

Canonical UK Limited

Report and Financial Statements

Year Ended

31 March 2018

Company Number 05055134

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Canonical UK Limited

Report and financial statements for the year ended 31 March 2018

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Director

N French

Secretary

K Ollerhead

Registered office

5th Floor, Blue Fin Building, 110 Southwark Street, London, SE1 0SU

Company number

05055134

Auditors

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

Canonical UK Limited

Strategic report for the year ended 31 March 2018

The director presents his strategic report together with the audited financial statements for the year ended 31 March 2018.

Principal activities and business review

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

During the year Canonical UK continued to provide UK based engineering and support operations and worked with other group companies to provide services and support for the Ubuntu product group. No change in the nature of the company's operations is expected in the foreseeable future.

Key performance indicators

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

KPIs	2018	2017
Revenue (\$m)	17.9	23.1
Operating profit (\$m)	0.4	0.5

The Board is satisfied with the overall performance as indicated by these metrics. The decrease in revenue year on year reflects the decrease in staffing levels in the company and thus the service levels offered to other group companies. Consequently, the company's operating profit has remained relatively stable.

Financial risk management objectives and policies

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

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

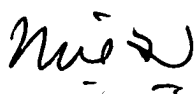
Currency risk - The company has some exposure to currency translation risk arising on intercompany arrangements denominated in currencies that are not the functional currency of the company. The majority of trading transactions are denominated in USD.

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

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

Approval

This strategic report was approved by order of the Board on 19/12/2018


N French
Director

Canonical UK Limited

Director's report for the year ended 31 March 2018

The director presents his report together with the audited financial statements for the year ended 31 March 2018.

Results and dividends

The income statement is set out on page 7 and shows the profit for the year.

During the year, no dividends were paid (2017: \$nil). The director does not recommend the payment of a final dividend (2017 - \$Nil).

Director

The director of the company during the year was:

N R French

Director's responsibilities

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

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the director is required to:

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

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The director is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Canonical UK Limited

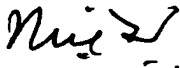
Director's report for the year ended 31 March 2018 (continued)

Auditors

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

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

On behalf of the Board



N French

Director

Date 19/12/2018

Canonical UK Limited

Independent auditor's report

TO MEMBERS OF CANONICAL UK LIMITED

Opinion

We have audited the financial statements of Canonical UK Limited ("the Company") for the year ended 31 March 2018 which comprise the income statement, the balance sheet, the statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Canonical UK Limited

Independent auditor's report (*continued*)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Canonical UK Limited

Independent auditor's report (*continued*)

Responsibilities of the director

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

In preparing the financial statements, the Director is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Director either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

BDO LLP

*Andrew Gandell (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

Date 21/12/2018

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

Canonical UK Limited

Income statement for the year ended 31 March 2018

	Note	2018 US\$'000	2017 US\$'000
Turnover	2	17,850	23,147
Administrative expenses		(17,404)	(22,623)
Operating profit	4	446	524
Interest receivable and similar income	5a	-	6,911
Interest payable and similar charges	5b	(5,877)	-
(Loss)/profit on ordinary activities before taxation		(5,431)	7,435
Taxation	6	(98)	(82)
(Loss)/profit for the financial year and total comprehensive (loss)/income		(5,529)	7,353

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

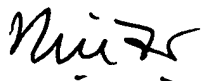
The notes on pages 10 to 16 form part of these financial statements.

Canonical UK Limited

Balance sheet at 31 March 2018

<i>Company number 05055134</i>	Note	2018 US\$'000	2018 US\$'000	2017 US\$'000	2017 US\$'000
Current assets					
Debtors	7	96,293		114,416	
Cash at bank and in hand		27		376	
		<u>96,320</u>		<u>114,792</u>	
Creditors: amounts falling due within one year	8	<u>(85,654)</u>		<u>(98,597)</u>	
Net current assets			<u>10,666</u>		<u>16,195</u>
Total assets less current liabilities			<u>10,666</u>		<u>16,195</u>
Capital and reserves					
Share capital	9		-		-
Profit and loss account			<u>10,666</u>		<u>16,195</u>
Shareholder's funds			<u>10,666</u>		<u>16,195</u>

The financial statements were approved by the Board of Directors and authorised for issue on 19/12/2018



N French
Director

The notes on pages 10 to 16 form part of these financial statements.

Canonical UK Limited

Statement of changes in equity for the year ended 31 March 2018

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2017	-	16,195	16,195
Loss for the year	-	(5,529)	(5,529)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	(5,529)	(5,529)
	<hr/>	<hr/>	<hr/>
31 March 2018	-	10,666	10,666
	<hr/>	<hr/>	<hr/>

Statement of changes in equity for the year ended 31 March 2017

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2016	-	8,842	8,842
Profit for the year	-	7,353	7,353
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	7,353	7,353
	<hr/>	<hr/>	<hr/>
31 March 2017	-	16,195	16,195
	<hr/>	<hr/>	<hr/>

The notes on pages 10 to 16 form part of these financial statements.

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2018

1 Accounting policies

Basis of preparation of financial statements

Canonical UK Limited is a company limited by shares, incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the group's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies. The director does not believe that the financial statements contain any critical accounting estimates or judgements.

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The financial statements have been prepared using the US Dollar as the presentational currency on the basis that the directors believe the US Dollar to be the functional currency of the company. The year-end exchange rate between US dollar and Sterling was 1.4016.

The following principal accounting policies have been applied:

Going concern

The financial statements are prepared on a going concern basis. The cash flow forecasts show that the company is reliant on continued support from the company's ultimate parent undertaking, Canonical Holdings Limited, who in turn is reliant on continued support from the Group's sole beneficial owner to continue to trade and meet its obligations as they fall due.

The Group's sole beneficial owner has been providing support as required by the Group and Company during the year and since the year end, and has confirmed that he will continue to make such support as the Group and Company needs over the forecast period, which is at least 12 months from the date of signing of the financial statements. The cash flow forecast shows that the Group and Company do not need more than the available funding in order to continue to trade and meet their obligations as they fall due.

The ultimate controlling party has also provided assurance of financial support to enable the Company to continue its operations for at least one year from the date of signing these financial statements.

Canonical Holdings Limited and all related undertakings have confirmed to the director that it is their intention to not seek repayment of the amounts due at the balance sheet date for the foreseeable future and in any case for a period of at least 12 months from the approval of these financial statements.

Turnover

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

Leased assets

All leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight line basis over the term of the lease.

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (*continued*)

1 Accounting policies (*continued*)

Contributions to pension funds

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

Foreign currency

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

Exemption from preparing a cash flow statement

The company has taken the exemption within Chapter 1 of FRS 102, not to prepare a cash flow statement as it is included within the consolidated financial statements of its intermediate parent, Canonical Group Limited, which are publicly available.

Financial instruments

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

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

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

Taxation

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

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

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

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

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (continued)

1 Accounting policies (continued)

Taxation (continued)

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

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

Research and development tax credit

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

2 Turnover

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

3 Employees

	2018 US\$'000	2017 US\$'000
Staff costs consist of:		
Wages and salaries	13,548	15,748
Social security costs	1,617	1,693
Pension	307	194
	<hr/>	<hr/>
	15,472	17,635
	<hr/>	<hr/>

The average number of employees, including directors during the year was 116 (2017 - 153).

Remuneration in the sum of \$224,713 (2017 - \$730,100) was paid to the Director during the year ended 31 March 2018 via other group companies. The key management of the company are the director and the directors of Canonical Holdings Limited, who are remunerated via other group companies.

Canonical UK Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 *(continued)*

4 Operating profit

	2018 US\$'000	2017 US\$'000
This has been arrived at after charging/(crediting):		
Operating lease - land and buildings	613	638
Operating lease - other	637	510
Fees payable to the company's auditor for the audit	19	19
Research and development tax credit	(490)	(784)
	<u> </u>	<u> </u>

5a Interest receivable and similar income

	2018 US\$'000	2017 US\$'000
Realised foreign exchange gain	-	24
Unrealised foreign exchange gain	-	6,887
	<u> </u>	<u> </u>
	-	6,911
	<u> </u>	<u> </u>

5b Interest payable and similar charges

	2018 US\$'000	2017 US\$'000
Realised foreign exchange gain	55	-
Unrealised foreign exchange gain	5,822	-
	<u> </u>	<u> </u>
	5,877	-
	<u> </u>	<u> </u>

Canonical UK Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (continued)

6 Taxation

	2018 US\$'000	2017 US\$'000
<i>Current tax</i>		
Adjustment to tax charge in respect of prior years	98	82

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

	2018 US\$'000	2017 US\$'000
Profit/(loss) on ordinary activities before tax	(5,431)	7,435
UK corporation tax rate of 19% (2017 - 20%)	(1,031)	1,487
Expenses not deductible for taxation purposes	2	-
Group relief utilised	1,029	(1,487)
Adjustment to tax charge in respect of prior years	98	82
Current tax for the year	98	82

The adjustments to the tax charge in respect of prior years relates to the research and development credits under the above the line scheme.

7 Debtors

	2018 US \$'000	2017 US \$'000
Amounts owed by related undertakings	95,501	113,488
Other debtors	144	12
Prepayments	177	214
Corporation tax	471	702
	96,293	114,416

All debtors are due within one year. A proportion of amounts owed by related undertakings are denominated in Sterling and thus give rise to foreign currency exposure to the company.

Canonical UK Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (continued)

8 Creditors: amounts falling due within one year

	2018 US\$'000	2017 US\$'000
Trade creditors	71	38
Accruals	1,478	1,510
Amounts owed to ultimate controlling party	-	638
Amounts owed to related undertakings	84,105	96,411
	<u>85,654</u>	<u>98,597</u>

The amount owed to ultimate controlling party was an amount owed to Mark Shuttleworth, the sole beneficial shareholder of the company, denominated in Euros, and was settled during the year. A proportion of amounts owed to related undertakings are denominated in Sterling and thus give rise to foreign currency exposure to the company.

9 Share capital and reserves

	2018 Number	2017 Number	Allotted, called up and fully paid 2018 £	2017 £
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
			\$	\$
Converted to USD			<u>2</u>	<u>2</u>

Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

10 Commitments under operating leases

As at 31 March 2018, the company had minimum lease payments under non-cancellable operating leases as set out below:

	2018 Land and buildings US\$'000	2018 Other US\$'000	2017 Land and buildings US\$'000	2017 Other US\$'000
Operating leases which expire:				
Within one year	671	501	639	510
In two to five years	783	94	-	81
	<u>1,454</u>	<u>595</u>	<u>639</u>	<u>591</u>

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2018 *(continued)*

11 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 102 Section 33 'Related Party Disclosures' paragraph 33.1A not to disclose transactions with certain group companies on the grounds that 100% of the voting rights in the company are controlled by the group headed by Canonical Holdings Limited.

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

12 Ultimate controlling party

At 31 March 2018 the company's immediate parent company was Canonical Group Limited. The company's ultimate controlling party is Mark Shuttleworth, being the head of the ultimate parent company and ultimate controlling party of the smallest and largest group into which this company is consolidated, Canonical Holdings Limited.