts receivable under long term incentive schemes	5,072	3,648
	<u>5,929</u>	<u>4,728</u>

Directors' remuneration

	2020 £ '000	2019 £ '000
Directors' remuneration	499	641
Company contributions to money purchase pension plans	4	9
Amounts receivable under long term incentive schemes	4,346	3,172
	<u>4,849</u>	<u>3,822</u>
Remuneration of the highest paid director	4,772	3,657
Directors who are members of pension schemes	1	1

During the current period none of the directors exercised share purchase options (2019: nil).

During the current period two directors sold shares awarded under the EMS long-term incentive plan arrangement (see note 18) back to the Group, for consideration of £632k (2019: £190k) and realising a gain of £551k (2019: £178k).

During the current period, the highest paid director received and exercised shares under the EMS long-term incentive plan arrangement (see note 18).

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 *(continued)*

7. Finance income and expenses

Recognised in profit and loss

	2020 £ '000	2019 £ '000
Finance income		
Interest income	22	22
Total finance income	<u>22</u>	<u>22</u>
	2020 £ '000	2019 £ '000
Finance expense		
Interest on bank loans	12,694	16,391
Lease interest accretion	5,039	3,624
Amortisation of loan arrangement fees	7,453	1,878
Movement in fair value of interest rate derivatives	3,619	581
Dilapidation provision interest accretion	426	131
Bank charges and other fees	12	48
Total finance expenses	<u>29,243</u>	<u>22,653</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

8. Taxation – Income tax expense

	2020 £ '000	2019 £ '000
Current tax		
UK corporation tax	-	-
Deferred tax		
Origination and reversal of timing differences	940	(242)
Adjustments in respect of prior periods	(597)	(219)
Tax charge/(credit)	<u>343</u>	<u>(461)</u>

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. Further, an intention to increase the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced in the UK Budget on 3 March 2021. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date. Deferred tax at 31 December 2020 has therefore been calculated at 19% (2019: 17%).

The overall effect of the proposed changes from 19% to 25%, if these applied to the deferred tax balance as at 31 December 2020, would be an increase in the deferred tax liability by approximately £299k).

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to the loss for the year are as follows:

	2020 £ '000	2019 £ '000
Loss before tax	(33,944)	(22,427)
Loss at the standard rate of corporation tax in the UK of 19% (2019 – 19%)	(6,449)	(4,261)
Effects of:		
Non-deductible expenses	1,312	1,073
Corporate interest restrictions	4,624	2,760
Tax-exempt income	-	(54)
Property, plant and equipment differences	-	(1,090)
Utilisation of previously unrecognised tax losses	(14)	(27)
Current year losses for which no deferred tax asset is recognised	39	40
Long term employee benefits	1,436	1,306
Others	(9)	(27)
Change in tax rates	1	38
Adjustments in respect of prior periods	(597)	(219)
	<u>343</u>	<u>(461)</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

8. Taxation – Deferred tax

Deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2020 £ '000	2019 £ '000
Tax losses	9,708	9,253
Corporate interest restrictions	-	6,305
Long term employee benefits	5,354	3,177
Other deductible temporary differences	91	95
	<u>15,153</u>	<u>18,830</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because of uncertainty regarding the timing of future taxable profits against which the Group can utilise the benefits.

The decrease in unrecognised deferred tax assets is with respect to corporate interest deductions which are no longer available to the Group.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 *(continued)*

8. Taxation – Deferred tax (continued)

Deferred tax liabilities

Movements in deferred tax assets and liabilities during the year are as follows:

Group	At 1 Jan 2019 £ '000	Recognised in income statement £ '000	Change in Tax Rates £ '000	At 31 Dec 2019 £ '000	Recognised in income statement £ '000	Change in Tax Rates £ '000	At 31 Dec 2020 £ '000
Deferred tax assets							
Tax losses	1,185	(36)	4	1,153	(20)	147	1,280
Pre-trading losses	100	58	(6)	152	509	17	678
Property, plant and equipment	-	-	-	-	474	26	500
	<u>1,285</u>	<u>22</u>	<u>(2)</u>	<u>1,305</u>	<u>963</u>	<u>190</u>	<u>2,458</u>
Deferred tax liabilities							
Property, plant and equipment	(436)	440	(46)	(42)	-	42	-
Intangible assets	(493)	125	(13)	(381)	126	(45)	(300)
Capitalised interest	(1,421)	(72)	7	(1,486)	(1,432)	(186)	(3,104)
	<u>(2,350)</u>	<u>493</u>	<u>(52)</u>	<u>(1,909)</u>	<u>(1,306)</u>	<u>(189)</u>	<u>(3,404)</u>
	<u>(1,065)</u>	<u>515</u>	<u>(54)</u>	<u>(604)</u>	<u>(343)</u>	<u>1</u>	<u>(946)</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 *(continued)*

9. Property, plant and equipment

	Freehold Land & Building £ '000	Freehold Improvements £ '000	Leasehold Land & Building £ '000	Leasehold Improvements £ '000	Data Centre Equipment £ '000	Network Equipment £ '000	Computers & Telecommunication Equipment £ '000	Office Equipment, Furniture & Fittings £ '000	Assets under Construction £ '000	Total £ '000
<i>(i) Cost or Valuation</i>										
<i>Cost</i>										
As at 1 January 2019	19,418	12,716	56,419	75,352	221,579	2,760	1,961	724	129,224	520,153
Transfer to right-of-use asset on initial application of IFRS 16	-	-	(46,806)	-	-	-	-	-	(55,299)	(102,105)
Adjusted balance as at 1 January 2019	19,418	12,716	9,613	75,352	221,579	2,760	1,961	724	73,925	418,048
Additions	-	11	620	1,113	4,152	14	530	98	136,043	142,581
Reclass within Asset Classes	-	5	3,321	12,506	111,666	115	98	19	(127,730)	-
As at 31 December 2019	19,418	12,732	13,554	88,971	337,397	2,889	2,589	841	82,238	560,629
As at 1 January 2020	19,418	12,732	13,554	88,971	337,397	2,889	2,589	841	82,238	560,629
Additions	-	-	-	-	191	-	540	250	259,664	260,645
Reclass within Asset Classes	-	-	29,041	22,847	137,880	69	-	121	(189,958)	-
As at 31 December 2020	19,418	12,732	42,595	111,818	475,468	2,958	3,129	1,212	151,944	821,274

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 *(continued)*

9. Property, plant and equipment *(continued)*

	Freehold Land & Building	Freehold Improvements	Leasehold Land & Building	Leasehold Improvements	Data Centre Equipment	Network Equipment	Computers & Telecommunication Equipment	Office Equipment, Furniture & Fittings	Assets under Construction	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
(ii) Depreciation										
As at 1 January 2019	(835)	(3,203)	(9,481)	(9,708)	(31,669)	(656)	(1,373)	(523)	-	(57,448)
Transfer of right-of-use asset on initial application of IFRS 16	-	-	8,347	-	-	-	-	-	-	8,347
Adjusted balance as at 1 January 2019	(835)	(3,203)	(1,134)	(9,708)	(31,669)	(656)	(1,373)	(523)	-	(49,101)
Depreciation	(183)	(679)	(533)	(4,276)	(17,200)	(183)	(568)	(106)	-	(23,728)
As at 31 December 2019	(1,018)	(3,882)	(1,667)	(13,984)	(48,869)	(839)	(1,941)	(629)	-	(72,829)
As at 1 January 2020	(1,018)	(3,882)	(1,667)	(13,984)	(48,869)	(839)	(1,941)	(629)	-	(72,829)
Depreciation	(184)	(681)	(1,182)	(4,935)	(22,062)	(185)	(630)	(149)	-	(30,008)
As at 31 December 2020	(1,202)	(4,563)	(2,849)	(18,919)	(70,931)	(1,024)	(2,571)	(778)	-	(102,837)
(iii) Net book value										
As at 31 December 2019	18,400	8,850	11,887	74,987	288,528	2,050	648	212	82,238	487,800
As at 31 December 2020	18,216	8,169	39,746	92,899	404,537	1,934	558	434	151,944	718,437

The construction costs incurred during the year amounted to £260m (2019: £136m). Borrowing costs capitalised to property, plant and equipment amounted to £6.2m (2019: £4.85m) with a capitalisation rate of 4.4% (2019: 5.0%).

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 *(continued)*

9. Property, plant and equipment *(continued)*

Security

The bank loans are secured by a fixed charge over the Group's total assets. Accordingly, as at 31 December 2020, property plant and equipment with a carrying amount of £718.4m (2019: £487.8m) were pledged as security.

10. Right-of-use assets

Right-of-use assets relate to leasehold land and buildings.

	Leasehold land and buildings £ '000
Cost	
Balance at 31 December 2019	172,447
Additions to right-of-use assets	45,042
As at 31 December 2020	<u>217,489</u>
Accumulated Depreciation	
Balance at 31 December 2019	(16,128)
Depreciation for the year	(10,422)
As at 31 December 2020	<u>(26,550)</u>
Balance at 31 December 2019	156,319
Balance at 31 December 2020	190,939

Right-of use assets include costs of provision for future dilapidation works on leased data centre properties. The net carrying amount of these assets is £39.3m (2019: £25.7m.). As at 31 December 2020, right of use assets with a carrying amount of £190.9m (2019: 156.3m) were pledged as security.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

11. Intangible assets and goodwill

December 2020	Goodwill	Customer contracts	Acquired Right	Total
	£ '000	£ '000	£ '000	£ '000
Carrying amount				
Balance at 1 January 2020	27,668	2,239	1,726	31,633
Amortisation	-	(663)	(33)	(696)
Impairment	-	-	-	-
As at 31 December 2020	<u>27,668</u>	<u>1,576</u>	<u>1,693</u>	<u>30,937</u>
 December 2019	 Goodwill	 Customer contracts	 Acquired Right	 Total
	£ '000	£ '000	£ '000	£ '000
Carrying amount				
Balance at 1 January 2019	27,668	2,902	1,759	32,329
Amortisation	-	(663)	(33)	(696)
Impairment	-	-	-	-
As at 31 December 2019	<u>27,668</u>	<u>2,239</u>	<u>1,726</u>	<u>31,633</u>

Impairment testing

VIRTUS Enfield LLP

At 31 December 2020, the Group performed an impairment assessment on the goodwill arising from the acquisition of VIRTUS Enfield Limited (LLP). The recoverable amount of this CGU was based on value in use (VIU).

LLP's VIU was determined by discounting estimated future cash flows generated from the continuing use of the CGU and a terminal growth rate thereafter. The cash flow projections included specific estimates for LLP for a five-year period, based on the Group's five-year business plan. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

The discounted cash flow model was based on the following key assumptions:

	2020	2019
Pre-tax discount rate	7.2%	9.0%
Terminal value growth rate	3.0%	3.0%

The values assigned to the key assumptions represents management's assessment of developments in the data centre industry and were based on both external sources and internal sources. Based on the above assumptions, the recoverable amount was estimated to be higher than the carrying amount of the CGU by £44.5m (2019: £3.4m), and goodwill was not impaired as at 31 December 2020.

Any reasonably possible change to the key assumptions applied is not likely to cause the recoverable amount to be below the carrying amount.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

12. Derivative financial instruments

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group has entered into interest rate caps, interest rate floors and interest rate swaps.

Interest rate caps

Interest rate caps have been taken out to cap the rate to which 3-month LIBOR can rise and are co-terminus with the initial term of the loan.

The fair value of these contracts is recorded in the Group statement of financial position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these cash flows at the prevailing market rates as at the period end. Any movement in the fair value of the derivatives is taken to the Group's statement of comprehensive income. The strike rate as at period end was 1.5% (2019: 1.25%-1.5%).

	2020 £ '000	2019 £ '000
Balance at 1 January	41	631
Additions	-	40
Fair value adjustment	(34)	(630)
Balance as at 31 December	7	41

Interest rate floors

Interest rate floors have been taken out to mitigate the potential impact if 3-month LIBOR became negative. Interest rate floors are co-terminus with the loans to which they relate.

The fair value of these contracts is recorded in the Group statement of financial position and is determined by forming an expectation about whether 3-month GBP LIBOR will become negative over the term of the floor, and discounting the corresponding floor c at the prevailing market rates as at the period end. Any movement in the fair value of the derivatives is taken to the Group's statement of comprehensive income. The strike rate as at period end was 0% (2019: n/a).

	2020 £ '000	2019 £ '000
Balance at 1 January	-	-
Additions	692	-
Fair value adjustment	(49)	-
Balance as at 31 December	643	-

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

12. Derivative financial instruments (continued)

Interest rate swaps

At the reporting date, the Group has outstanding interest rate swap contracts for mitigating interest rate risk of floating rate interest obligations by swapping them for fixed rate interest obligations. The effective interest rate as at year end is 0.77% (2019: 0.76%). Interest rate swaps are valued using curves of forward rates constructed from market data to project and discount the expected future cash flows.

	2020 £ '000	2019 £ '000
Balance at 1 January	49	-
Additions	-	-
Fair value adjustment	(3,121)	49
Balance as at 31 December	<u>(3,072)</u>	<u>49</u>

Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

	Quoted process in active markets (Level 1) £ '000	Significant observable inputs (Level 2) £ '000	Significant unobservable inputs (Level 3) £ '000	Total £ '000
31 December 2020				
Interest rate caps	-	-	7	7
Interest rate swaps	-	(3,072)	-	(3,072)
Interest rate floors	-	-	643	643
	<u>-</u>	<u>(3,072)</u>	<u>650</u>	<u>(2,422)</u>
31 December 2019				
Interest rate caps	-	-	41	41
Interest rate swaps	-	49	-	49
	<u>-</u>	<u>49</u>	<u>41</u>	<u>90</u>

There have been no transfers between Level 1 and Level 3 during either period, nor have there been any transfers between Level 2 and Level 3 during either period.

13. Cash and cash equivalents

	2020 £ '000	2019 £ '000
Cash in bank	<u>28,566</u>	<u>48,741</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

14. Trade and other receivables

Current

	2020 £ '000	2019 £ '000
Trade receivables	26,937	15,639
Unbilled receivables	6,515	4,975
Amounts due from related parties (note 23)	820	899
Prepayments	2,399	2,039
VAT receivable	9,098	4,307
Other receivables	11,436	9,284
Contract costs	1,228	938
Contract assets	6,964	3,840
	<u>65,397</u>	<u>41,921</u>

Non-Current

	2020 £ '000	2019 £ '000
Contract costs	5,381	4,272
Contract assets	1,911	-
	<u>7,292</u>	<u>4,272</u>

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

15. Trade and other payables

Current

	2020 £ '000	2019 £ '000
Trade payables	18,129	12,251
Accruals	35,921	32,199
Deferred income	282	1,168
Other payables	7,429	3,506
Contract liabilities	6,596	6,770
	<u>68,357</u>	<u>55,894</u>

Non-Current

	2020 £ '000	2019 £ '000
Other payables (Interest rate swaps, note 12)	3,072	-
	<u>3,072</u>	<u>-</u>

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 *(continued)*

16. Loans and borrowings

Bank borrowings

The book value and fair value of loans and borrowings are as follows:

	2020 £ '000	2019 £ '000
Non-Current		
Bank loans - Secured	492,650	312,544
Less: Arrangement fees	(7,510)	(6,624)
Non-current bank loans	<u>485,140</u>	<u>305,920</u>
Fair value		
Non-current bank loans	485,140	305,920

The carrying amount of floating interest-bearing loans which are repriced every 3 months reflects their fair value.

During 2020 the Group completed a refinancing of its existing Security Net 1 bank facility, increasing the total size of the facility from £245.0m to £411.7m, with a maturity date of March 2025.

The Group's loans and borrowings are denominated in sterling. The rate at which sterling denominated floating liabilities are payable is:

- Security Net 1: 2.70% to 3.20% plus LIBOR (2019: 3.95% to 5.50% plus LIBOR) and is repayable by March 2025. The carrying amount of Security Net 1 is £300.1m (2019: £218.7m)
- Security Net 2: 3.70% to 3.75% plus LIBOR (2019: 3.75% to 4.20%) and is repayable by June 2023. The carrying amount of Security Net 2 is £185.0m (2019: 87.2m).

The bank loans are secured by a fixed charge over the Group's total assets.

The Group has been compliant with all of the financial covenants of the above facilities as applicable throughout the period covered by these financial statements.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

16. Loans and borrowings (continued)

Lease liabilities

	2020 £ '000	2019 £ '000
Non-Current		
Lease liabilities	178,659	152,923
Current		
Lease liabilities	3,937	2,229
Total lease liabilities	182,596	155,152
	<hr/>	<hr/>
Fair value	182,596	155,152

The nominal interest rate for the lease liabilities is 3.70%-7.50% (2019: 3.75% - 7.50%) with maturity dates between February 2022 and February 2040.

The minimum lease payments for the lease liabilities fall due as follows:

	2020 £ '000	2019 £ '000
Within one year	12,567	8,323
Between one and five years	58,332	50,259
More than five years	204,023	183,886
	<hr/>	<hr/>
	274,922	242,468
Future finance charges	(92,326)	(87,316)
	<hr/>	<hr/>
	182,596	155,152
	<hr/>	<hr/>
Total cash outflow for leases	(10,679)	(7,998)
	<hr/>	<hr/>

Extension options

The property leases contain extension options exercisable by the Group. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise available extension options, would result in an increase in lease liability of £105.7m (2019: £92.3m). These extension options would however only be exercised upon expiry of the current lease terms in 2037-2040.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements
for the year ended 31 December 2020 (continued)

16. Loans and borrowings (continued)

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Bank borrowings	Accrued interest expense	Finance leases	Total
	£ '000	£ '000	£ '000	£ '000
Balance at 1 January 2020	305,920	5	155,152	461,077
Changes from financing cash flows				
Proceeds from bank loan	180,106	-	-	180,106
Repayment of bank loan	-	-	-	-
Interest paid	-	(15,275)	-	(15,275)
Payment of transaction costs	(8,340)	-	-	(8,340)
Payment of lease liabilities	-	-	(10,679)	(10,679)
Total changes from financing cash flows	171,766	(15,275)	(10,679)	145,812
Other changes – liability related				
Capitalised borrowing costs	894	1,104	3,677	5,675
Interest expense	-	14,203	5,039	19,242
New leases	-	-	29,407	29,407
Amortisation of finance costs	6,560	-	-	6,560
Total liability related – other changes	7,454	15,307	38,123	60,884
Balance at 31 December 2020	485,140	37	182,596	667,773

	Bank borrowings	Accrued interest expense	Finance leases	Total
	£ '000	£ '000	£ '000	£ '000
Balance at 1 January 2019	267,462	57	113,186	380,705
Changes from financing cash flows				
Proceeds from bank loan	48,800	-	-	48,800
Repayment of bank loan	(10,000)	-	-	(10,000)
Interest paid	-	(17,777)	-	(17,777)
Payment of transaction costs	(2,915)	-	-	(2,915)
Payment of lease liabilities	-	-	(7,998)	(7,998)
Total changes from financing cash flows	35,885	(17,777)	(7,998)	10,110
Other changes – Liability related				
Capitalised borrowing costs	694	1,334	2,826	4,854
Interest expense	-	16,391	3,624	20,015
New leases	-	-	43,515	43,515
Amortisation of finance costs	1,879	-	-	1,879
Total liability related – other changes	2,573	17,725	49,965	70,263
Balance at 31 December 2019	305,920	5	155,152	461,077

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

16. Loans and borrowings (continued)

Reconciliation of net cash flow to movements in net funds and analysis of net funds

The amounts disclosed on the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts.

	2019 £ '000	Cashflow £ '000	2020 £ '000
Cash at bank	48,741	(20,175)	28,566

	2018 £ '000	Cashflow £ '000	2019 £ '000
Cash at bank	19,147	29,594	48,741

Group net debt reconciliation

	2020 £ '000	2019 £ '000
Loans and borrowings		
Bank borrowings	485,140	305,920
Finance lease liabilities	182,596	155,152
Less: Cash at bank	(28,566)	(48,741)
Net debt	639,170	412,331

17. Other provisions

	2020 £ '000	2019 £ '000
Non-current		
Provision for dilapidation costs	41,788	25,728
Current		
Provision for claims	2,825	-
At 31 December	44,613	25,728

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

17. Other provisions (continued)

Provision for dilapidation costs	2020 £ '000	2019 £ '000
At 1 January	25,728	940
Interest accretion	426	131
Provision made during the year	15,634	24,657
At 31 December	<u>41,788</u>	<u>25,728</u>

Dilapidation provisions relate to the cost of dismantling and removing equipment, fixtures and fittings and restoring premises to their original condition upon termination of leases at the end of the lease terms between 2037 and 2040. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. In the prior period, the Group engaged a third-party subject matter expert to provide a detailed estimate of the current value of likely restoration costs. The provision has then been calculated by applying an inflation adjustment to the end of the lease term, 2.0% (2019: 2.0%) and discounting back at a 20-year risk-free rate of 0.7% (2019: 1.2%).

The impact of reasonable potential variation in key input parameters to the estimates of dilapidation provisions and assets has been assessed by performing sensitivity analysis on the core assumptions of inflation rate and risk-free rate as at 31 December 2020, as follows:

	(Increase)/decrease in provision and asset £ '000		(Increase)/decrease in provision and asset £ '000
Risk-free discount rate		Inflation adjustment	
1.0 percentage point increase	(6,783)	1.0 percentage point increase	8,098
0.7 percentage point decrease	5,430	1.0 percentage point decrease	(6,781)

The existing provision discounts at a 20-year risk-free rate of 0.7%, therefore in our analysis, the risk-free discount rate has only been reduced to a minimum value of 0%.

Provision for claims	2020 £ '000	2019 £ '000
At 1 January	-	-
Provision made during the year	2,825	-
At 31 December	<u>2,825</u>	<u>-</u>

The provision relates to a potential claim. The Group has appropriate insurance cover in place, however in line with IAS 37 no amounts have been recognised at the reporting date for any insurance recoveries.

As at the reporting date management have used their judgement to make an appropriate provision based on the information available, however these estimates may be affected by future events and information which cannot be predicted with any certainty.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

18. Share-based payment arrangements

Long Term Incentive Plan – cash settled

The Group's long-term incentive plan (LTIP) consists of the following elements:

- (i) Executive Management Scheme ("EMS") applicable to key management employees
- (ii) Key Employees Scheme ("KES") applicable to employees

The LTIP is designed to provide long-term incentives for employees at all levels to deliver long-term shareholder returns. Under the plan, participants are granted cash-settled units each year, the value of which is tied to the fair market value of the Company based on the underlying equity value of the Group ("the initial share price"). The amount of any cash payment is determined based on the increase in the fair market value of the Company's share between the grant date ("the initial share price") and the exercise date. Each grant vests evenly over four years and is exercisable up to 7 years from the start date of each grant.

In July 2020 the Group granted 1,460,471 EMS units and 1,350,000 KES units to employees.

The fair value of services received in return for LTIP granted are measured by reference to the fair value of LTIP granted. The estimate of the fair value of the services received is measured based on the Black Scholes Model. The key assumptions applied in the estimate of fair values for EMS and KES are as follows:

31 December 2020

Year of grant	2020	2019
Fair value as at 31 December	£1.43	£1.51
Initial share prices	£2.87	£2.52
Share price	£3.48	£3.48
Portfolio expected volatility	36.82%	36.82%
Portfolio expected dividends	-	-
Expected remaining life (weighted average)	6	5
Risk-free interest rate	0.00%	0.00%

31 December 2019

Year of grant	2019	2018
Fair value as at 31 December	£1.15	£1.20
Initial share prices	£2.52	£2.23
Share price	£2.87	£2.87
Portfolio expected volatility	36.57%	36.57%
Portfolio expected dividends	-	-
Expected remaining life (weighted average)	6	5
Risk-free interest rate	0.59%	0.58%

At 31 December 2020 16,593,908 units were in issue (2019: 14,922,574), 14,507,788 units had vested and were exercisable (2019: 12,887,922) with a weighted average exercise price of £1.79 (2019: £1.38). The total intrinsic value of liabilities for vested units as at 31 December 2020 was £25,954k (2019: £17,794k).

In 2020 996,637 units were exercised (2019: 756,688) and 18,750 lapsed (2019: 11,250), the share price at the time of exercise was £2.87 and the weighted average exercise price was £1.38.

The share price at the date of exercise for share units exercised in 2020 was £2.87 (2019: £2.52).

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

18. Share based payment arrangements (continued)

Equity settled share-based payments

On 2 February 2017 the immediate holding company STT Virtus Holdco Limited (STT VHL) established put and call options with the Y shareholders of its subsidiary VDCM Ltd – fellow subsidiary of VHL – which entitles STT VHL to acquire the Y shares held by certain employees of the Company when the vested shares are exercised or in the event and at any time the Y shareholder becomes a leaver. The options over the Y shares vest over 4 years.

The estimate of the fair value of the share option is measured based on the Black Scholes Model.

The inputs used in the measurement of the fair values at grant date of the equity settled share-based payment plan is as follows:

	2020	2019
Fair value as at 31 December	£1.80	£1.80
Portfolio expected volatility	36.82%	36.57%
Portfolio expected dividends	-	-
Expected remaining life (weighted average)	0	1
Risk-free interest rate	0.00%	0.59%

The expense incurred during the period for LTIP and other share-based payment arrangements was £8,778k (2019: £6,976k) – see Note 6.

Expected volatility has been calculated based on an evaluation of a number of listed businesses considered to be peer-group comparators to VIRTUS Holdco Ltd. The 36-month historical volatility of these peer companies' share prices has been obtained and analysed, over the historical period corresponding to the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

Reconciliation of outstanding equity settled share options:

The number and weighted-average prices of share options under the LTIP cash settled arrangement:

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January	1,362,300	1.80	1,596,339	1.80
Forfeited during the year	-	1.80	-	1.80
Exercised during the year	(380,188)	1.80	(234,039)	1.80
Granted during the year	-	1.80	-	1.80
Outstanding at 31 December	982,112	1.80	1,362,300	1.80
Exercisable at 31 December	982,112	1.80	1,324,453	1.80

The options outstanding at 31 December 2020 had an exercise price of £1.80 (2019: £1.80) and a weighted average contractual life of zero years (2019: 1 years).

The weighted-average share price at the date of exercise for share options exercised in 2020 was £1.80 (2019: £1.80).

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 *(continued)*

19. Share capital and share premium

	Issued and fully paid					
	2020 Number	2020 Share Capital £'000	2020 Share Premium £'000	2019 Number	2019 Share Capital £'000	2019 Share Premium £'000
Ordinary shares of 10p each						
At 1 January	205,821,941	20,582	310,706	166,536,229	16,654	215,634
Issues during the year	19,616,724	1,962	54,338	39,285,712	3,928	95,072
At 31 December (authorised)	225,438,665	22,544	365,044	205,821,941	20,582	310,706

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. All shares rank equally with regard to the Group's residual assets.

Merger reserve

The merger reserve represents the premium on the cost of investment and the nominal value of share capital acquired.

20. Leases

Operating leases where the Group acts as lessor

The Group has some contracts with customers which are classified as operating leases. The customer agreements vary, with most rising with indexation each year. Minimum lease payments receivable on leases are as follows:

	2020 £ '000	2019 £ '000 (restated)
<i>Operating leases under IFRS 16</i>		
Less than one year	4,716	4,732
One to two years	5,253	4,437
Two to three years	4,816	4,424
Three to four years	4,364	3,797
Four to five years	3,943	3,559
More than five years	20,737	16,197
	43,829	37,146

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

20. Leases (continued)

Restatement of revenue and lessor receivables:

See note 1 for explanation of the change in accounting policy on identification of lease components within revenue contracts under IFRS 16. The restatement of prior period balances for unsatisfied performance obligations and operating leases where the Group acts as a lessor is shown below.

	2019 £ '000	Restatement £ '000	2019 £ '000 (restated)
<i>Transaction price allocated to the remaining performance obligations</i>			
Within 1 year	87,880	(2,210)	85,670
1 to 5 years	344,142	(12,479)	331,663
After 5 years	479,798	(13,075)	466,723
	<u>911,820</u>	<u>(27,764)</u>	<u>884,056</u>
	2019 £ '000	Restatement £ '000	2019 £ '000 (restated)
<i>Operating leases where the Group acts as lessor</i>			
<i>Operating leases under IFRS 16</i>			
Less than one year	2,604	2,128	4,732
One to two years	1,127	3,310	4,437
Two to three years	1,122	3,302	4,424
Three to four years	973	2,824	3,797
Four to five years	816	2,743	3,559
More than five years	2,740	13,457	16,197
	<u>9,382</u>	<u>27,764</u>	<u>37,146</u>

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

21. Capital management

The Group regularly reviews its financial position structure and use of capital, with the objective of achieving long-term capital efficiency, optimum total returns to shareholders and strategic positioning. The capital employed by the Group consists of equity attributable to shareholders and bank loans.

	2020 £'000	2019 £'000
Total equity	231,000	208,598
Bank loan	485,140	305,920
Total capital employed	<u>716,140</u>	<u>514,518</u>

There were no changes in the Group's approach to capital management during the year.

The Group is subject to certain financial covenants which management monitors on a regular basis to ensure compliance.

The Group is not subject to externally imposed capital requirements.

22. Capital commitments

	2020 £'000	2019 £'000
Capital expenditure contracted but not provided for in the financial statements	43,217	214,911

The capital expenditure contracted by the Group relates largely to the design and construction of its data centres.

VIRTUS Holdco Limited

Notes forming part of the consolidated financial statements for the year ended 31 December 2020 (continued)

23. Related party transactions

Related party transactions and balances are as follows:

Related party relationship	Type of balances	Amount	
		2020 £'000	2019 £'000
Director or key management	Loans to key management	459	469
Affiliate	Amounts due from affiliate	-	-
Employees	Loans to employees	361	430
Amounts due from related parties (Note 14)		820	899
Affiliate	Amounts due to affiliate	136	136

The start date of the director's loan was 1 June 2013. The balance as at 31 December 2020 was £459k (2019: £469k). Interest is paid at the prevailing HMRC rate of interest.

Subsequent to the year-end the loan to the director was repaid in full and £360k of the balance outstanding of loans to employees was also repaid.

24. Subsequent events

Funding events during 2021

Up to 30 June 2021 the Group had drawn further funding as follows:

- £57.0m of equity funding from its parent company, STT GDC Pte Limited; and
- £89.6m of drawdowns from its existing SN1 and SN2 bank facilities.

Repayment of loans to directors and employees

During Q1 2021 a director and certain key management personnel exercised options to sell EMS LTIP units and Y shares. A portion of the funds realised from these exercises was used to repay in full the outstanding balance on the loan to the director (£459k as at 31 December 2020) and £360k of the balance outstanding of loans to employees as at 31 December 2020.

The Group considers both of the above events to be non-adjusting subsequent events in accordance with IAS 10 "Events after the reporting period".

25. Parent Company and Control

The immediate parent company is STT VHL Limited (registered in Guernsey). The ultimate parent and controlling party is Temasek Holdings (Private) Limited incorporated in the Republic of Singapore.

VIRTUS Holdco Limited

Company statement of financial position at 31 December 2020

Company number 07670473

	Note	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Property, plant and equipment	2	426	409
Right-of-use assets	3	322	597
Investment in subsidiaries	6	10,495	10,495
Amounts due from related parties	11	331,561	305,759
Deferred tax asset	8	167	103
		342,971	317,363
Current assets			
Other receivables	4	2,516	2,140
Cash and cash equivalents	5	7,847	20,902
		10,363	23,042
Total assets		353,334	340,405
Current liabilities			
Trade and other payables	7	4,137	4,913
Long term incentive plan liability		23,706	15,975
Amounts due to related parties	11	1,904	2,520
Lease liability	9	208	193
		29,955	23,601
Non-current liability			
Lease liability	9	73	353
Long-term incentive plan liability		3,661	2,769
		3,734	3,122
Total liabilities		33,689	26,723
Net assets		319,645	313,682
Issued capital and reserves attributable to owners of the parent			
Share capital	10	22,544	20,582
Share premium reserve	10	365,044	310,706
Retained earnings		(67,943)	(17,606)
Total equity		319,645	313,682

The financial statements on pages 72 to 90 were approved and authorised for issue by the Board of Directors on 9 July 2021 and were signed on its behalf by:



Neil Cresswell – Chief Executive Officer

The notes on pages 75 to 90 form part of these financial statements

VIRTUS Holdco Limited

Company statement of cash flows at 31 December 2020

	31 December 2020 £'000	31 December 2019 £'000
Changes from operating activities		
Loss before tax	(50,401)	(735)
Adjustments for:		
Depreciation of property, plant and equipment	410	335
Depreciation of right-of use assets	275	275
Impairment on intercompany receivables	49,697	91
Interest income	(22)	(22)
Interest expense	43	57
Decrease/(Increase) in trade and other receivables	(353)	3,111
(Decrease)/Increase in trade and other payables	(793)	1,344
Net cash flows from operating activities	<u>(1,144)</u>	<u>4,456</u>
Investing activities		
Purchase of property, plant and equipment	(427)	(328)
Net cash used in investing activities	<u>(427)</u>	<u>(328)</u>
Financing activities		
Proceeds from issue of share capital	56,300	99,000
Loans advanced to related parties	(66,876)	(83,957)
Loans advanced from related parties	(616)	131
Payment of lease liability	(292)	(365)
Net cash generated in financing activities	<u>(11,484)</u>	<u>14,809</u>
Net (decrease)/increase in cash and cash equivalents	(13,055)	18,937
Cash and cash equivalents at the start of the period	20,902	1,965
Cash and cash equivalents at the end of period	<u>7,847</u>	<u>20,902</u>

The notes on pages 75 to 90 form part of these financial statements.

VIRTUS Holdco Limited

Company statement of changes in equity for the year ended 31 December 2020

	Share Capital £'000	Share premium £'000	Retained earnings £'000	Total Equity £'000
1 January 2019	16,654	215,634	(16,974)	215,314
Comprehensive loss for the year	-	-	(632)	(632)
	<u>16,654</u>	<u>215,634</u>	<u>(17,606)</u>	<u>214,682</u>
Transaction with owners				
Issue of share capital	3,928	95,072	-	99,000
	<u>20,582</u>	<u>310,706</u>	<u>(17,606)</u>	<u>313,682</u>
31 December 2019	<u>20,582</u>	<u>310,706</u>	<u>(17,606)</u>	<u>313,682</u>
1 January 2020	20,582	310,706	(17,606)	313,682
Comprehensive loss for the year	-	-	(50,337)	(50,337)
	<u>20,582</u>	<u>310,706</u>	<u>(67,943)</u>	<u>263,345</u>
Transaction with owners				
Issue of share capital	1,962	54,338	-	56,300
	<u>22,544</u>	<u>365,044</u>	<u>(67,943)</u>	<u>319,645</u>
31 December 2020	<u>22,544</u>	<u>365,044</u>	<u>(67,943)</u>	<u>319,645</u>

The notes on pages 75 to 90 form part of these financial statements

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020

1. Accounting policies

Basis of preparation of Company financial statements

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs).

The presentation currency used is pounds sterling and amounts have been presented in round thousands ("£000s"). The principal accounting policies adopted in the preparation of these financial statements are set out in this note.

Going concern

Notwithstanding the Company's net current liability position of £19.6m as at 31 December 2020, the financial statements have been prepared on a going concern basis, which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of over 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides (including the potential longer-term economic impact of the COVID 19 pandemic), the Company and wider Group will have sufficient funds to meet its liabilities as they fall due for that period. The directors note that during 2020 following the outbreak of COVID 19 sales of co-location services actually increased as customers sought to obtain additional capacity to support expanded demand on cloud computing services from increased levels of remote working and people spending significantly more time at home.

During 2020 the Group successfully negotiated an expansion of its debt funding facilities to support ongoing development of data centre sites. However, in order to fully meet the committed operational expansion plans of the Group, it is still also reliant on financial support from its intermediate holding company, STT GDC Pte Ltd. STT GDC Pte Ltd has indicated its intention to continue to make available such funds as are needed by the Group for the period covered by the forecasts. The directors note that this intention is aligned with the expansion strategy of STT GDC Pte Ltd. The directors have further considered the financial position of STT GDC Pte Ltd (including the potential impacts arising from the COVID 19 pandemic) and consider there to be sufficient liquidity for the funding to be provided as needed. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements. The adoption of these new standards will not have a significant impact on the Company's financial statements.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020

1. Accounting policies (*continued*)

Property, plant and equipment

Property, plant and equipment is initially recognised at cost. As well as the purchase price, cost includes directly attributable costs, capitalised borrowing costs, and the estimated present value of any future unavoidable costs of dismantling and removing items. Any corresponding liability is recognised within provisions.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit and loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits, in excess of the originally assessed standard of performance of the existing asset, associated with the expenditure will flow to the Company. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Depreciation on assets under construction does not commence until they are complete and available for use. No depreciation is provided on freehold land.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives or, in the case of leasehold building and improvements, the shorter lease term as follows:

- | | |
|---|---------|
| • Computers & Telecommunication Equipment | 2 years |
| • Office Equipment, Furniture & Fittings | 3 years |

Investments in subsidiaries

Investments in subsidiaries are carried at cost less any provision for losses arising on impairment.

Financial instruments

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Financial instruments

Financial assets (continued)

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior period, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Financial instruments

Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features)

Subsequent measurement gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Loss allowances of the Company are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 *(continued)*

1. Accounting policies *(continued)*

Financial instruments

Financial assets (continued)

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cashflows to repay the amounts subject to write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Company's procedures for recovery of amounts due.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Financial liabilities

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognise in profit or loss.

Trade and other payables

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Financial liabilities (continued)

Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred, or liabilities assumed) is recognised in the statement of comprehensive income.

Offsetting financial instruments

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

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

Company as lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 *(continued)*

1. Accounting policies *(continued)*

Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Share based payment arrangements

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related services and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

The Company's ordinary shares are classified as equity instruments.

Profit of parent company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss after tax for the financial year ended 31 December 2020 was £50,337k (2019: £632k).

VIRTUS Holdco Limited

Notes forming part of the Company financial statements
for the year ended 31 December 2020 *(continued)*

2. Property, plant and equipment

	Computers & Telecommunication Equipment	Office Equipment, Furniture & Fittings	Total
<i>(i) Cost or Valuation</i>	£ '000	£ '000	£ '000
<i>Cost</i>			
As at 1 January 2019	734	252	986
Additions	348	32	380
Disposal	-	(52)	(52)
As at 31 December 2019	1,082	232	1,314
<i>Cost</i>			
As at 1 January 2020	1,082	232	1,314
Additions	427	-	427
Disposal	-	-	-
As at 31 December 2020	1,509	232	1,741
<i>(ii) Depreciation</i>			
<i>Accumulated Depreciation</i>			
As at 1 January 2019	(375)	(195)	(570)
Depreciation	(324)	(11)	(335)
As at 31 December 2019	(699)	(206)	(905)
<i>Accumulated Depreciation</i>			
As at 1 January 2020	(699)	(206)	(905)
Depreciation	(398)	(12)	(410)
As at 31 December 2020	(1,097)	(218)	(1,315)
<i>(iii) Net book value</i>			
As at 31 December 2019	383	26	409
As at 31 December 2020	412	14	426

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 *(continued)*

3. Right-of-use assets

	Land and buildings £ '000
2020	
Balance at 1 January	597
Depreciation charged to profit and loss	(275)
	<hr/>
As at 31 December 2020	322
	<hr/>

4. Other receivables

Current

	2020 £ '000	2019 £ '000
Prepayments and accrued income	1,493	1,049
Amounts due from related parties (note 11)	819	899
Other receivables	204	192
	<hr/>	<hr/>
	2,516	2,140
	<hr/>	<hr/>

All amounts shown above fall due for payment within one year.

5. Cash and cash equivalents

	2020 £ '000	2019 £ '000
Cash in bank	7,847	20,902
	<hr/>	<hr/>

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (continued)

6. Investments in subsidiaries

	2020 £ '000	2019 £ '000
At 31 December	10,495	10,495

As at 31 December 2020, the principal subsidiaries held directly or indirectly by the Company, were as follows:

Name	Country of incorporation and principal place of business	Proportion of ownership of interest at 31 December		Nature of business
		2020	2019	
VIRTUS (Enfield) LLP	England	100%	100%	Owner of LONDON1 (Enfield) data centre
Enfield DC Service Company Limited	England	100%	100%	Data centre operator and manager
VIRTUS (Data Centres) Limited	England	100%	100%	Dormant
VIRTUS Hayes Limited	England	100%	100%	Owner of LONDON2 (Hayes) data centre
VIRTUS Enfield (Data Centres) Limited	England	100%	100%	Intermediate holding Company
VIRTUS IMH Limited ¹	England	100%	100%	Previously intermediary holding company, pending strike off
EJS Limited ²	Jersey	Dissolved	100%	Previously intermediary holding company, dissolved
EJH Limited ²	Jersey	Dissolved	100%	Previously intermediary holding company, dissolved
VIRTUS Data Centres Properties Limited	England	100%	100%	Intermediate holding Company
VIRTUS IMH 2 Limited ¹	England	100%	100%	Previously intermediary holding company, pending strike off
VIRTUS Slough Limited	England	100%	100%	Owner of LONDON3 and LONDON4 data centres
VIRTUS LONDON 5 Limited	England	100%	100%	Owner of LONDON5 data centre
VIRTUS LONDON 6 Limited	England	100%	100%	Owner of LONDON6 data centre
VIRTUS LONDON 7 Limited	England	100%	100%	Owner of LONDON7 data centre
VIRTUS LONDON 8 Limited	England	100%	100%	Owner of LONDON8 data centre
VIRTUS LONDON 9 Limited	England	100%	100%	Owner of LONDON9 data centre
VIRTUS LONDON 10 Limited	England	100%	100%	Owner of LONDON10 data centre
VIRTUS LONDON 11 Limited	England	100%	100%	SPV holding net assets of future LONDON11 data centre
VIRTUS LONDON 12 Limited	England	100%	100%	SPV holding net assets of future LONDON12 data centre
VIRTUS LONDON 13 Limited	England	100%	100%	SPV to hold net assets of future LONDON13 data centre
VIRTUS LONDON 14 Limited	England	100%	100%	SPV to hold net assets of future LONDON14 data centre

The registered address of the subsidiaries incorporated in England is Kent House, 14-17 Market Place, London W1W 8AJ. The registered address of the subsidiaries incorporated in Jersey is 11-15 Seaton Place St Helier, Jersey JE4 0QH.

¹ VIRTUS IMH Limited and VIRTUS IMH2 Limited were voluntarily struck off the Companies House register in March 2021, subsequent to the year end.

² EJS Limited and EJH Limited were voluntarily struck off the Jersey register in October 2020.

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (continued)

7. Trade and other payables

	2020 £ '000	2019 £ '000
Trade payables	227	155
Accruals	3,388	3,831
Other payables	522	927
	<u>4,137</u>	<u>4,913</u>

8. Taxation – Income tax expense

	2020 £ '000	2019 £ '000
Current tax		
UK corporation tax	-	-
Deferred tax		
Origination and reversal of timing differences	(11)	(115)
Adjustments in respect of prior periods	(37)	12
Change in tax rates	(16)	-
	<u>(64)</u>	<u>(103)</u>
Tax (credit)/expense	<u>(64)</u>	<u>(103)</u>

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. Further an intention to increase the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced in the UK Budget on 3 March 2021. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date. Deferred tax at 31 December 2020 has therefore been calculated at 19% (2019: 17%).

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to the loss for the year are as follows:

	2020 £ '000	2019 £ '000
Loss before tax	(50,401)	(735)
Loss at the standard rate of corporation tax in the UK of 19% (2019 – 19%)	(9,576)	(140)
Effects of:		
Non-deductible expenses	9,451	30
Group tax relief	(1,309)	(1,209)
Property, plant and equipment differences	-	(102)
Long term employee benefits	1,423	1,306
Adjustments in respect of prior periods	(37)	12
Change in tax rates	(16)	-
Recognition of tax effect of previously unrecognised tax losses	-	-
	<u>(64)</u>	<u>(103)</u>

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (*continued*)

8. Taxation – Deferred tax

Deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2020 £ '000	2019 £ '000
Tax losses	1,167	1,043
Corporate interest restrictions	-	35
Long term employee benefits	5,387	3,176
	<u>6,554</u>	<u>4,254</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because of uncertainty regarding the timing of future taxable profits against which the Company can utilise the benefits.

The decrease in unrecognised deferred tax assets is with respect to corporate interest deductions which are no longer available to the Group.

Movements in overall deferred tax asset position during the year are as follows:

	At 1 Jan 2020 £ '000	Recognised in income statement £ '000	Change in Tax Rates £ '000	At 31 Dec 2020 £ '000
Deferred tax assets				
Property, plant and equipment	103	48	16	167
	<u>103</u>	<u>48</u>	<u>16</u>	<u>167</u>

VIRTUS Holdco Limited

Notes forming part of the Company financial statements
for the year ended 31 December 2020 *(continued)*

9. Lease liabilities

	2020 £ '000	2019 £ '000
Non-Current		
Lease liabilities	73	353
Current		
Lease liabilities	208	193
Total lease liabilities	<u>281</u>	<u>546</u>
 Fair value	 281	 546

The nominal interest rate for the lease liabilities is 5.5% (2019: 5.5%) with maturity date of February 2022.

The minimum lease payments for the lease liabilities fall due as follows:

	2020 £ '000	2019 £ '000
Within one year	219	219
Between one and five year	73	364
	<u>292</u>	<u>583</u>
Future finance charges	(11)	(37)
	<u>281</u>	<u>546</u>
 Total cash outflow for leases	 <u>(292)</u>	 <u>(365)</u>

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 *(continued)*

10. Share capital and share premium

	Issued and fully paid					
	2020 Number	2020 Share Capital £'000	2020 Share Premium £'000	2019 Number	2019 Share Capital £'000	2019 Share Premium £'000
Ordinary shares of 10p each						
At 1 January	205,821,941	20,582	310,706	166,536,229	16,654	215,634
Issues during the year	19,616,724	1,962	54,338	39,285,712	3,928	95,072
At 31 December	<u>225,438,665</u>	<u>22,544</u>	<u>365,044</u>	<u>205,821,941</u>	<u>20,582</u>	<u>310,706</u>

11. Related party transactions and balances

Transactions with Group companies

Details of the Company's subsidiaries are shown in note 6.

Other related party transactions are as follows:

Related party relationship	Type of transaction	Balance	
		2020 £'000	2019 £'000
Affiliate Director or key management Employees	Amounts due from affiliates	331,561	305,759
	Loans to key management (note 4)	459	469
	Loans to employees (note 4)	360	430
Affiliate	Amounts due to affiliate	1,904	2,520

Amounts due from affiliates are due on demand and are non-interest bearing. Rights to receive repayment of the amounts due to the Company from affiliates are subordinated to the rights of the holders of the Group's external debts. The directors have classified these assets as non-current assets as they do not expect to realise the assets within twelve months of the end of the reporting period.

The start date of the Director's loan is 1 June 2013. The balance as at 31 December 2020 was £459k (2019: £469k). Interest is paid at the prevailing HMRC rate of interest.

During 2020 two Directors sold shares awarded under the EMS long-term incentive plan arrangement (see Group accounts note 18 in the Group accounts) back to the Company, for consideration of £632k (2019: £190k) and realising a gain of £551k (2019: £178k).

Included in the amounts due from affiliates is expected credit losses of £0.3m (2019: £0.3m).

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 (continued)

12. Staff costs

	2020 £ '000	2019 £ '000
Staff costs (including those of directors) comprise:		
Remuneration	9,376	6,488
Social security contributions and similar taxes	940	586
Company contributions to money purchase pension plans	247	174
Amounts receivable under long term incentive schemes	8,778	6,976
	<hr/>	<hr/>
	Number	Number
The average monthly number of persons (including directors) employed by the Group during the year was	98	62
	<hr/>	<hr/>

Defined contribution plans

The Company operates a defined contribution pension plan. The total cost charged to the statement of comprehensive income in 2020 of £0.25 million (2019: £0.17 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. Contributions amounting to £0.1 million (2019: £0.14 million) were payable to the schemes at 31 December 2020 and are included in trade and other payables.

Key management personnel

The compensation of key management personnel (including the directors) is as follows:

	2020 £ '000	2019 £ '000
Remuneration	850	1,063
Company contributions to money purchase pension plans	7	17
Amounts receivable under long term incentive schemes	5,072	3,648
	<hr/>	<hr/>
	5,929	4,728
	<hr/>	<hr/>

VIRTUS Holdco Limited

Notes forming part of the Company financial statements for the year ended 31 December 2020 *(continued)*

12. Staff costs *(continued)*

Director's remuneration

	2020 £ '000	2019 £ '000
Directors' remuneration	499	641
Company contributions to money purchase pension plans	4	9
Amounts receivable under long term incentive schemes	4,346	3,172
	<u>4,849</u>	<u>3,822</u>
Remuneration of the highest paid director	4,772	3,657
Directors who are members of pension schemes	1	1

During the current period none of the directors exercised share purchase options (2019: nil).

During the current period two directors sold shares awarded under the EMS long-term incentive plan arrangement (see Group accounts note 18) back to the Group, for consideration of £632k (2019: £190k) and realising a gain of £551k (2019: £178k).

During the current period, the highest paid director received and exercised shares under the EMS long-term incentive plan arrangement (see Group accounts note 18).