

Canonical Group Limited

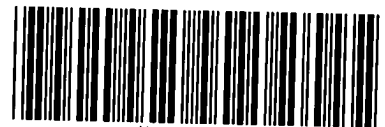
Report and Financial Statements

Year Ended

31 March 2017

Company Number 06870835

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Canonical Group Limited

**Report and financial statements
for the year ended 31 March 2017**

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Director

N French

Secretary

K Ollerheard

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 2017

The director presents the strategic report together with the audited financial statements for the year ended 31 March 2017.

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 direction 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 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 2017 turnover increased by \$20m to \$126m. The group continued to invest, particularly in its people; increasing average headcount from 496 in 2016 to 566 in 2017. Operating profit this year was \$2m compared to a loss of \$3m in 2016.

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.

Most public cloud workloads are running on Ubuntu, and most large-scale OpenStack deployments are on Ubuntu, using both 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 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.

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 2017 (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 result, 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	2017	2016
Revenue (\$m)	126	106
Operating profit/loss (\$m)	2	(3)
Cash from operations (\$m)	(59,592)	(67,255)
Average headcount	566	496

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 sales and costs which are also denominated in USD.

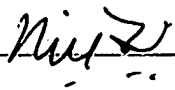
Credit risk - The group's principal credit risk relates to recovery of amounts owed by trade debtors. This risk is limited by determining a limit for customers based on third party credit references, payment history and other factors. This risk is reviewed regularly in conjunction with debtor ageing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

N-French



Director

1 DECEMBER 2017

Canonical Group Limited

Report of the director for the year ended 31 March 2017

The director presents the report together with the audited financial statements for the year ended 31 March 2017.

Results and dividends

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

During the year, no dividends were paid (2016 - \$Nil). The director does not recommend the payment of a final dividend (2016 - \$Nil).

Directors

The directors of the company during the year were:

J Silber (resigned 7 June 2017)
N French (appointed 7 June 2017)

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 they are 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;
- 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

Report of the director
for the year ended 31 March 2017 (continued)

Auditors

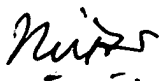
The current director has taken all the steps that he ought to have taken to make himself aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The director is not aware of any relevant audit information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

1 DECEMBER 2017

Canonical Group Limited

Independent auditor's report

TO THE MEMBERS OF CANONICAL GROUP LIMITED

We have audited the financial statements of Canonical Group Limited for the year ended 31 March 2017 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 the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the director and auditor

As explained more fully in the statement of director's responsibilities, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 and of the group's 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.

Opinion 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 the 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.

Canonical Group Limited

Independent auditor's report (*continued*)

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 during the course of the audit, we have not identified material misstatements in the strategic report or the director's report.

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

- adequate accounting records have not been kept 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.



Julian Frost (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

Date *5 December 2017*

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 2017

	Note	2017 \$'000	2016 \$'000
Turnover	3	125,970	106,172
Cost of sales		(1,467)	(2,791)
Gross profit		124,503	103,381
Administrative expenses		(122,420)	(106,714)
Operating profit/(loss)	6	2,083	(3,333)
Interest receivable and similar income	7	15	1,544
Interest payable and similar charges	8	(2,619)	(320)
Loss on ordinary activities before tax		(521)	(2,109)
Taxation	9	(422)	(140)
Loss for the financial year and total comprehensive loss		(943)	(2,249)

All amounts relate to continuing activities.

There was no other comprehensive income in the current or prior year.

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Consolidated balance sheet
at 31 March 2017

Company number 06870835	Note	2017 \$'000	2017 \$'000	2016 \$'000	2016 \$'000
Fixed assets					
Tangible assets	10		2,208		2,052
Current assets					
Stock	12	206		186	
Debtors	13	413,284		299,388	
Cash at bank		23,283		27,355	
		436,773		326,929	
Creditors: amounts falling due within one year	14	(512,732)		(401,789)	
Net current liabilities			(75,959)		(74,860)
Provisions for liabilities	15		(225)		(225)
Net liabilities			(73,976)		(73,033)
Capital and reserves					
Share capital	17		-		-
Profit and loss account			(73,976)		(73,033)
Shareholders' deficit			(73,976)		(73,033)

The financial statements were approved by the Board of Directors and authorised for issue on 1 DECEMBER
2017

N French
Director



The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Consolidated 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	-	(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)
	=====	=====	=====

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2015	-	(70,784)	(70,784)
Loss for the year	-	(2,249)	(2,249)
	-----	-----	-----
Total comprehensive loss for the year	-	(2,249)	(2,249)
	-----	-----	-----
31 March 2016	-	(73,033)	(73,033)
	=====	=====	=====

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Consolidated statement of cash flows for the year ended 31 March 2017

	2017 US\$'000	2016 US'000
Cash flows from operating activities		
Loss for the financial year	(943)	(2,249)
Adjustments for:		
Depreciation of fixed assets	1,330	1,165
Net interest payable/(receivable)	2,604	(1,224)
Taxation expense	422	140
Increase in trade and other debtors	(112,976)	(116,884)
(Increase)/decrease in stocks	(20)	29
Increase in trade and other creditors	49,991	51,543
Increase in provisions	-	225
	<hr/>	<hr/>
Cash from operations	(59,592)	(67,255)
Taxation paid	(53)	(110)
	<hr/>	<hr/>
Net cash used in operating activities	(59,645)	(67,365)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchases of tangible fixed assets	(1,486)	(1,687)
	<hr/>	<hr/>
Net cash used in investing activities	(1,486)	(1,687)
	<hr/>	<hr/>
Cash flows from financing activities		
Increase in loans payable	57,059	64,836
	<hr/>	<hr/>
Net cash from financing activities	57,059	64,836
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(4,072)	(4,216)
Cash and cash equivalents at beginning of year	27,355	31,571
	<hr/>	<hr/>
Cash and cash equivalents at end of year	23,283	27,355
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Cash at bank and in hand	23,283	27,355
	<hr/>	<hr/>

During the year the directors re-aligned the presentation of the movement in loans payable to 'Cash flows from financing activities' rather than 'Cash flows from operating activities' to better represent the substance of these transactions. The comparative information has been re-presented to reflect the above.

The notes on page 13 to 23 form part of these financial statements.

Canonical Group Limited

Company balance sheet at 31 March 2017

Company number 06870835	Note	2017 \$'000	2017 \$'000	2016 \$'000	2016 \$'000
Fixed assets					
Tangible assets	10		878		1,079
Investments	11		864		854
			1,742		1,933
Current assets					
Stock	12	206		186	
Debtors	13	411,741		298,457	
Cash at bank		22,034		26,144	
		433,981		324,787	
Creditors: amounts falling due within one year	14	(531,454)		(413,651)	
Net current liabilities			(97,473)		(88,864)
Net liabilities			(95,731)		(86,931)
Capital and reserves					
Share capital	17		-		-
Profit and loss account			(95,731)		(86,931)
Shareholders' deficit			(95,731)		(86,931)

The financial statements were approved by the Board of Directors and authorised for issue on

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 loss after taxation for the financial year ended 31 March 2017 of \$8,800,00 (2016 - \$4,723,000).

N French
Director

N French
1 DECEMBER 2017

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Company 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	-	(86,931)	(86,931)
Loss for the year	-	(8,800)	(8,800)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	(8,800)	(8,800)
	<hr/>	<hr/>	<hr/>
31 March 2017	-	(95,731)	(95,731)
	<hr/>	<hr/>	<hr/>
	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2015	-	(82,208)	(82,208)
Loss for the year	-	(4,723)	(4,723)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	(4,723)	(4,723)
	<hr/>	<hr/>	<hr/>
31 March 2016	-	(86,931)	(86,931)
	<hr/>	<hr/>	<hr/>

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2017

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 1.2505.

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 2017. 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 2017 (*continued*)

1 Accounting policies (*continued*)

The following principal accounting policies have been applied:

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 2017 (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 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.

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 2017 (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 2017 (continued)

3 Turnover

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

	2017 \$'000	2016 \$'000
Analysis by geographical market:		
United Kingdom	52,582	52,117
Rest of Europe	4,663	6,195
Rest of the World	68,725	47,860
	<u>125,970</u>	<u>106,172</u>

4 Employees

	2017 \$'000	2016 \$'000
Staff costs consist of:		
Wages and salaries	69,144	60,831
Social security costs	5,294	5,291
Pension costs	3,876	3,368
	<u>78,314</u>	<u>69,490</u>

The average number of employees, including directors, during the year was 566 (2016 - 496).

5 Directors' remuneration

	2017 \$'000	2016 \$'000
Directors' emoluments	<u>730</u>	<u>401</u>

The highest paid director was paid \$730,100 (2016 - \$400,830) in the year. The key management of the group and company are the director and the directors of Canonical Holdings Limited, who are remunerated via other group and non-group companies.

6 Operating profit/(loss)

	2017 \$'000	2016 \$'000
This has been arrived at after charging:		
Depreciation	1,330	1,165
Operating leases:		
- Land and buildings	3,923	3,623
- Other	511	690
Fees payable to the company's auditor for:		
- the audit of the group	58	77
- the audit of the subsidiaries	18	18
Research and development tax credit	<u>(1,270)</u>	<u>-</u>

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2017 (*continued*)

7 Interest receivable and similar income

	2017 \$'000	2016 \$'000
Bank interest	15	40
Unrealised foreign exchange gain	-	1,504
	<u>15</u>	<u>1,544</u>

8 Interest payable and similar charges

	2017 \$'000	2016 \$'000
Bank interest	-	2
Realised foreign exchange loss	431	318
Unrealised foreign exchange loss	2,188	-
	<u>2,619</u>	<u>320</u>

9 Taxation

	2017 \$'000	2016 \$'000
<i>Corporation tax</i>		
Current tax on overseas income for the year	247	140
Adjustment to tax charge in respect of prior periods	175	-
	<u>422</u>	<u>140</u>

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

	2017 \$'000	2016 \$'000
Loss on ordinary activities before tax	(521)	(2,109)
Loss on ordinary activities at the standard rate of corporation tax in the UK 20% (2016 - 20%)	(104)	(422)
Expenses not deductible for tax purpose	181	107
Fixed asset differences	-	8
Adjustment to tax charge in respect of previous periods	175	-
Differences in overseas tax rate	85	46
Other timing differences	-	17
Deferred tax not recognised	85	384
	<u>422</u>	<u>140</u>
Total tax charge for the year	<u>422</u>	<u>140</u>

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2017 (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 \$15.5m (2016 - \$14.2m). 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 2016	564	6,043	492	7,099
Additions	-	1,485	1	1,486
At 31 March 2017	564	7,528	493	8,585
<i>Depreciation</i>				
At 1 April 2016	286	4,313	448	5,047
Charge for the year	69	1,251	10	1,330
At 31 March 2017	355	5,564	458	6,377
<i>Net book value</i>				
At 31 March 2017	209	1,964	35	2,208
At 31 March 2016	278	1,730	44	2,052
Company				
<i>Cost</i>				
At 1 April 2016	555	3,071	-	3,626
Additions	-	415	-	415
At 31 March 2017	555	3,486	-	4,041
<i>Depreciation</i>				
At 1 April 2016	256	2,291	-	2,547
Charge for the year	70	546	-	616
At 31 March 2017	326	2,837	-	3,163
<i>Net book value</i>				
At 31 March 2017	229	649	-	878
At 31 March 2016	299	780	-	1,079

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2017 (continued)

11 Investments

	\$'000
Cost	
At 1 April 2016	854
Additions	10
	<hr/>
At 31 March 2017	864
	<hr/>

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
10 Maguire Road, Suite 212, Lexington, MA, 02421, USA

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

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 2017 £	Group and company 2016 £
Merchandise stock	206	186
	<hr/>	<hr/>

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 2017 (continued)

13 Debtors

	Group 2017 \$'000	Group 2016 \$'000	Company 2017 \$'000	Company 2016 \$'000
Due within one year:				
Trade debtors	8,593	10,828	8,593	10,789
Prepayments and accrued income	6,596	8,289	6,099	7,845
Other debtors	691	572	304	236
Amounts owed by fellow subsidiary undertakings	396,372	279,587	396,372	279,587
Corporation tax	1,032	112	373	-
	<u>413,284</u>	<u>299,388</u>	<u>411,741</u>	<u>298,457</u>

14 Creditors: amounts falling due within one year

	Group 2017 \$'000	Group 2016 \$'000	Company 2017 \$'000	Company 2016 \$'000
Trade creditors	1,626	536	1,758	663
Accruals and deferred income	22,363	23,607	17,825	17,207
Amounts owed to parent undertaking	379,325	322,266	379,325	322,266
Amounts owed to ultimate controlling party	638	680	638	680
Amounts owed to fellow subsidiary undertakings	108,724	53,366	131,853	72,360
Other creditors	56	1,334	55	475
	<u>512,732</u>	<u>401,789</u>	<u>531,454</u>	<u>413,651</u>

Amounts owed to parent undertaking is the amount due to Canonical Holdings Limited. This loan is payable on demand, interest free and unsecured. \$377,331,630 (2016 - \$320,654,935) is denominated in US Dollars and £1,121,469 (2016 - £1,121,469) in Pounds Sterling.

The amount owed to ultimate controlling party is the amount owed to Mark Shuttleworth, the sole beneficial shareholder of the company. The loan is denominated in Euros, totals €596,861 (2016 - €596,861), is unsecured, interest free and has no specified repayment date.

15 Provisions

	Total \$'000
At 1 April 2016 and at 31 March 2017	<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 2017 (continued)

16 Financial instruments

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

	Group 2017 \$'000	Group 2016 \$'000
Financial assets		
Financial assets measured at amortised cost	409,904	323,881
Financial liabilities		
Financial liabilities measured at amortised cost	497,124	387,694

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

Financial liabilities measured at amortised cost comprise trade creditors, provisions, 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			
	2017 Number	2016 Number	2017 £	2016 £
Ordinary shares of £1 each	1	1	1	1
			\$	\$
Converted to USD			2	2

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 2017, the group had minimum lease payments under non-cancellable operating leases as set out below:

	2017 Land and buildings \$'000	2017 Other \$'000	2016 Land and buildings \$'000	2016 Other \$'000
	Operating leases which expire:			
Within one year	3,219	511	3,624	690
In two to five years	4,022	81	6,667	110
In greater than five years	-	-	1,153	-
	7,241	592	11,444	800

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2017 (continued)

18 Commitments under operating leases (continued)

As at 31 March 2017, the company had minimum lease payments under non-cancellable operating leases as set out below:

	2017 Land and buildings \$'000	2017 Other \$'000	2016 Land and buildings \$'000	2016 Other \$'000
Operating leases which expire:				
Within one year	2,377	-	2,272	6
In two to five years	5,452	-	5,747	-
In greater than five years	-	-	1,153	-
	<u>7,829</u>	<u>-</u>	<u>9,172</u>	<u>6</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 2017, 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.