



cobalt data centre 3 llp
report and financial statements
year ended 5 April 2022



Limited Liability Partnership Number OC362746

report and financial statements 2022
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members' report

year ended 5 April 2022

The members have pleasure in presenting their report and the financial statements of Cobalt Data Centre 3 LLP for the year ended 5 April 2022.

activities

Its principal activity was the development of the Tier 3 data centre, Cobalt DC3 in the Cobalt Business Park near Newcastle, and the exploitation thereof.

The partnership has no branches outside the UK.

review of the period

The partnership's profit before adjustment to property value for the financial period was £382,559 (2021 - £130,583 loss). The result was as anticipated, and the Partnership will move further into profit as it begins exploitation of its principal asset.

designated members

The following members were designated members during the year:

Cobalt DM1 Limited

Cobalt DM2 Limited

future developments

The Partnership continues to seek potential tenant interest.

allocation of profits, drawings and financing

In accordance with the Members' Agreement, profits earned on a periodic basis are allocated each year between the members proportionately to the amount of their respective capital interests.

Following each year end date, the Designated Members shall assess the future working capital and other financial requirements of the Partnership. Any surplus cash shall be distributed within a reasonable period thereafter.

The operating cash requirements of the Partnership shall be met out of Members' initial contributions, no Member shall be required to make any further funding available after his or her admission as a member.

auditors

During the period, Shipleys LLP were appointed as auditors. A resolution to reappoint Shipleys LLP will be proposed at the next members' meeting.

statement of members' responsibilities

year ended 5 April 2022

The members are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Legislation applicable to limited liability partnerships requires the members to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period. In preparing those financial statements, the members are required to:

- select suitable accounting policies, as described on pages 9 and 10, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business.
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and to enable them to ensure that the financial statements comply with the Companies Act 2006 as modified by the Limited Liability Partnership Regulations 2008. The members are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the members are aware:

- there is no relevant audit information of which the auditor is unaware, and
- the members have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

small llp provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006 (as applied to limited liability partnerships by regulation 3 of the Limited Liability Partnerships Regulations 2008).

This report was approved by the Designated Members on 6 December 2022.



Cobalt DM 1 Limited
Designated Member



Cobalt DM2 Limited
Designated Member

independent auditor's report to the members of Cobalt Data Centre 3 LLP

year ended 5 April 2022

opinion on financial statements

We have audited the financial statements of Cobalt Data Centre 3 LLP (the "LLP") for the year ended 5 April 2022 which comprise the profit and loss account, the balance sheet, and the 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 (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 Section 1A The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Statement of Recommended Practice Accounting by Limited Liability Partnerships issued in December 2018 (SORP).

In our opinion, the financial statements:

- Give a true and fair view of the state of the limited liability partnership's affairs as at 5 April 2022 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- Have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008.

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 LLP 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 members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the LLP'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.

independent auditor's report to the members of Cobalt Data Centre 3 LLP

(continued)

year ended 5 April 2022

other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and 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.

matters on which we are required to report by exception

In the light of the knowledge and understanding of the LLP and its environment obtained in the course of the audit, we have not identified material misstatements in the members' report.

In respect solely of the limitation on our work related to the investment property, described above:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- We were unable to determine whether adequate accounting records had been kept.

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 or returns; or
- Certain disclosures of members' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- The members were not entitled to prepare financial statements in accordance with the small LLPs regime.

responsibilities of members

As explained more fully in the members' responsibilities statement, the members are 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 members determine 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 members are responsible for assessing the LLP'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 members either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

independent auditor's report to the members of Cobalt Data Centre 3 LLP

(continued)

year ended 5 April 2022

auditors' responsibilities for the audit of 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the Company's business, controls, legal and regulatory frameworks, laws and regulations and assessed the susceptibility of the Company's financial statements to material misstatement from irregularities, including fraud, and instances of non-compliance with laws and regulations.
- Based on this understanding we designed our audit procedures to detecting irregularities, including fraud. Testing undertaken included making enquiries on the management; journal entry testing; review of bank letters and any correspondence received from regulatory bodies; reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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 LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008 as amended by The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2017. Our audit work has been undertaken so that we might state to the LLP's members those matters that 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 LLP and the LLP's members as a body, for our audit work, or the opinions we have formed.



Joseph Kinton (Senior Statutory Auditor)

For and on behalf of
Shipleys LLP
Chartered Accountants & Statutory Auditor
10 Orange Street
Haymarket
London
WC2H 7DQ

12 December 2022

profit and loss account
year ended 5 April 2022

	Notes	2022 £	2021 £
Turnover	1	142,510	142,403
Cost of sales		-	-
Gross Profit		142,510	142,403
Other income	2	391,626	-
Administrative Expenses		19,673,012	(5,552,732)
Operating Profit	3	20,207,148	(5,410,329)
Attributable to:			
Operating profit/(loss) before exceptional item		382,042	(319,052)
Exceptional item	6	19,825,105	(5,091,278)
Finance Cost	4	-	188,456
Interest receivable and similar income		516	13
Profit for the financial period before members' remuneration and profit shares		20,207,664	(5,221,861)
Members' remuneration charged as an expense		-	-
Profit for the year available for discretionary division among members		20,207,664	(5,221,861)

The notes on pages 11 to 13 form part of these financial statements.

reconciliation of movements in members' funds

year ended 5 April 2022

	Members' capital £	Other reserves £	Total £	Loans & other debtors due to members £	2022 total £	2021 total £
Members' interests at 5 April 2021	32,938,352	(87,002,154)	(54,063,802)	929,838	(53,133,964)	(47,914,027)
Members' remuneration charged as an expense, including employment and retirement benefit costs	-	-	-	-	-	-
Profit for the year available for discretionary division among members	-	20,207,664	20,207,664	-	20,207,664	(5,221,861)
Members' interests after profit for the year	32,938,352	(66,794,490)	(33,856,138)	929,838	(32,926,299)	(53,135,889)
Introduced by members	-	-	-	-	-	1,925
Repayments of debt	-	-	-	(354,182)	(354,182)	-
Members' interests as at 5 April 2022	32,938,352	(66,794,490)	(33,856,138)	575,656	(33,280,482)	(53,133,964)

The notes on pages 11 to 13 form part of these financial statements.

balance sheet

at 5 April 2022

	Notes	2022 £	2021 £
Non-Current Assets			
Tangible Assets	5	43,400,003	23,574,897
Current Assets			
Debtors	7	42,636	95,290
Cash at Bank		217,168	127,314
		259,804	222,604
Creditors: Amounts falling due within 1 year	8	(76,940,288)	(76,931,465)
Net Current Assets		(76,680,485)	(76,708,861)
Net Deficit attributable to members		(33,280,482)	(53,133,964)
Represented by:			
Equity			
Members' capital classified as equity		32,938,352	32,938,352
Other reserves classified as equity		(66,218,834)	(86,072,316)
		(33,280,482)	(53,133,964)
Total members' interests			
Members' other interests		(33,280,482)	(53,133,964)

These financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 as applied to Limited Liability Partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 as modified by The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016.

These financial statements were approved by the members on 6 December 2022 and signed on their behalf by:



Cobalt DM1 Limited
Designated Member
Registered Number OC362746



Cobalt DM2 Limited
Designated Member

The notes on pages 11 to 13 form part of these financial statements.

accounting policies

year ended 5 April 2022

general information

Cobalt Data Centre 3 LLP is a limited liability partnership incorporated in England and Wales, registered number OC362746.

The registered office is 1st Floor, Sackville House, 143-149 Fenchurch Street, London EC3M 6BL.

basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102 section 1A'), Companies Act 2006 as applied by LLPs and the Statement of Recommended Practice (SORP), Accounting by Limited Liability Partnerships, issued in January 2017.

The financial statements have been prepared on the historical cost basis except for the modification to the investment property as specified in the accounting policy below.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Cobalt Data Centre 3 LLP does not have any subsidiary undertakings.

going concern

Whilst the Partnership has a net deficit on its balance sheet the financial statements have been prepared on a going concern basis as the Developer has provided sufficient cash security to support its obligations to the Partnership until 2026, which the Partnership uses in turn to provide security for its bank obligations.

turnover

Turnover represents annual rent or similar income in relation to exploitation of the partnership's asset, excluding VAT. Turnover which has been recognised but not invoiced by the balance sheet date is included in debtors as accrued income. Amounts invoiced in advance are included in creditors as deferred income.

investment properties

Investment property is initially recognised at cost, and is subsequently remeasured to fair value at the reporting date. Changes in fair value are recognised in profit or loss.

operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

bank borrowings

Borrowings are initially recognised at fair value and are subsequently measured at amortised cost.

accounting policies

year ended 5 April 2022

taxation

The taxation payable on the partnership's profits is a personal liability of the members during the year.

financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the partnership after deducting all of its liabilities.

members' participation rights

Members' participation rights are the rights of a member against the LLP that arise under the members' agreement (for example, in respect of amounts subscribed or otherwise contributed, remuneration and profits).

Members' participation rights in the earnings or assets of the LLP are analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with FRS 25 (IAS 32) Financial Instruments: Disclosure and Presentation and UITF abstract 39 Members' shares in co-operative entities and similar instruments. A member's participation right results in a liability unless the right to any payment is discretionary on the part of the LLP.

Amounts subscribed or otherwise contributed by members, for example members' capital, are classed as equity if the LLP has an unconditional right to refuse payment to members. If the LLP does not have such an unconditional right, such amounts are classified as liabilities.

Where profits are automatically divided as they arise, so the LLP does not have an unconditional right to refuse payment, the amounts arising that are due to members are in the nature of liabilities. They are therefore treated as an expense in the Profit and Loss Account in the relevant year. To the extent that they remain unpaid at the year end, they are shown as liabilities in the Balance Sheet.

Conversely, where profits are divided only after a decision by the LLP or its representative, so that the LLP has an unconditional right to refuse payment, such profits are classed as an appropriation of equity rather than as an expense. They are therefore shown as a residual amount available for discretionary division among members in the Profit and Loss Account and are equity appropriations in the Balance Sheet.

Other amounts applied to members, for example remuneration paid under an employment contract and interest on capital balances, are treated in the same way as all other divisions of profits, as described above, according to whether the LLP has, in each case, an unconditional right to refuse payment.

All amounts due to members that are classified as liabilities are presented in the Balance Sheet within 'Loans and other debts due to members' and are charged to the Profit and Loss Account within 'Members' remuneration charged as an expense'. Amounts due to members that are classified as equity are shown in the Balance Sheet within 'Members' other interests'.

notes to the financial statements

year ended 5 April 2022

1 turnover

The turnover and profit before tax are attributable to the one principal activity of the partnership and to the United Kingdom.

2 other income

Other income of £391,626 (2021: £nil) was received in respect of a litigation cost award.

3 operating profit

Operating profit is stated after charging / (crediting):

	2022	2021
	£	£
Impairment of tangible fixed assets	(19,825,105)	5,091,278
Litigation cost award	(391,626)	-
Operating Lease Rentals	65,655	65,655

4 interest payable and similar charges

	2022	2021
	£	£
Loan interest payable / (repaid)	-	(188,456)

5 employee information

The partnership had no employees and no members received any salaried remuneration from the partnership during the period. The average number of members in the period was 279 (2021 - 279).

6 tangible fixed assets

	Investment property	
	2022	2021
Cost	£	£
At 5 April 2021	109,794,501	109,794,501
Additions	-	-
At 5 April 2022	109,794,501	109,794,501
Impairment		
At 5 April 2021	(86,219,604)	(81,128,327)
Charge for the year	19,825,105	(5,091,278)
At 5 April 2022	(66,394,498)	(86,219,604)
Net Book Value		
At 5 April 2022	43,400,003	23,574,897
At 5 April 2021	23,574,897	28,666,174

The Partnership acquired the long leasehold interest in 2011. The Partnership holds the asset as an investment property and therefore holds it at its estimated fair value, which is assessed as required. The Partnership is currently in the process of granting a subordinated leasehold interest for substantially all of the remaining lease term for a premium. Taking into account this transaction, the designated members consider the fair value of the property to be £43.4m.

notes to the financial statements

year ended 5 April 2022

7 debtors

	2022	2021
	£	£
Trade debtors	42,636	42,636
Other Debtors	-	19,204
Taxation and Social Security	-	33,450
	<u>42,636</u>	<u>95,290</u>

8 creditors: amounts falling due within one year

	2022	2021
	£	£
Trade Creditors	25,697	19,697
Taxation and Social Security	2,823	-
Accruals and deferred income	55,618	55,618
Loans	<u>76,856,150</u>	<u>76,856,150</u>
	<u>76,940,288</u>	<u>76,931,465</u>

The Partnership arranged a loan from Bank Winter & Co, AG Vienna to partially fund the purchase of Cobalt DC3.

The Loan is full recourse to the Partnership's assets and is secured on the Developers' obligations under the Developer Guarantee. The loan has no fixed repayment date and carries interest at 0.5% per annum which falls due upon repayment.

Under the terms of the Developer Guarantee, the Developer is required to provide cash security to support its obligations to the Partnership, which the Partnership in turn uses to provide the necessary security to the Bank. Payment of interest is contingent upon either (i) receiving the required amounts under the Developer Guarantee or (ii) is deferred and payable from any disposal proceeds.

9 operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2022	2021
	£	£
Within one year	65,655	65,655
After one year but within five years	262,620	262,620
After five years	<u>6,171,570</u>	<u>6,237,225</u>
	<u>6,499,845</u>	<u>6,565,500</u>

10 members' interests

Loans due to members outstanding at the year end totalled £575,656 (2021: £929,838), following additional loans of £2,475 and repayments of £356,657 during the year.

notes to the financial statements

year ended 5 April 2022

11 contingent assets and contingent liabilities

The LLP is entitled to receive an Additional Yearly Sum Fees equal to the loan interest charged by Bank Winter to 4/10/2019. The payment of this fee is contingent upon certain surpluses remaining to the Developer following completion of its obligations under the Services Agreement. As at the year end the cumulative accrued fee is £60,300 (2021: £60,300). The conditions for payment of this remaining balance have not yet been met and as such no asset or liability has been recognised.

The LLP was contracted to pay loan interest of 0.25% to Bank Winter in respect of the period from 31/12/2018 to 4/10/2019. Payment of the loan interest is contingent upon receipt of funds from Cobalt Data Centres Limited. As at the year end the amount payable to Bank Winter is £60,300 (2021: £60,300). The conditions for payment of the remaining balance have not yet been met and as such no asset or liability has been recognised.

12 related party transactions

Cobalt Data Centre 3 LLP is under the control of its members.

The Highbridge Properties group

The Partnership acquired Cobalt DC3 from Cobalt Data Centres Limited (previously known as Highbridge North Tyneside Developer One Limited) (the Developer), which is a subsidiary of Safedove Limited. Safedove Limited is owned by Mr P J Pulford and the family of Mr G N Marsden. Mr P J Pulford and Mr G N Marsden, who are both members of the Partnership, are directors of the Developer and of Safedove Limited.

Harcourt Capital LLP

During the year CDCA was entitled to income of £30,000 (2021: £30,000) from the Partnership, plus litigation funding costs of £24,548 (2021: £333,427). As at the year end the Partnership was owed £nil by CDCA (2021: £19,204).

13 events after the end of the accounting period

The LLP is involved in ongoing litigation in respect of a claim for capital allowances in the 2010/11 tax year. The case was recently heard at the Court of Appeal which ruled against the LLP. The LLP is seeking a further appeal to the Supreme Court. The Court of Appeal has granted a cost award to HMRC in respect of the proceedings to date. The amount of the cost award cannot yet be quantified but will give rise to a liability to the LLP.