Node 4 Limited

Annual report and financial statements

for the year to 31 March 2017

Registered number 04759927

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Node 4 Limited

Annual report and financial statements for the year to 31 March 2017

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Node 4 Limited

Officers and professional advisors

Directors

Mr A Gilbert
Mr P Bryce
Mr R Baker

Registered office

Unit 1A-1B
Millennium Way
Pride Park
Derby
DE24 8HZ

Bankers

National Westminster Bank PLC
Derby City
Crompton House
Derwent Street
Derby
DE1 2ZG

Solicitors

Pinsent Masons LLP
3 Colmore Circus
Birmingham
B46BH

Independent auditors

PricewaterhouseCoopers LLP
Donington Court
Herald Way
East Midlands
DE74 2UZ

Node 4 Limited

Strategic report for the year to 31 March 2017

The directors present their strategic report for the year to 31 March 2017.

Principal activities

The principal activity of the company is the provision of IT services.

Results and financial position

The company generated earnings before exceptional non-recurring costs, interest, taxation, depreciation and amortisation (adjusted EBITDA) in the year to 31 March 2017 of £9,696,000 (2016: £7,044,000) and an operating profit of £6,303,000 (2016: £5,051,000) for the same year. The profit on ordinary activities before taxation for the year was £6,229,000 (2016: £5,004,000) resulting in the financial position at 31 March 2017 as set out on page 9.

Exceptional non-recurring costs of £405,000 (2016: £308,000) have arisen primarily in respect of the costs of acquisition and integration of businesses, provisions in respect of trade debtors arising primarily from trading in an earlier year, together with a carbon reduction charge levied before a continuing exemption became applicable.

Business review

The business of the company is focused on the IT services of cloud, colocation, connectivity, collaboration, continuity and managed services.

In addition to offices in Reading, Nottingham and London, we own and manage high quality data centres located in Derby, Leeds and Northampton. During the current year, we completed a £2m expansion of our Northampton data centre (started in the previous year), providing a further 400 racks of capacity at this location. We also completed the final expansion of our Leeds data centre, providing a further 100 racks of capacity. Across all sites we have a total colocation capacity of c1,500 racks with high levels of security and redundancy. Our facilities are ISO27001 accredited and they satisfy the physical security requirements for PCI compliance. The data centres range up to Tier3+ standard and deliver an efficiency rating of PUE 1.2.

Our data centres are home to our cloud infrastructure. Working with leading vendors Cisco, NetApp and VMware we have built a CMSP accredited enterprise-grade cloud infrastructure that offers scalable and resilient resources. We also deliver private cloud solutions with dedicated infrastructure, we bring together both elements in hybrid cloud solutions and can also seamlessly connect into hyperscaler environments, all with the aim of ensuring customers can deploy the right workload into the right environment.

Critical to being able to access this infrastructure is connectivity. The data centres are connected using our national dark fibre (DWDM) network which includes points of presence in Manchester and London, as well as interconnects to major UK carriers. This means we can provide the best options in terms of price and capacity, wherever a customer is located. We are an internet service provider and use access methods including ethernet, broadband and M2M (which uses the mobile 3G/4G network) to provide access into our national network. Our network seamlessly connects clients to SIP, voice, cloud and data centre solutions.

Expanding our range of hosted services, the collaborate part of the portfolio gives access to resilient cloud based tools that allow customers to stay connected and mobile in the fast paced environment of today.

Our continuity services comprise a full suite of end-to-end products to mitigate continuity and cyber security risks.

Around all of these services we provide a complete managed service wrap for business critical systems including operating systems (Linux and Microsoft), software application stacks such as web and database services and dev-ops for application orchestration.

We have a strong business culture that is built around working with our customers. We believe in flexibility and view our customers as partners, aiming to provide the best customer experience. We pride ourselves on the satisfaction that our customers achieve whilst working with us.

The business has steadily grown customer numbers and sales across the whole service portfolio. The business has acquired and integrated 3 other companies in the last three years in order to expand the range of services and expertise available to customers and to increase the geographical coverage of our resources.

Strategic report
for the year to 31 March 2017 (continued)

Future developments

The company intends to maintain steady growth into the future, leveraging off the capacity available in its well invested data centres, complemented by the service portfolio and taking advantage of the market trend towards outsourced IT infrastructure.

The company has followed a regional business model in its ten plus years of trading prior to acquisition and this is expected to continue in the coming years.

In light of the completion of three successful acquisitions over recent years, the company has plans for further expansion by acquisition. Committed further group facilities are in place from the banks to facilitate this. To this end and after the balance sheet date the company completed the acquisition of Onomi Limited in May 2017. Onomi provides managed database services that are complementary to those already provided by the company.

Key performance indicators ('KPIs')

The company relies on various KPIs, which are regularly reviewed by the management team and board. The main KPIs are as follows:

- Sales activity, particularly in relation to growth in the key service areas. New business wins were strong in the year, providing the platform for the reported sales growth.
- Cloud platform and data centre utilisation monitoring, which provides the trigger for further infrastructure investment.
- Gross margin by product category. Gross margin trends are monitored closely to confirm revenue and cost behaviour and develop action plans where necessary.
- Earnings before non-recurring costs, interest, taxation, depreciation and amortisation (adjusted EBITDA). This is the main financial performance measure for the company and is covered earlier in this report.

Principal risks and uncertainties

The directors consider the biggest risks to stem from the management of the growth of the business including integration of acquired businesses. In operational terms this risk manifests in areas such as employee and customer retention and the company strives to foster a culture and customer service ethos to mitigate this.

Financial risk management

In financial terms, the directors consider and manage the risks in the following ways:

Credit risk

The company policy in respect of credit risk is to require appropriate credits checks on all potential customers prior to sales being made. In addition, direct debit is stipulated as a preferred method for customer payment and a rigorous credit control policy is followed.

Liquidity and cash flow risk

The board regularly reviews the cash position and cash flow forecasts for the company. The company has a free cash balance and the group has committed bank facilities available to finance capital expenditure and working capital in pursuit of growth.

Interest rate risk

The parent company has purchased an interest rate cap and interest rate swap to mitigate the risk of increases in interest rates.

Approved by the board of directors and signed on behalf of the board on 31st August 2017.

A Gilbert
Director

Node 4 Limited

Directors' report
for the year to 31 March 2017

The directors present their annual report and the audited financial statements of company for the year to 31 March 2017.

Directors

The directors who served throughout the year, and subsequently, are as follows:

Mr A Gilbert
Mr P Bryce
Mrs K Gilbert (resigned 4 October 2016)
Mr D Goldie (resigned 4 October 2016)
Mr B Waldron (resigned 4 October 2016)
Mr M Draper (resigned 4 October 2016)
Mr J Green (resigned 4 October 2016)
Mr R Baker

Dividends

The directors do not recommend the payment of a dividend *(2016: £nil)*.

Going concern

The directors have considered the trading performance of the company, together with the factors likely to affect its future development as well as its current liquidity position. The directors have reviewed the company's forecasts and likely future cash flows, taking into account the group's current net borrowings and uncommitted cash deposits. These reviews have focussed on the revised position of the group and forecasts following the buyout of Node4 in October 2016.

Based on the available information on the future, the directors consider that the company has a diverse range of products and services and has the plans and resources to manage its business risks successfully and remain financially robust.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Accordingly, the going concern basis of preparation continues to be adopted in the financial statements.

Employees

Disabled applicants and existing disabled employees of the company are treated fairly and on terms comparable with those of other employees. Equally, employees who become disabled during their employment receive training, where necessary, in order to promote their ongoing career development.

Strategic report

The following items have been included within the strategic report on pages 2 to 3:

- Principal activities
- Results
- Business review
- Future developments and post balance sheet events
- Key performance indicators
- Financial risk management
- Principal risks and uncertainties

Directors' indemnities

The company maintained liability insurance for its directors and officers. This is a qualifying indemnity provision for the purposes of the Companies Act 2006, and was in place during the financial year up to the date of signing these financial statements.

Directors' report
for the year 31 March 2017 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (FRS 102), and applicable law). Under company law, the directors 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards comprising FRS 102, 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 directors are 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. They are 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.

Disclosure of information to auditors

In accordance with section 418 of the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the board of directors and signed on behalf of the board on 31st August 2017.

A Gilbert
Director

Independent auditors' report to the members of Node 4 Limited

Report on the financial statements

Our opinion

In our opinion Node 4 Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of the company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report") comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Node 4 Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, as set out on page 5, the directors are 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



David Teager (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
31 August 2017

Node 4 Limited

Statement of comprehensive income for the year to 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	5	**33,004**	25,996
Cost of sales		**(12,294)**	(10,755)
Gross profit		**20,710**	15,241
Administrative expenses		**(14,407)**	(10,190)
Operating profit	6	**6,303**	5,051
Income from shares in group undertakings	12	**1,787**	-
Amounts written off investments	12	**(1,787)**	-
Interest payable and similar charges	7	**(74)**	(47)
Profit before taxation		**6,229**	5,004
Tax on profit	9	**(635)**	(822)
Profit for the financial year		**5,594**	4,182

The notes on pages 11 to 22 form part of these financial statements

Node 4 Limited

Balance sheet
as at 31 March 2017

	Note	2017	2016
		£'000	£'000
Fixed assets			
Intangible assets	10	**6,809**	7,594
Tangible assets	11	**13,071**	10,648
Investments	12	**-**	1,787
		19,880	20,029
Current assets			
Inventories	13	**144**	256
Debtors	14	**7,170**	5,791
Cash at bank and in hand		**2,313**	5,507
		9,627	11,554
Creditors: amounts falling due within one year	15	**(6,286)**	(14,511)
Net current assets/(liabilities)		**3,341**	(2,957)
Total assets less current liabilities		**23,221**	17,072
Creditors: amounts falling due after more than one year	16	**(1,429)**	(658)
Provisions for liabilities	17	**(754)**	(970)
Net assets		**21,038**	15,444
Capital and reserves			
Called up share capital	18	**1,308**	1,308
Profit and loss account	19	**19,730**	14,136
Total equity		**21,038**	15,444

These financial statements on pages 8 to 22 were approved by the Board of Directors and authorised for issue on 31st August 2017.

Signed on behalf of the Board of Directors

A Gilbert
Director

Node 4 Limited **Company Registration Number: 04759927**

The notes on pages 11 to 22 form part of these financial statements

Node 4 Limited

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

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2015	1,308	9,954	11,262
Profit and total comprehensive income for the financial year	-	4,182	4,182
At 31 March 2016	**1,308**	**14,136**	**15,444**
Profit and total comprehensive income for the financial year	-	5,594	5,594
At 31 March 2017	**1,308**	**19,730**	**21,038**

The notes on pages 11 to 22 form part of these financial statements

Notes to the financial statements for the year to 31 March 2017

1 General information

The company provides and sells cloud, colocation, connectivity, collaboration, continuity and managed IT services. The company is a private company, limited by shares, incorporated, registered and domiciled in England. The address of the registered office is Unit 1A-1B, Millennium Way, Pride Park, Derby, DE24 8HZ

2 Statement of compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements are prepared on a going concern basis, under the historical cost convention and as modified by the recognition of certain financial assets and liabilities measured at fair value.
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Exemptions

The company is a wholly-owned subsidiary of Chiron Midco Limited and is included in its consolidated financial statements which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The company has taken advantage of the exemption from preparing a cash flow statement, from disclosing key management personnel remuneration and from financial instruments disclosures as it is a qualifying subsidiary included in the publicly available consolidated financial statements of a parent company (note 23).

The company has taken advantage of the exemption under FRS 102 not to disclose transactions between wholly owned entities in the group. The company discloses transactions with related parties which are not wholly owned group entities.

Going concern

The directors have considered the trading performance of the company, together with the factors likely to affect its future development as well as its current liquidity position. The directors have reviewed the company's forecasts and likely future cash flows, taking into account current group net borrowings and uncommitted cash deposits.

Based on the available information on the future, the directors consider that the company has a diverse range of products and services and has the plans and resources to manage its business risks successfully and remains financially robust.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Accordingly, the going concern basis of preparation continues to be adopted in the financial statements.

Goodwill

On acquisition of a business or hive up of a business and assets from a subsidiary undertaking, the excess of the fair value of the consideration over the fair values of the net assets acquired is recognised as goodwill. Such goodwill is capitalised and stated at historical cost less provisions for amortisation and any impairment. Goodwill arising on acquisition or hive up is amortised to the profit and loss account over its estimated life of ten years. Intangible assets are tested for impairment when an event that might affect asset values has occurred. Any such impairment in carrying value is written off to the profit and loss account immediately. Deferred tax is not provided in respect of goodwill and its amortisation.

Notes to the financial statements for the year to 31 March 2017 (continued)

3 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition or hive up of a business and assets are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. Customer lists and related customer relationships are amortised over 10 years.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. Cash and cash equivalents comprise cash held at bank which is available on demand.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank borrowings and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expenses in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

Asset class	Depreciation method rate
Leasehold improvements	Straight line basis over the remaining term of the lease
Office equipment	33⅓% straight line basis
Fixtures and fittings	20% straight line basis
Hosting equipment	20 or 33⅓% straight line
Motor vehicles	20% straight line basis

Notes to the financial statements for the year to 31 March 2017 (continued)

3 Summary of significant accounting policies (continued)

Borrowings

Borrowings are initially stated at the fair value of the consideration received after deduction of wholly attributable issue costs. Issue costs are amortised to the profit and loss account over the estimated life of the relevant borrowings.

Share capital

Financial instruments issued by the company are treated as equity only to the extent that they do not meet the definition of a financial liability. The company's ordinary shares are classified as equity instruments.

Leasing and hire purchase commitments

Assets obtained under leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) and hire purchase contracts are included in the balance sheet at the estimated present value of underlying rental payments and are depreciated in accordance with the policy above. Obligations under such agreements are included in creditors, net of finance charges allocated to future years. The finance element of the rental payments is charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each year.

Rentals paid under other leases (operating leases) are charged against income on a straight-line basis over the lease term.

Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the principal activity of the company, after deduction of trade discounts and VAT. Turnover from the supply of goods and services represents the value of goods delivered to the customer and services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. This is released to the profit and loss account as services are performed.

Employee benefits

The company operates a defined contribution pension scheme. Contributions are recognised in the profit and loss account in the year in which they become payable in accordance with the rules of the scheme.

Short term employee benefits including holiday pay are recognized as an expense in the period in which the service is rendered.

Inventories

Inventories are valued at the lower of purchase cost and net realisable value, after due regard for obsolete and slow moving items. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

Taxation

The taxation expense or credit comprises current and deferred tax recognised in the profit for the financial year or in other comprehensive income or equity if it arises from amounts recognised in other comprehensive income or directly in equity. Current tax is provided at amounts expected to be paid (or recovered) in respect of the taxable profits for the period using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements for the year 31 March 2017 (continued)

3 Summary of significant accounting policies (continued)

Research and development expenditure

All research costs are charged immediately to profit or loss. Costs incurred on development projects are recognised as intangible assets when they meet the requirements of FRS 102. Development costs that cannot be capitalised are charged to profit or loss in the period in which they occur.

Exceptional items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

4 Critical accounting judgements and estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible and intangible assets

The annual depreciation or amortisation charge for tangible and intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 10 and 11 for the carrying amount of fixed assets and note 3 for the useful economic lives for each class of assets.

The company uses an estimate for the useful life of goodwill and customer intangible assets and calculation of the amortisation charges in line with the nature of the businesses acquired. There is no current indication that the company's businesses will not continue to trade profitably although the life may differ from or be longer than the estimates used to amortise the assets.

Fair values and intangible assets on hive up of a business

Fair values are applied on the hive up of a business and assets from a subsidiary which involve a degree of judgement and estimation in particular in the identification and evaluation of intangible assets. The values are derived from the business cash flow forecasts and assumptions based on experience and factors relevant to the nature of the business activity.

5 Turnover

IT services is considered to be the only material class of business carried on by the company. An analysis of turnover by customer geographical location is given below:

	2017	2016
	£'000	£'000
United Kingdom	32,704	25,996
Rest of the World	300	-
	33,004	25,996

Notes to the financial statements for the year 31 March 2017 (continued)

6 Operating profit

Operating profit is stated after charging:	2017 £'000	2016 £'000
Operating lease rentals		
• Plant and machinery	138	129
• Property	786	510
Auditors' remuneration:		
• Audit of the company's annual statutory financial statements	32	33
• Tax compliance services	5	4
• Tax advisory services	-	20
Inventory recognised as an expense	1,419	1,776
Research and development expenditure	300	355
Impairment of trade debtors (primarily from prior year trading when they were initially expected to be recoverable)	250	-
Other exceptional non-recurring costs (including integration of acquired businesses and a carbon reduction charge levied before a continuing exemption became applicable)	155	308
Depreciation		
• Owned assets	1,919	1,245
• Held under finance leases (note 11)	284	186
Amortisation of intangible assets	785	254

In addition to those disclosed above, £nil (2016: £55,000) of auditors' remuneration in respect of other assurance services has been capitalised and included in the cost of investments.

7 Interest payable and similar charges

	2017 £'000	2016 £'000
Interest on finance leases and similar hire purchase contracts	74	43
Other interest	-	4
	74	47

Notes to the financial statements for the year to 31 March 2017 (continued)

8 Information regarding directors and employees

	2017	2016
	£'000	£'000
Directors' remuneration – aggregate emoluments	392	424
Company pension contributions in respect of 2 directors	1	1
Remuneration of the highest paid director	161	173

Average monthly number of persons employed	2017	2016
	Number	Number
Directors	6	8
Sales	65	47
Developers	4	4
Technical	98	67
Finance and administration	13	11
	186	137

Staff costs	2017	2016
	£'000	£'000
Wages and salaries	7,325	5,206
Social security costs	796	556
Other pension costs (note 21)	45	23
	8,166	5,785

Notes to the financial statements for the year to 31 March 2017 (continued)

9 Tax on profit

	2017	2016
	£'000	£'000
Current taxation		
United Kingdom corporation tax		
Current year	**965**	999
Adjustment in respect of prior years	**(114)**	(123)
	851	876
Deferred taxation		
Origination and reversal of timing differences	**(248)**	18
Adjustment in respect of prior years	**57**	(23)
Effect of changes in tax rates	**(25)**	(49)
Tax on profit	**635**	822

Factors affecting the tax charge for the year

Corporation tax on profit for the year is lower *(2016: lower)* than the standard rate of corporation tax in the UK of 20% *(2016: 20%)*.

The differences are reconciled below:

	2017	2016
	£'000	£'000
Profit before taxation	**6,229**	5,004
Corporation tax at standard rate of 20% *(2016: 20%)*	**1,246**	1,001
Factors affecting charge for the year:		
Disallowable expenses including goodwill amortisation	**146**	68
Deduction in respect of EMI option shares exercised	**(679)**	-
Additional relief for development expenditure	**(20)**	(50)
Effect of differing deferred and corporation tax rates	**(1)**	(51)
Adjustments in respect of prior years	**(57)**	(146)
Tax on profit	**635**	822

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate of corporation tax to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the financial statements for the year to 31 March 2017 (continued)

10 Intangible assets

	Goodwill	Customer relationships	Total
	£'000	£'000	£'000
Cost			
At 1 April 2016 **and at 31 March 2017**	**4,680**	**3,168**	**7,848**
Accumulated amortisation			
At 1 April 2016	89	165	254
Charge for the year	468	317	785
At 31 March 2017	**557**	**482**	**1,039**
Net book amount			
At 31 March 2017	**4,123**	**2,686**	**6,809**
At 1 April 2016	4,591	3,003	7,594

Notes to the financial statements for the year to 31 March 2017 (continued)

11 Tangible assets

	Leasehold improve-ments	Fixtures and fittings	Office equipment	Motor Vehicles	Hosting equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 April 2016	9,039	335	425	171	7,218	17,188
Additions	2,462	13	492	149	1,553	4,669
Disposals	-	-	-	(75)	-	(75)
At 31 March 2017	**11,501**	**348**	**917**	**245**	**8,771**	**21,782**
Accumulated depreciation						
At 1 April 2016	2,446	289	325	29	3,451	6,540
Charge for the year	833	15	99	36	1,220	2,203
Disposals	-	-	-	(32)	-	(32)
At 31 March 2017	**3,279**	**304**	**424**	**33**	**4,671**	**8,711**
Net book amount						
At 31 March 2017	**8,222**	**44**	**493**	**212**	**4,100**	**13,071**
At 1 April 2016	6,593	46	100	142	3,767	10,648

Leased assets

Included within the net book value of tangible fixed assets is £2,457,000 *(2016: £1,185,000)* in respect of assets held under finance lease or similar hire purchase agreements. Depreciation for the year on these assets amounted to £284,000 *(2016: £186,000)*.

12 Investments

	Investments in subsidiary undertakings £'000
Cost at 1 April 2016 and 31 March 2017	1,787
Amounts written off investments in the year	(1,787)
Net book value at 31 March 2017	-
Net book value at 1 April 2016	1,787

The company held all of the issued ordinary share capital in Premier IT Networks Limited, Reconnix Limited and LETN Solutions Limited. These are all companies registered in England and Wales at Unit 1A-1B, Millennium Way, Pride Park, Derby, DE24 8HZ and which were providers of IT services. The trade, assets and liabilities of all three companies were transferred to Node 4 Limited in a prior year and they ceased to trade. Dividends equal to the remaining net assets of £1,787,000 were received by Node 4 Limited from the subsidiaries in the year and consequently the investments were written down to £nil with no net effect on the Node 4 Limited statement of comprehensive income.

Notes to the financial statements for the year to 31 March 2017 (continued)

13 Inventories

	2017	2016
	£'000	£'000
Consumables and goods for resale	144	256

There is no significant difference between the replacement cost of goods for resale and their carrying value.

14 Debtors

Amounts falling due within one year	2017	2016
	£'000	£'000
Trade debtors	4,211	4,818
Amounts owed by group undertakings	1,668	-
Corporation tax	352	-
Other debtors	-	204
Prepayments and accrued income	939	769
	7,170	5,791

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Trade debtors are stated after provision after provisions for impairment of £270,000 (2016: £23,000).

15 Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	2,491	2,832
Finance leases and similar hire purchase contracts	640	362
Amounts owed to group undertakings	1,057	7,465
Corporation tax	-	469
Other taxation and social security	790	1,059
Other creditors	42	498
Accruals and deferred income	1,266	1,826
	6,286	14,511

Obligations under finance lease and similar hire purchase contracts are secured on the specific assets to which the finance relates.

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements for the year to 31 March 2017 (continued)

16 Creditors: amounts falling due after more than one year

	2017	2016
	£'000	£'000
Finance leases and similar hire purchase contracts	**1,429**	658

Obligations under finance lease and similar hire purchase contracts are secured on the specific assets to which the finance relates and are all due within 5 years.

17 Provisions for liabilities

	Deferred tax liability
	£'000
At 1 April 2016	970
Credit in the year	(216)
At 31 March 2017	**754**

A deferred taxation asset/(liability) is provided for in full in the financial statements and is as follows:

	2017	2016
	£'000	£'000
Accelerated capital allowances	**283**	431
Other timing differences	**(4)**	(1)
In respect of customer intangible assets	**475**	540
	754	970

Approximately £150,000 of the deferred tax liability is expected to reverse in the next year.

18 Called up share capital

	Allotted, called up and fully paid 2017	Allotted, called up and fully paid 2016	Allotted, called up and fully paid 2017	Allotted, called up and fully paid 2016
	£'000	£'000	Number of shares	Number of shares
Ordinary shares of £1 each	**1,308**	1,308	**1,308,025**	1,308,025

Called up share capital represents the nominal value of the shares issued.

Each ordinary share entitles the holder to one vote at shareholder meetings and all ordinary shares rank equally in relation to distributions of income or capital.

Notes to the financial statements for the year to 31 March 2017 (continued)

19 Reserves

The profit and loss account reserve represents cumulative net profits from the statement of comprehensive income. Movements on the reserve are set out in the statement of changes in equity.

20 Contingent liabilities

The company has provided a guarantee, secured by fixed and floating charges over its assets, in respect of the net bank and other secured loan borrowings of its parent company Chiron Bidco Limited, which at 31 March 2017 amounted to £55,000,000 *(2016: £24,924,000)*.

21 Pension schemes

Defined contributions pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £45,000 *(2016: £23,000)*.

Contributions totalling £nil *(2016:£nil)* were due to the scheme at the end of the year.

22 Financial commitments

At 31 March 2017, the company had commitments under non-cancellable operating leases as set out below:

	Land and buildings	Land and buildings	**Other**	Other
Payments falling due in:	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Within one year	**819**	659	**93**	84
In two to five years	**3,012**	2,552	**58**	61
More than five years	**2,413**	2,424	-	-
	6,244	5,635	**151**	145

The company had capital commitments of £324,000 at 31 March 2017 *(2016: £1,194,000)*.

23 Related party transactions

During the year, the company was involved in the following related party transactions.

G&W Properties Ltd

Mr A Gilbert, a director of the company, is a director of and shareholder in G&W Properties Ltd, the owner of property occupied by the company.

During the year, the company incurred rental charges from G&W Properties Ltd of £570,000 *(2016; £458,000)*. At the balance sheet date, £nil was due to G&W Properties Ltd *(2016: £86,000)* and an amount of £124,000 *(2016: £72,000)* of rent charged was held in prepayments.

In the ordinary course of the company's IT services business, the customer base and turnover includes amounts for services to other companies or groups where Bowmark Capital manages majority holdings made by its funds. The aggregate amount of these sales included in turnover is £231,000.

24 Events after the balance sheet date

After the balance sheet date, in May 2017, Onomi Limited, a database management solutions business, was acquired for overall consideration of £1,870,000.

25 Controlling party and consolidated financial statements

Chiron Midco Limited is the only group company which prepares publicly available consolidated financial statements which include the company. Copies of the Chiron Midco Limited consolidated financial statements can be obtained from Unit 1A-1B, Millennium Way, Pride Park, Derby, DE24 8HZ.

Chiron Topco Limited is the ultimate parent company and no party has a controlling beneficial interest in the company. Bowmark Capital manages the interest of the investing Bowmark funds, which held the majority of the shares in the group as of 31 March 2017, and was represented on the group board.