

Canonical UK Limited

Report and Financial Statements

Year Ended

31 March 2012

Company Number 05055134



Canonical UK Limited

**Report and financial statements
for the year ended 31 March 2012**

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Director

J E Silber

Secretary and registered office

Standard Bank Trust Company (Isle of Man) Limited, 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

Report of the director for the year ended 31 March 2012

The director presents her report together with the audited financial statements for the year ended 31 March 2012

Results and dividends

The profit and loss account is set out on page 5 and shows the profit for the year

During the year, no dividends were paid. The director does not recommend the payment of a final dividend (2011 - \$Nil)

Principal activities

Canonical UK Limited is an outsource business services provider in the United Kingdom. These services include software development, sales and marketing support and business administration on behalf of other Canonical Group companies.

For the year ended 31 March 2012, Canonical UK Limited provided services to other group companies that have worked to promote Ubuntu as an alternative operating system across the world. Continuing Canonical's existing relationships with a number of leading OEMs, Ubuntu has grown, both in number of units shipped and total revenue from professional engineering engagements.

Canonical continued to invest in building a world class global support operation to meet its corporate customers' needs. Canonical's Ubuntu Advantage programme, which provides customers with first-rate support and systems management tools, plus the added benefit of legal assurances, continued its steady year-on-year growth.

During the year Canonical invested significantly in a number of new consumer services and products. This research and development led to the announcement that Canonical is considering a version of Ubuntu specifically aimed at phones, tablet personal computers, and other devices.

Canonical's online service portfolio continued to expand during the year. The number of titles in the Ubuntu Software Center increased, and Canonical announced its Ubuntu App Developer programme to accelerate software publishing in Ubuntu. Ubuntu One, Canonical's subscription based personal cloud service, continued to release a number of new features. Canonical continues to invest in this area and expects significant revenue increases in FY2013 and beyond.

Future developments

No change in the nature of the company's operations are expected in the foreseeable future.

Post balance sheet events

See note 19 to the financial statements for details of post balance sheet events.

Canonical UK Limited

Report of the director for the year ended 31 March 2012 (*continued*)

Financial risk management objectives and policies

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

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below. The main risks arising from the group's financial instruments are currency risk, credit risk, cash flow interest rate 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 minimal exposure to translation and transaction currency risk. The majority of cost base of the group is denominated in USD, which is inline with the company's sales which are also denominated in USD. Funding from the parent company is also in a number of currencies to reduce any transaction currency risk.

Credit risk

The group's principal credit risk relates to recovery of amounts owed by other group companies. This risk is limited by support provided to group companies by the ultimate controlling party.

Interest risk

There is no interest rate risk, as all borrowings are non-interest bearing.

Liquidity risk

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

Director

The director of the company during the year was

J E Silber

Canonical UK Limited

Report of the director for the year ended 31 March 2012 (*continued*)

Director's responsibilities

The director is responsible for preparing 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 she is satisfied that they give a true and fair view of the state of affairs of the company and of the profit 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. She 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.

Auditors

The current director has taken all the steps that she ought to have taken to make herself 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

J E Silber



Director

Date 21 DECEMBER 2012

Canonical UK Limited

Independent auditor's report

TO THE MEMBERS OF CANONICAL UK LIMITED

We have audited the financial statements of Canonical UK Limited for the year ended 31 March 2012 which comprise the profit and loss account, the balance sheet 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 director and auditors

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 Auditing Practices Board's (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the director's report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Canonical UK Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

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

BDO LLP

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

Date **21 DECEMBER 2012**

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

Canonical UK Limited

Profit and loss account for the year ended 31 March 2012

	Note	2012 US\$'000	2011 US\$'000
Turnover	2	15,232	10,744
Administrative expenses		(14,295)	(10,666)
Operating profit	5	937	78
Interest receivable and similar income	6	4	2
Interest payable and similar charges	7	(53)	-
Profit on ordinary activities before taxation		888	80
Taxation	8	11	(13)
Profit for the financial year	14	899	67

All amounts relate to continuing activities

All recognised gains and losses are included in the profit and loss account

The notes on pages 8 to 13 form part of these financial statements

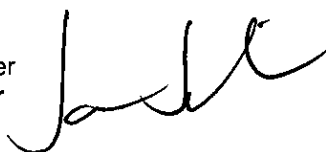
Canonical UK Limited

Balance sheet at 31 March 2012

<i>Company number 05055134</i>	Note	2012 US\$'000	2012 US\$'000	2011 US\$'000	2011 US\$'000
Fixed assets					
Tangible assets	9		116		124
Current assets					
Debtors					
- due within one year	10	16,459		5,710	
- due after more than one year	10	290		290	
		16,749		6,000	
Cash at bank and in hand		991		3,510	
		17,740		9,510	
Creditors: amounts falling due within one year	11	14,043		6,673	
Net current assets			3,697		2,837
Total assets less current liabilities			3,813		2,961
Creditors: amounts falling due after more than one year	12		797		844
			3,016		2,117
Capital and reserves					
Share capital	13		-		-
Profit and loss account	14		3,016		2,117
Shareholder's funds			3,016		2,117

The financial statements were approved by the Board of Directors and authorised for issue on 21 ~~DECEMBER 2012~~

J E Silber
Director



The notes on pages 8 to 13 form part of these financial statements

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2012

1 Accounting policies

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 1.59735.

The following principal accounting policies have been applied:

Going concern

The financial statements are produced on a going concern basis. The directors have produced forecast cash flows that indicate that the company is reliant on continued support from the company's parent undertaking, Futuristic 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 available as required over the forecast period. 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.

The Group's sole beneficial owner has confirmed to the directors that it is his 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 clients, in respect of charges for outsourced business services fees. Fees are recognised as the work is performed.

Depreciation

Depreciation is calculated to write down the cost, with nil residual value, of all tangible fixed assets over their expected useful lives. It is calculated at the following rates:

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

Leased assets

All leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

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 profit and loss account. 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.

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2012 (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing can be deducted. The deferred tax balance has not been discounted.

2 Turnover

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

3 Employees

	2012 US\$'000	2011 US\$'000
Staff costs consist of		
Wages and salaries	8,570	6,030
Social security costs	1,043	690
	<u>9,613</u>	<u>6,720</u>

The average number of employees, including directors during the year was 84 (2011 - 64).

4 Director's remuneration

	2012 US\$'000	2011 US\$'000
Director's emoluments	-	-
	<u>-</u>	<u>-</u>

5 Operating profit

	2012 US\$'000	2011 US\$'000
This has been arrived at after charging		
Depreciation	37	57
Operating lease - land and buildings	493	463
Exchange differences	7	570
Fees payable to the company's auditor for the audit of the company's annual financial statements	12	16
	<u>549</u>	<u>1,106</u>

Canonical UK Limited

Notes forming part of the financial statements
for the year ended 31 March 2012 (*continued*)

6 Interest receivable and similar income

	2012 US\$'000	2011 US\$'000
Bank interest receivable	4	2

7 Interest payable and similar charges

	2012 US\$'000	2011 US\$'000
Unrealised foreign exchange loss	53	-

8 Taxation

	2012 US\$'000	2011 US\$'000
<i>Current tax</i>		
UK corporation tax credit/(charge)	11	(13)

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

	2012 US\$'000	2011 US\$'000
Profit on ordinary activities before tax	888	80
UK corporation tax rate of 26% (2011 - 28%)	231	22
Utilisation of losses brought forward	(10)	-
Capital allowances in excess of depreciation	(12)	(5)
Small companies relief	-	(1)
Group relief	(209)	(15)
(Over)/under provision in respect of prior year overseas tax	(11)	12
Current tax (credit)/charge for the year	(11)	13

Canonical UK Limited

Notes forming part of the financial statements
for the year ended 31 March 2012 (*continued*)

9 Tangible assets

	Leasehold improvements US\$'000	Computer equipment US\$'000	Fixtures and fittings US\$'000	Total US\$'000
<i>Cost</i>				
At 1 April 2011	134	12	91	237
Additions	3	-	26	29
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	137	12	117	266
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 April 2011	32	12	69	113
Charged for the year	20	-	17	37
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	52	12	86	150
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2012	85	-	31	116
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2011	102	-	22	124
	<hr/>	<hr/>	<hr/>	<hr/>

10 Debtors

	2012 US\$'000	2011 US\$'000
Due within one year		
Amounts owed to related undertaking	16,229	5,479
Other debtors	12	85
Prepayments	155	146
Other taxation and social security	63	-
	<hr/>	<hr/>
	16,459	5,710
	<hr/>	<hr/>
Due after one year		
Other debtors	290	290
	<hr/>	<hr/>

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2012 (continued)

11 Creditors' amounts falling due within one year

	2012 US\$'000	2011 US\$'000
Trade creditors	61	120
Corporation tax	-	8
Other taxation and social security	-	461
Accruals	261	258
Amounts owed to related undertakings	13,721	5,826
	<u>14,043</u>	<u>6,673</u>

12 Creditors: amounts falling due after more than one year

	2012 US\$'000	2011 US\$'000
Loan payable	797	844
	<u>797</u>	<u>844</u>

The loan is due to Mark Shuttleworth, the sole beneficial shareholder of the company. The loan is denominated in Euros, totals €596,861 (2011 - €596,861), is unsecured, interest free and has no specified repayment date.

13 Share capital

	Allotted, called up and fully paid			
	2012 Number	2011 Number	2012 £	2011 £
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>

14 Reconciliation of movement in shareholder's funds

	2012 US\$'000	2011 US\$'000
Profit for the year	899	67
	<u>899</u>	<u>67</u>
Increase in shareholder's funds	899	67
Opening shareholder's funds	2,117	2,050
	<u>2,117</u>	<u>2,050</u>
Closing shareholder's funds	<u>3,016</u>	<u>2,117</u>

Canonical UK Limited

Notes forming part of the financial statements for the year ended 31 March 2012 (continued)

15 Commitments under operating leases

As at 31 March 2012, the company had annual commitments under non-cancellable operating leases as set out below

	2012 Land and buildings US\$'000	2011 Land and buildings US\$'000
Operating leases which expire		
In greater than five years	1,185	491

16 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related Party Disclosures" on the ground that 100% of the voting rights of the company are controlled by the company's ultimate parent company and the company is included in those consolidated financial statements

17 Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 "Cash Flow statements", not to prepare a cash flow statement as it is consolidated in the financial statements of its ultimate parent company

18 Ultimate controlling party

At 31 March 2012 the company's immediate parent company was Canonical Group Limited. The company's ultimate controlling party is Mark Shuttleworth, being the sole shareholder of the company's ultimate parent undertaking, Futuristic Limited

19 Post balance sheet events

Canonical UK Limited (the "Company") previously occupied premises on the 27th Floor of Millbank Tower, Millbank, London, SW1 (the "Premises")

There has been an on-going dispute since 28 August 2012 between the Company and TST Millbank LLC (Landlord of the Premises) over whether the Company successfully determined its lease of the Premises dated 15 February 2007 (as varied) (the "Lease")

The Company had endeavoured to exercise a break option to determine the Lease on 22 August 2012, but the Landlord argued that certain conditions of the break were not satisfied so that the Lease had not been successfully determined. The Company commenced proceedings for a declaration from the High Court that the Lease had come to an end on 22 August 2012

The hearing took place on 13 December 2012. The Court found in favour of the Landlord, and that the Lease still continues. The judge did, however, give the Company permission to appeal to the Court of Appeal. The Company is intending to pursue an appeal

Unless and until there is a successful appeal of this decision, the Company will be primarily liable under the covenants of the Lease until it expires on 14 February 2017 (subject to any potential surrender, assignment or sub-letting before that date). The current annual rent and estimated service charge on the lease is £417,138 (+VAT)