

Canonical Group Limited

Report and Financial Statements

Year Ended

31 March 2018

Company Number 06870835

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Canonical Group 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

06870835

Auditors

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

Canonical Group Limited

Strategic report for the year ended 31 March 2018

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

Principal activities

Canonical Group Limited is part of the Canonical group of companies, headed by Canonical Holdings Limited. The Canonical group is the leading provider of 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, public cloud providers and individual technologists. Canonical Group Limited is uniquely positioned to help customers make the most of Ubuntu.

Canonical Group Limited provides the operational management resources and assistance for the sales, engineering and support of Ubuntu services provided by the companies within the group. In addition to this, under the strategic guidance and direction of Canonical Holdings Limited, Canonical Group Limited provides operational management for the development of the Ubuntu brand and products.

Review of development, performance and position of the business

In the year to 31 March 2018 turnover decreased by \$16m to \$110m. The group continued to invest, although average headcount moved from 566 in 2017 to 443 in 2018. Operating profit rose to \$6.2m versus \$2.0m in 2017. Canonical Group Limited provides technology and services associated with Ubuntu, the leading scale-out operating system for containers, public and private clouds, and the Internet of Things.

Ubuntu is the platform of choice for multi-cloud. Most public cloud workloads are running on Ubuntu. Most public and private cloud container deployment on Kubernetes use Ubuntu. Most large-scale private cloud built with OpenStack are on Ubuntu, using both Kernel-based Virtual Machine ("KVM") and the pure-container LXD hypervisor for the world's fastest private clouds. The majority of new smart gateways, self-driving cars and advanced humanoid robots are running Ubuntu as well. Canonical Group Limited provides enterprise support and services for commercial users of Ubuntu.

In addition to producing Ubuntu, Canonical leads the development of key differentiating technologies which allow customers to operate efficiently at scale. Canonical leads the development of Juju, the model-driven operations system, and MAAS (Metal-as-a-Service), which creates a physical server cloud and IP Address Management ("IPAM") for amazing data centre operational efficiency. Further, Canonical leads the development of the snap universal Linux packaging system for secure, transactional device updates and app stores. Ubuntu Core is an all-snap instantiation of Ubuntu, perfect for devices and appliances.

Building on these technologies, Canonical offers Canonical Openstack and the Charmed Distribution of Kubernetes. Both offer enterprise, telecom providers and OEMs mechanisms to build multi-cloud infrastructure that's cost efficient to build and operate. Canonical consulting, training and managed services offering means companies can get started with their multi-cloud infrastructure in weeks.

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

Going concern

Canonical Group Limited is a privately held company and ultimately supported by the group's sole beneficial owner who has provided support as required by the company during the year and since the year end. He has also provided confirmation that he will continue to provide limited support for at least 12 months from the date of signing of these financial statements.

Further details are included in note 1.

Canonical Group Limited

Strategic report for the year ended 31 March 2018 (continued)

Key performance indicators

Canonical Group Limited measures its performance through the use of key performance indicators ('KPIs'). These KPIs are focussed on revenue, operating profit, cash flow and average headcount. 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)	110	126
Operating profit (\$m)	6	2
Cash used in operations (\$m)	(24)	(60)
Average headcount	443	566

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 group uses various financial instruments including loans and cash. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial assets and liabilities such as trade debtors and creditors that arise directly from its operations.

The existence of these financial instruments exposes the group to a number of financial risks which are described in more detail below. The risks 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.

Principal risks and uncertainties

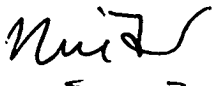
Currency risk - The group has minimal exposure to currency translation risk. The majority of the group is denominated in USD, which is in line with the majority of sales and costs which are also denominated in USD.

Credit risk - The group's principal credit risk relates to recovery of amounts owed by trade debtors. This risk is limited by determining a limit for customers based on third party credit references, payment history and other factors. This risk is reviewed regularly in conjunction with debtor ageing and payment history.

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 on behalf of the Board on 19/12/2018



N French

Director

Canonical Group 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 consolidated income statement is set out on page 8 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 French

Employee policies

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

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 group and company 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 group and company and of the profit or loss of the group for that year.

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 Group Limited

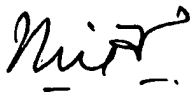
Director's report for the year ended 31 March 2018 *(continued)*

Auditors

The current 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 reappoint them will be proposed at the annual general meeting.

On behalf of the Board



N French

Director

Date 19/12/2018

Canonical Group Limited

Independent auditor's report

TO MEMBERS OF CANONICAL GROUP LIMITED

Opinion

We have audited the financial statements of Canonical Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company balance sheet, the company statement 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 Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent 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 Group or the Parent 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 Group 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 Group and the Parent 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 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 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 Group 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 Group's and the 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 the Director either intends to liquidate the Group or the Parent 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 Group Limited

Consolidated income statement for the year ended 31 March 2018

	Note	2018 \$'000	2017 \$'000
Turnover	3	110,422	125,970
Cost of sales		(1,316)	(1,467)
Gross profit		109,106	124,503
Administrative expenses		(102,888)	(122,420)
Operating profit	6	6,218	2,083
Interest receivable and similar income	7	234	15
Interest payable and similar charges	8	(758)	(2,619)
Profit/(loss) on ordinary activities before tax		5,694	(521)
Taxation	9	(86)	(422)
Profit/(loss) for the financial year and total comprehensive profit/(loss)		5,608	(943)

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

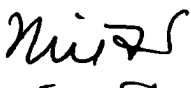
The notes on pages 14 to 24 form part of these financial statements.

Canonical Group Limited

Consolidated balance sheet at 31 March 2018

Company number 06870835	Note	2018 \$'000	2018 \$'000	2017 \$'000	2017 \$'000
Fixed assets					
Tangible assets	10		1,655		2,208
Current assets					
Stock	12	195		206	
Debtors	13	344,304		413,284	
Cash at bank		13,278		23,283	
		<u>357,777</u>		<u>436,773</u>	
Creditors: amounts falling due within one year	14	<u>(427,575)</u>		<u>(512,732)</u>	
Net current liabilities			(69,798)		(75,959)
Provisions for liabilities	15		(225)		(225)
Net liabilities			(68,368)		(73,976)
Capital and reserves					
Share capital	17		-		-
Profit and loss account			(68,368)		(73,976)
Shareholder's deficit			(68,368)		(73,976)

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 14 to 24 form part of these financial statements.

Canonical Group Limited

Consolidated 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	-	(73,976)	(73,976)
Profit for the year	-	5,608	5,608
Total comprehensive profit for the year	-	5,608	5,608
31 March 2018	-	(68,368)	(68,368)
	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2016	-	(73,033)	(73,033)
Loss for the year	-	(943)	(943)
Total comprehensive loss for the year	-	(943)	(943)
31 March 2017	-	(73,976)	(73,976)

The notes on pages 14 to 24 form part of these financial statements.

Canonical Group Limited

Consolidated statement of cash flows for the year ended 31 March 2018

	2018 US\$'000	2017 US'000
Cash flows from operating activities		
Profit/(loss) for the financial year	5,608	(943)
Adjustments for:		
Depreciation of fixed assets	1,454	1,330
Net interest payable	525	2,604
Taxation expense	86	422
Decrease/(increase) in trade and other debtors	68,965	(112,976)
Decrease/(increase) in stocks	11	(20)
Increase/(decrease) in trade and other creditors	(100,065)	49,991
	<hr/>	<hr/>
Cash used in operations	(23,416)	(59,592)
Taxation paid	(50)	(53)
	<hr/>	<hr/>
Net cash used in operating activities	(23,466)	(59,645)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchases of tangible fixed assets	(901)	(1,486)
	<hr/>	<hr/>
Net cash used in investing activities	(901)	(1,486)
	<hr/>	<hr/>
Cash flows from financing activities		
Decrease in amounts owed to ultimate controlling party	(638)	-
Increase in loans payable	15,000	57,059
	<hr/>	<hr/>
Net cash from financing activities	14,362	57,059
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(10,005)	(4,072)
Cash and cash equivalents at beginning of year	23,283	27,355
	<hr/>	<hr/>
Cash and cash equivalents at end of year	13,278	23,283
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Cash at bank and in hand	13,278	23,283
	<hr/>	<hr/>

The notes on page 14 to 24 form part of these financial statements.

Canonical Group Limited

Company balance sheet at 31 March 2018

<i>Company number 06870835</i>	Note	2018 \$'000	2018 \$'000	2017 \$'000	2017 \$'000
Fixed assets					
Tangible assets	10		911		878
Investments	11		864		864
			<u>1,775</u>		<u>1,742</u>
Current assets					
Stock	12	195		206	
Debtors	13	323,883		411,741	
Cash at bank		12,784		22,034	
		<u>336,862</u>		<u>433,981</u>	
Creditors: amounts falling due within one year	14	(423,238)		(531,454)	
Net current liabilities			(86,376)		(97,473)
Net liabilities			(84,601)		(95,731)
Capital and reserves					
Share capital	17		-		-
Profit and loss account			(84,601)		(95,731)
Shareholder's deficit			(84,601)		(95,731)

As permitted by Section 408 of the Companies Act 2006, the company has elected not to present its own income statement for the year. The company reported a profit after taxation for the financial year ended 31 March 2018 of \$11,130,000 (2017 – loss of \$8,800,000).

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 14 to 24 form part of these financial statements.

Canonical Group Limited

Company 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	-	(95,731)	(95,731)
Profit for the year	-	11,130	11,130
	<hr/>	<hr/>	<hr/>
Profit and total comprehensive income for the year	-	11,130	11,130
	<hr/>	<hr/>	<hr/>
31 March 2018	-	(84,601)	(84,601)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2016	-	(86,931)	(86,931)
Loss for the year	-	(8,800)	(8,800)
	<hr/>	<hr/>	<hr/>
Loss and total comprehensive income for the year	-	(8,800)	(8,800)
	<hr/>	<hr/>	<hr/>
31 March 2017	-	(95,731)	(95,731)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 14 to 24 form part of these financial statements.

Canonical Group 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 Group 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 Group management to exercise judgement in applying the Group's accounting policies (see note 2).

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards other than the application of merger accounting in the circumstances referred to below. The financial statements have been prepared using the US Dollar as the presentational currency, due to the fact that the US Dollar is the functional currency of the company. The year-end exchange rate between US Dollar and Sterling was 1.4016.

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

Basis of consolidation

The Group financial statements consolidate the financial statements of Canonical Group Limited and all its subsidiary undertakings as at 31 March 2018. The Group uses the acquisition method of accounting to consolidate the results of the subsidiary undertakings unless otherwise stated. All inter-company transactions and balances between group enterprises are eliminated on consolidation.

For the consolidated financial statements the adoption of merger accounting presents Canonical Group Limited as if Canonical UK Limited had always been the subsidiary undertaking of the Group.

Canonical Group Limited

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

1 Accounting policies (*continued*)

Going concern

The financial statements are produced on a going concern basis. The director has prepared a cash flow forecast that indicates that the group and the company are reliant on continued support from the company's 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 during the year and since the year end, and has confirmed that he will continue to make limited support available over the forecast period, which is at least 12 months from the date of signing of these 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.

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.

After making enquiries of the shareholders and having given consideration to the confirmation of limited support by the Group's sole beneficial owner, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Revenue recognition

Turnover comprises of revenues from third parties and fees from other group companies in respect of charges for outsourced business services, exclusive of sales taxes.

Revenue from third parties is generated from the provision of custom software engineering, the provision of support, maintenance and training services, the sale of merchandise and from advertising fees.

Each sales contract is designed to meet the specific requirements of each customer. Where agreements involve multiple elements, the entire fee from such arrangements is allocated to each of the individual elements based on each element's fair value. The revenue in respect of each element is recognised in accordance with the following:

Software Engineering - revenue is measured with reference to the stage of completion of the contract. The stage of completion is determined by the level of services performed to date as a percentage of total services expected to be performed. Where the stage of completion cannot be reliably measured in this way, reference is made to the completion of project milestones;

Maintenance and Support - revenue is deferred and recognised on a straight line basis over the year to which the support relates;

Merchandise Sales - revenue is recognised once the sale has taken place and the risks and rewards have been transferred to a third party; and

Advertising Fees - revenue is recognised when earned based on the click-through activity of an internet user on a third party web-site advertisement.

Where the company is contractually committed to future revenues from a third party, revenue will be accrued in accordance with the terms of the agreement.

Canonical Group Limited

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

1 Accounting policies *(continued)*

Foreign currency

Transactions denominated in currencies other than USD are recorded at the rate of exchange ruling at the dates of transactions. Assets and liabilities expressed in currencies other than USD are translated into USD at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the income statement in the year in which they arise.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated to write down the cost, with nil residual value, of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Leasehold improvements	-	over the term of the lease
Computer equipment	-	over 30 months straight line
Fixtures and fittings	-	over 30 months straight line

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a charge 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.

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.

Canonical Group Limited

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

1 Accounting policies (continued)

Research and development tax credit

Companies within the group may be 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 group accounts for such allowances as tax credits, which means that they are recognised when it is probable that the benefit will flow to the group 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.

Stock

Stock is valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Contribution to pension funds

The group makes contributions to individuals personal pension plans. Pension costs are charged against profits in respect of the accounting year in which they are paid.

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.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determine the stage of completion in respect of ongoing services. Factors considered include milestone achievements, fair value of contractual components and level of staff time incurred per project as a proportion of the total expected time.
- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine the requirement for provisions or contingent liabilities based on the probability of cash out flows and professional advice obtained.
- Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account.

Canonical Group Limited

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

3 Turnover

The turnover for the year is derived from the Group's principal activity.

	2018 \$'000	2017 \$'000
Analysis by geographical market:		
United Kingdom	18,528	52,582
Rest of Europe	11,481	4,663
Rest of the World	80,413	68,725
	<u>110,422</u>	<u>125,970</u>

4 Employees

	2018 \$'000	2017 \$'000
Staff costs consist of:		
Wages and salaries	54,889	69,144
Social security costs	4,480	5,294
Pension costs	3,205	3,876
	<u>62,574</u>	<u>78,314</u>

The average number of employees, including directors, during the year was 443 (2017 - 566).

5 Directors' remuneration

	2018 \$'000	2017 \$'000
Directors' emoluments	225	730

The director was paid \$224,713 (2017 - \$730,100) in the year by the Company. The key management of the group and company are the director and the directors of Canonical Holdings Limited, who are remunerated via other group companies.

6 Operating profit

	2018 \$'000	2017 \$'000
This has been arrived at after charging:		
Depreciation	1,454	1,330
Operating leases:		
- Land and buildings	3,985	3,923
- Other	637	511
Fees payable to the company's auditor for:		
- the audit of the group	67	58
- the audit of the subsidiaries	27	18
Research and development tax credit	(763)	(1,270)
	<u> </u>	<u> </u>

Canonical Group Limited

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

7 Interest receivable and similar income	2018 \$'000	2017 \$'000
Bank interest	-	15
Realised foreign exchange gain	233	-
	<u>233</u>	<u>15</u>
	<u>233</u>	<u>15</u>
8 Interest payable and similar charges	2018 \$'000	2017 \$'000
Realised foreign exchange loss	-	431
Unrealised foreign exchange loss	758	2,188
	<u>758</u>	<u>2,619</u>
	<u>758</u>	<u>2,619</u>
9 Taxation	2018 \$'000	2017 \$'000
<i>Corporation tax</i>		
Current tax on overseas income for the year	140	247
Adjustment to tax charge in respect of prior periods	(54)	175
	<u>86</u>	<u>422</u>
	<u>86</u>	<u>422</u>
The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:		
	2018 \$'000	2017 \$'000
Profit/(loss) on ordinary activities before tax	5,694	(521)
	<u>5,694</u>	<u>(521)</u>
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK 19% (2017 - 20%)	1,082	(104)
Expenses not deductible for tax purpose	143	181
Adjustment to tax charge in respect of previous periods	(54)	175
Differences in overseas tax rate	14	85
Brought forward losses (utilised)/carried forward	(1,099)	85
	<u>86</u>	<u>422</u>
	<u>86</u>	<u>422</u>
Total tax charge for the year	<u>86</u>	<u>422</u>

Canonical Group Limited

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

9 Taxation (continued)

The adjustment in respect of prior periods relates to the claiming of a research and development tax credit under the 'above the line' scheme.

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses and accelerated capital allowances as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is \$13.4m (2017 - \$15.5m). The asset would be recovered if sufficient future taxable profits were to arise against which the asset could be offset.

10 Tangible assets

Group	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<i>Cost</i>				
At 1 April 2017	564	7,528	493	8,585
Additions	174	590	137	901
At 31 March 2018	738	8,118	630	9,486
<i>Depreciation</i>				
At 1 April 2017	355	5,564	458	6,377
Charge for the year	91	1,344	19	1,454
At 31 March 2018	446	6,908	477	7,831
<i>Net book value</i>				
At 31 March 2018	292	1,210	153	1,655
At 31 March 2017	209	1,964	35	2,208
Company				
<i>Cost</i>				
At 1 April 2017	555	3,486	-	4,041
Additions	174	521	-	695
At 31 March 2018	729	4,007	-	4,736
<i>Depreciation</i>				
At 1 April 2017	326	2,837	-	3,163
Charge for the year	92	570	-	662
At 31 March 2018	418	3,407	-	3,825
<i>Net book value</i>				
At 31 March 2018	311	600	-	911
At 31 March 2017	229	649	-	878

Canonical Group Limited

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

11 Investments

Cost	\$'000
At 1 April 2017 and at 31 March 2018	<u>864</u>

The company had the following subsidiary undertakings at the end of the year, all of which have been included in the consolidated accounts.

Name of undertaking	Country of incorporation	Class of share	Voting rights held (%)	Nature of business
Canonical USA Inc	USA	Ordinary	100%	Software development
Canonical Canada Limited	Canada	Ordinary	100%	Software development
Canonical UK Limited	UK	Ordinary	100%	Services provider
Canonical (Shanghai) Software Technology Limited	China	Ordinary	100%	Software development
Canonical Group Limited (Taiwan Branch)	Taiwan	Ordinary	100%	Software development
Canonical Japan K.K Limited	Japan	Ordinary	100%	Software development

Registered offices:

Canonical USA Inc
C32 W.Loockerman Street, Suite 201, Dover, Delaware 19904 USA

Canonical Canada Limited
1000 De la Gauchetiere Street West, Suite 2500, Montreal, Quebec H3B 0A2

Canonical Group Limited and Canonical UK Limited
5th Floor Blue Fin Building, 110 Southwark Street, London, SE1 0SU

Canonical (Shanghai) Software Technology Limited
Room 1246, 12F, No. 331 North Caoxi Road, Shanghai, China, 200040

Canonical Group Limited (Taiwan Branch)
Room D, 46F, No.7, Xin Yi Rd., Sec. 5. Taipei City

Canonical Japan K.K Limited
ATT New Tower 11F, 2-11-7 Akasaka, Minatu-ku, Tokyo 107-0052, Japan

12 Stock

	Group and company 2018 £	Group and company 2017 £
Merchandise stock	<u>195</u>	<u>206</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

Canonical Group Limited

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

13 Debtors

	Group 2018 \$'000	Group 2017 \$'000	Company 2018 \$'000	Company 2017 \$'000
Due within one year:				
Trade debtors	11,509	8,593	11,509	8,593
Prepayments and accrued income	9,426	6,596	9,119	6,099
Other debtors	3,251	691	2,520	304
Amounts owed by fellow subsidiary undertakings	319,101	396,372	300,364	396,372
Corporation tax	1,017	1,032	371	373
	<u>344,304</u>	<u>413,284</u>	<u>323,883</u>	<u>411,741</u>

14 Creditors: amounts falling due within one year

	Group 2018 \$'000	Group 2017 \$'000	Company 2018 \$'000	Company 2017 \$'000
Trade creditors	771	1,626	742	1,758
Accruals and deferred income	24,590	22,363	20,300	17,825
Amounts owed to parent undertaking	394,538	379,325	394,538	379,325
Amounts owed to ultimate controlling party	-	638	-	638
Amounts owed to fellow subsidiary undertakings	7,657	108,724	7,639	131,853
Other creditors	19	56	19	55
	<u>427,575</u>	<u>512,732</u>	<u>423,238</u>	<u>531,454</u>

Amounts owed to parent undertaking is the amount due to Canonical Holdings Limited. This loan is payable on demand, interest free and unsecured. \$392,331,630 (2017 - \$377,331,630) is denominated in US Dollars and £1,593,875 (2017 - £1,121,469) in Pounds Sterling.

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.

15 Provisions

	Total \$'000
At 1 April 2017 and at 31 March 2018	<u>225</u>

The provision relates to VAT potentially payable on funds provided to one of the group's subsidiaries.

Canonical Group Limited

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

16 Financial instruments

The Group's financial instruments may be analysed as follows:

	Group 2018 \$'000	Group 2017 \$'000
Financial assets		
Financial assets measured at amortised cost	352,033	409,904
	<u> </u>	<u> </u>
Financial liabilities		
Financial liabilities measured at amortised cost	409,029	497,124
	<u> </u>	<u> </u>

Financial assets measured at amortised cost comprise cash, trade debtors, other debtors, accrued income and amounts owed by fellow subsidiary undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals, amounts owed to fellow subsidiary undertakings and loans payable to the parent undertaking.

17 Share capital and reserves

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

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

18 Commitments under operating leases

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

	2018 Land and buildings \$'000	2018 Other \$'000	2017 Land and buildings \$'000	2017 Other \$'000
Operating leases which expire:				
Within one year	4,044	501	3,219	511
In two to five years	7,655	94	4,022	81
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	11,699	595	7,241	592
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Canonical Group Limited

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

18 Commitments under operating leases (continued)

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

	2018 Land and buildings \$'000	2017 Land and buildings \$'000
Operating leases which expire:		
Within one year	2,539	2,377
In two to five years	4,455	5,452
	<u>6,994</u>	<u>7,829</u>

19 Related parties

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.

20 Ultimate controlling party

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