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**RED HAT UK LIMITED**

**Directors' Report and Financial Statements  
Financial Period Ended 31 December 2019**



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## DIRECTORS AND OTHER INFORMATION

### Board of Directors at 13 July 2020

*M O'Neill  
T Savage  
L Krebs  
E Shander*

### Solicitors

*Walker Morris  
Kings Court  
12 King Street  
Leeds LS1 2HL  
United Kingdom*

### Secretary and Registered Office

*T Savage  
Peninsular House 30-36  
Monument Street  
4th Floor  
London EC3R 8NB  
United Kingdom*

### Bankers

*JP Morgan  
Chaseside  
Bournemouth  
Dorset BH7 7DA  
United Kingdom*

**Registered Number: 3798903**

### Auditors

*PricewaterhouseCoopers  
Chartered Accountants and Statutory Auditors  
One Albert Quay  
Cork  
Republic of Ireland*

## STRATEGIC REPORT

*The directors present their strategic report for the 10 months ended 31 December 2019.*

### Review of the business

*Red Hat UK Limited (the company) provides sales and marketing support to its shareholder, Red Hat Limited, a company incorporated in the Republic of Ireland and to other Red Hat entities.*

*Turnover for the 10 months is €114m (28 February 2019: €102m). Turnover is derived on a cost plus basis. Operating profit amounted to €9.2m (2019: €8.8m). Profit for the 10 months is €7.4m (28 February 2019: €5.8m profit).*

*Both the level of business and the period-end financial position were satisfactory.*

*The directors expect the present level of activities will be sustained for the foreseeable future.*

### Key performance indicators

*The key financial and other performance indicators during the period were as follows:*

	Period ended 31 December 2019 €'000	Year ended 28 February 2019 €'000
Turnover	113,887	102,108
Operating profit	9,209	8,763
Profit for the period	7,398	5,777
Total shareholders' funds	<u>46,590</u>	<u>39,192</u>
 Average number of employees	 <u>595</u>	 <u>573</u>

*Turnover increased during the period as a result of the increased activity of the company.*

*Total shareholders' funds increased due to an increase in profit for the financial period.*

*The total average number of employees increased during the financial period driven primarily by sales and marketing employees.*

### Section 172 (1) statement

*From the perspective of the board, the directors are satisfied that the matters which it is responsible for considering under Section 172 (1) of the Companies Act 2006 ('s172') have been considered to an appropriate extent. These include addressing:*

- the issues, factors and stakeholders, the directors consider relevant in complying with section 172 (1) (a) to (f) and how they have formed that opinion;*
- the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard; and*
- information on the effect of that regard on the Company's decisions and strategies during the financial year.*

*The company is a wholly owned subsidiary of Red Hat Limited whose ultimate parent undertaking is IBM Limited, a company incorporated in the United States of America. The company seeks to maintain a reputation for high standards of business conduct with all stakeholders. The directors of Red Hat UK Limited, together with the directors of its parent, are satisfied they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006), in the decisions taken during the period ended 31 December 2019 as follows;*

## STRATEGIC REPORT

### Employee engagement

*The company uses a variety of methods to enable all of its employees to understand the performance of the company. These include company briefings, meetings with employee representatives and Company newsletters. Employees are consulted on a wide range of issues affecting their current and future interests, and particularly on changes affecting their company. Employee surveys are used to gain valuable feedback. A colleague representative company is in place to facilitate regular communication with colleagues on a range of topics. A monthly management meeting and onward team cascade process ensures that regular business information is shared for all colleagues in all parts of the company. These processes are subject to continual review and improvement. Our employment policies are regularly reviewed to ensure they are simple, helpful and trusted to enable an honest and transparent employment culture. A robust induction procedure ensures communication and understanding of policies from day one and regular updates are communicated as required.*

### Equal opportunities

*Red Hat is opposed to all forms of unlawful and unfair discrimination, recognising that the provision of equal opportunities in the workplace is good management practice and good business sense. Equal opportunities means that those who work for us can reach their full potential. The company is committed to equality of opportunity amongst its employees. Recruitment, pay and conditions, training and career development policies are based solely on ability, without regard to gender, race, age, disablement, marital status or religion.*

### Learning and development

*Red Hat UK Limited are committed to ensuring that all colleagues are provided with the necessary training to enable them to perform their roles safely, to the highest standards and in accordance with relevant company policy and procedures. We ensure that appropriate documentation and procedures exist to support a regular review of training needs and delivery of appropriate training and development activities. Succession Planning ensures that colleague performance and potential can be realised through targeted development activity. Mandatory development is planned to ensure compliance with relevant statutory obligations*

### Health and safety

*Red Hat UK Limited fully recognises and complies with the duties placed upon it under the Health and Safety at Work Act 1974 and all other relevant legislation to ensure a safe and healthy working environment. It also recognises the duty it has not only to staff, but also to customers, visitors and contractors and to any others who may be affected by its activities. The Company uses risk assessment principles to manage Health and Safety risks. The company has a Health and Safety and Environmental team who provide support to the UK sites.*

### Ethical trading

*The company's Code of Ethics and Business Conduct policy is built on its core values and highlights the principles that guide 'how it does business'. The company's leadership and management team have an obligation to understand and consider this, and ensure they both act in a manner that avoids any improper, illegal or unethical actions and also to champion this behaviour within the teams they manage. The Company's code of practice is not limited to the policies and procedures which the company is committed to delivering, but also to ensuring that when its customers buy its products they are buying goods produced without exploitation and in acceptable working conditions and that the company conducts its business with integrity and respect. Through these relationships, the company aims to provide customer confidence in its products, ensuring they are of a consistent high quality and that everyone in the supply chain is treated with honesty, fairness and respect.*

### Environmental responsibility

*The company recognises that its operations have a direct and indirect impact on both the wider environment and the environments in which it operates. The company is committed to working continuously, in collaboration with its stakeholders and employees, to contribute positively to environmental sustainability. The Company recognises the importance of its environmental responsibility and monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities. Red Hat UK Limited aim to reduce its impact on the environment as much as we can by recycling.*

## STRATEGIC REPORT

### Principal risks and uncertainties

*Due to the nature of the company's business arrangements, the directors have a reasonable expectation that risk attributable to foreign exchange rates, interest rates, credit and cash flow are low. The company has appropriate risk management programmes in place to manage any such risk that may arise.*

### By order of the board

M O'Neill  
Director

*Michael O'Neill*

13 July 2020

## DIRECTORS' REPORT

*The directors present their report and the audited financial statements of the company for the period ended 31 December 2019.*

### Principal activities and future developments

*The principal activity of the company is to provide sales and marketing support to its shareholder Red Hat Limited and to other Red Hat entities. This support includes the provision of research and development, marketing and promotional services in relation to Red Hat service offerings. It is not expected that the principal activities of the company will change in the foreseeable future.*

### Results and dividends

*The company's profit for the financial period is €7,398,243 (28 February 2019: €5,776,971). Total net assets as at 31 December 2019 were €46,589,801 (28 February 2019: €39,191,558). No dividends are proposed for the period.*

### Review of the business and future developments

*The directors are satisfied with the growth in business during the period and they expect that the present level of activity will be sustained for the foreseeable future.*

*On the 9 of July 2019, the ultimate parent company, IBM, completed a transaction to acquire Red Hat Inc. which from this date IBM is the ultimate parent company. In order to align with IBM's year-end, the company implemented a change to its reporting calendar, changing from the calendar year ending 28 February to a period ending to 31 December. As a result, the company has adopted this year-end for the current year and has prepared financial statements for 10 months ended 31 December 2019. The comparative financial information presented is for the 12 months ended 28 February 2019.*

### Financial risk management

*The company's operations expose it to a variety of financial risks that primarily include the effects of foreign exchange and credit risk. The company's cash flow and foreign exchange risk is managed in conjunction with the US centralised treasury function. The company has in place a programme of financial and non-financial performance indicators as part of its management reporting system.*

### Directors

*The names of the persons who are currently and were directors during the period ended 31 December 2019 are set out below. Unless indicated otherwise, they served as directors for the entire period:*

*M O'Neill*

*T Savage*

*L Krebs (appointed 9 October 2019)*

*E Shander (resigned 9 October 2019)*

*No director held any interests in the share capital of the company at any time during the period and since the year end.*

### Employees

*The company's employment policies are aimed at informing, training and motivating all its employees. The company also gives every consideration, whenever practical, to the employment of disabled persons and has made, and will continue to make, every effort to retrain and assist any employee who becomes disabled during his or her employment.*

*Consultation with employees or their representatives has continued at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. The company has an effective system of internal communication that ensures employees at all of its locations are kept well informed about the company's business and performance. This is achieved principally through periodic newsletters and regular staff briefings using the company's management structure. In addition, Red Hat Inc., the company's parent undertaking, operates a number of share based incentive plans which feature ordinary shares of the parent company. The purpose of these plans is to motivate employees to contribute towards the creation of long-term shareholder value.*

*The health and safety of the company's employees and customers is of primary concern. It is therefore the policy of the company to manage its affairs so as to avoid unnecessary and unacceptable risks to the health and safety of its employees and customers.*

## **DIRECTORS' REPORT - continued**

### **Post balance sheet events**

*As the new coronavirus, COVID-19, evolves, we continue to prioritise the health and well-being of both Red Hat associates and the communities where we live and work. Even if there are temporary changes in how Red Hatters engage with each other, our partners, our customers and our communities, we do not expect COVID-19 to impact the availability of the Red Hat products, services or support.*

### **Going concern**

*The directors, after making enquiries and having regard to the company's financial position, trading performance and financing available to the company have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future.*

### **Political and charitable donations**

*No donations for charitable or political purposes were made during the period.*

### **Statement of directors' responsibilities**

*The directors are responsible for preparing the strategic report, the directors' 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 applicable law and 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 (United Kingdom Generally Accepted Accounting Practice).*

*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 estimates that are reasonable and prudent;*
- state whether United Kingdom Accounting Standards, including 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.*

### **Directors' confirmations**

*In the case of each director in office at the date the Directors' report is approved:*

- so far as the director is aware, there is no relevant audit information of which the company and company's auditors are unaware; and*
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company and company's auditors are aware of that information.*

### **Independent auditors**

*The independent auditors, PricewaterhouseCoopers, Republic of Ireland, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.*

### **By order of the board**

M O'Neill  
Director

*Michael O'Neill*

13 July 2020





## ***Independent auditors' report to the members of Red Hat UK Limited***

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Red Hat UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the 10 month period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2019; the profit and loss account, the statement of changes in equity for the 10 month period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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## **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

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.



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## Other required reporting

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### Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*Bernie O'Connell*

Bernie O'Connell (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Auditors  
Cork  
15 July 2020

**PROFIT AND LOSS ACCOUNT**  
**For the 10 months ended 31 December 2019**

		10 months ended 31 December 2019 €	Year ended 28 February 2019 €
	Notes		
<b>Turnover</b>	5	113,886,981	102,107,754
<i>Administrative expenses</i>		(96,980,564)	(85,293,024)
<i>Distribution expenses</i>		(7,697,192)	(8,052,231)
<b>Operating profit</b>	6	9,209,225	8,762,499
<i>Interest payable and similar expenses</i>	8	(16,208)	(8,229)
<b>Profit before taxation</b>		9,193,017	8,754,270
<i>Tax on profit</i>	9	(1,794,774)	(2,977,299)
<b>Profit for the financial period/year</b>		<u>7,398,243</u>	<u>5,776,971</u>

*All amounts included in the income statement derive from continuing operations. The company has no other income or expenses other than those included in the results and therefore no separate statement of comprehensive income has been prepared.*

*The notes on pages 14 to 25 form an integral part of these financial statements.*

**BALANCE SHEET**  
**As at 31 December 2019**

	Notes	31 December 2019 €	28 February 2019 €
<b>Fixed assets</b>			
<i>Tangible assets</i>	10	<u>1,605,588</u>	<u>1,866,253</u>
<b>Current assets</b>			
<i>Debtors</i>	11	41,736,494	22,382,104
<i>Cash at bank and in hand</i>		<u>31,570,933</u>	<u>28,806,053</u>
		73,307,427	51,188,157
<b>Creditors - Amounts falling due within one year</b>	12	<u>(28,323,214)</u>	<u>(13,862,852)</u>
<b>Net current assets</b>		<u>44,984,212</u>	<u>37,325,305</u>
<b>Net assets</b>		<u>46,589,801</u>	<u>39,191,558</u>
<b>Capital and reserves</b>			
<i>Called up share capital</i>	13	3	3
<i>Profit and loss reserve</i>	13	25,214,146	17,815,903
<i>Share based payments reserve</i>	18	<u>21,375,652</u>	<u>21,375,652</u>
<b>Total equity</b>		<u>46,589,801</u>	<u>39,191,558</u>

The notes on pages 14 to 25 form an integral part of these financial statements.

The financial statements on pages 11 to 25 were authorised for issue by the board of directors on 13 July 2020 and were signed on its behalf by:

On behalf of the board

M O'Neill  
Director

*Michael O'Neill*

Red Hat UK Limited

Registered No: 3798903

**STATEMENT OF CHANGES IN EQUITY**  
**For the financial period ended 31 December 2019**

	<i>Called up share capital</i>	<i>Profit and loss account</i>	<i>Share based payments reserve</i>	<i>Total</i>
	€	€	€	€
<i>Balance at 1 March 2018</i>	3	12,038,932	21,375,652	33,414,587
<i>Profit for the financial year</i>	-	5,776,971	-	5,776,971
<b>Balance at 28 February 2019</b>	<u>3</u>	<u>17,815,903</u>	<u>21,375,652</u>	<u>39,191,558</u>
<i>Balance at 1 March 2019</i>	3	17,815,903	21,375,652	39,191,558
<i>Profit for the financial period</i>	-	7,398,243	-	7,398,243
<b>Balance at 31 December 2019</b>	<u>3</u>	<u>25,214,146</u>	<u>21,375,652</u>	<u>46,589,801</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General information

*The principal activity of Red Hat UK Limited ("the company") is the provision of support to its shareholder Red Hat Limited and to other Red Hat entities. This support includes the provision of research and development, marketing and promotional services in relation to Red Hat service operations.*

*The company is incorporated and resident in the United Kingdom. The address of its registered office is Peninsular House 30-36, Monument Street, 4th Floor, London EC3R 8NB, United Kingdom.*

*The company is a wholly owned subsidiary of Red Hat Limited, which is incorporated in the Republic of Ireland. Its ultimate parent is IBM Ltd., a company incorporated in the United States of America. As the financial statements of Red Hat UK Limited are included in the consolidated financial statements of IBM Ltd for the period ended 31 December 2019 it is exempt, by virtue of Section 401 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. Copies of the ultimate parent's consolidated financial statements may be obtained from the company Secretary, IBM Inc., One New Orchard Road, Armonk, NY 10504.*

*These financial statements are the company's separate financial statements.*

### 2 Statement of compliance

*The financial statements of Red Hat UK Limited have been prepared on a going concern basis and in accordance 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.*

#### **(a) Basis of preparation**

*These financial statements are prepared on a going concern basis, under the historical cost convention, 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 Company's 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.*

#### **(b) Going concern**

*The company meets its day-to-day working capital requirements through cash resources and, if required, intercompany financing. The current economic conditions (caused by the COVID-19 coronavirus pandemic, which has emerged since the end of the financial year (as outlined below)), have created some uncertainty over the level of demand for the company's software products. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current arrangements.*

*After making these enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore these financial statements have been prepared on a going concern basis.*

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies – continued

#### **Exemptions for qualifying entities under FRS 102**

*FRS 102 allows for certain disclosure exemptions and the following have been taken by the company:*

##### *Cash flow*

*The company has taken advantage of the exemption, under FRS 102, paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Red Hat, Inc., includes the company's cash flows in its own consolidated financial statements.*

##### *Related party transactions*

*The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.*

##### *Key management compensation*

*The company has taken advantage of the exemption, under FRS 102, paragraph 33.7, from disclosing key management compensation, on the basis that it is a qualifying entity.*

##### *Share based payments*

*The company has taken advantage of the exemption, under FRS 102, of section 26 (paragraph 26.18 (b), 26.19 to 26.21 and 26.23), from disclosing certain disclosures, on the basis that it is a qualifying entity.*

#### **Foreign currency translation**

##### *Functional and presentation currency*

*Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Euro' (€), which is also the company's functional currency.*

##### *Transactions and balances*

*Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.*

*At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.*

*Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. All other foreign exchange gains and losses are presented in the profit and loss account within 'Administrative expenses'.*

#### **Property, plant and equipment**

*Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the assets to its working condition for its intended use, dismantling and restoration costs.*

##### *Leasehold improvements*

*Leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses.*

##### *Fixtures, fittings and equipment*

*Fixtures, fittings and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.*

##### *Computer equipment*

*Computer equipment is stated at cost less accumulated depreciation and accumulated impairment losses.*



**NOTES TO THE FINANCIAL STATEMENTS - continued****3 Summary of significant accounting policies – continued****Property, plant and equipment – continued***Assets in the course of construction*

*Assets in the course of construction are stated at cost and are not depreciated until they are available for use.*

*Depreciation and residual values*

*Land is not depreciated. Depreciation on other assets is calculated, using the straight line method over their estimated useful lives, as follows:*

<i>Computer software</i>	<i>3 years</i>
<i>Computer equipment</i>	<i>3 - 4 years</i>
<i>Fixtures and fittings</i>	<i>7 years</i>
<i>Equipment</i>	<i>5 years</i>
<i>Leasehold improvements</i>	<i>5 years</i>

*Subsequent additions and major components*

*The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.*

*Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.*

*Repairs, maintenance and minor inspection costs are expensed as incurred.*

*Derecognition*

*Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in "Other operating (losses)/gains".*

**Share capital**

*Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.*

**Distributions to equity shareholders**

*Dividends and other distributions to company's equity shareholders are recognised as a liability in the financial statements in the financial year in which the dividends and other distributions are approved by the company's shareholders.*

**Turnover**

*Turnover represents the invoiced amounts for services supplied excluding value added tax. The company earns revenue under sales, marketing and support service agreements with Red Hat Limited and other Red Hat Group entities. The revenue receivable under these services agreements is recognised as the services are rendered.*

**Taxation**

*Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.*

*Taxation assets and liabilities are not discounted.*

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### **Taxation - continued**

##### **Current tax**

*Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.*

*The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.*

##### **Deferred tax**

*Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.*

*Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.*

*Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference*

#### **Employee benefits**

*The company provides a range of benefits to employees, including short term employee benefits such as quarterly bonus arrangements and paid holiday arrangements and post-employment benefits (in the form of a defined contribution pension plan).*

##### **Short term employee benefits**

*Short term employee benefits, including paid holiday arrangements and other similar non-monetary benefits, are recognised as an expense in the financial year in which employees render the related service. The company operates a quarterly bonus plan for employees. An expense is recognised in the profit and loss account when the company has a present legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.*

##### **Post-employment benefits**

*The company operates a defined contribution plan for certain employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The assets of the plan are held separately from the company in independently administered funds. The contributions to the defined contribution plan are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet.*

##### **Share-based payments**

*The company's employees participate in a share-based payment arrangement established by the ultimate parent company. The employees are granted Restricted Stock Units (RSUs) of Red Hat, Inc. The fair value of the RSUs is measured at the grant date. The company recognises a share-based payment expense in profit or loss based on the grant date fair value of the RSUs over the vesting period, with adjustment to equity as a capital contribution.*

#### **Cash and cash equivalents**

*Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts may arise due to the timing of cashflows and in that case are shown within borrowings in current liabilities. Cash and cash equivalents are initially measured at transaction price and subsequently measured at amortised cost.*

*Bank deposits which have original maturities of more than three months are not cash and cash equivalents and are presented as current asset investments.*

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### **Leased assets**

*At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.*

#### **Operating lease**

*Operating leases that do not transfer substantially all the risks and rewards of ownership to the lessor. Payments under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease.*

#### **Financial instruments**

*The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.*

#### **Financial assets**

*Basic financial assets, including other debtors, cash and cash equivalents and amounts due from group undertakings are initially recognised at transaction price (including transaction costs), unless the arrangement constitutes a financing transaction. Where the arrangement constitutes a financing transaction the resulting financial asset is initially measured at the present value of the future receipts discounted at a market rate of interest for a similar debt instrument.*

*Other debtors, cash and cash equivalents and financial assets from arrangements which constitute financing transactions are subsequently measured at amortised cost using the effective interest method.*

*At the end of each financial year financial assets measured at amortised cost are assessed for objective evidence of impairment. If there is objective evidence that a financial asset measured at amortised cost is impaired an impairment loss is recognised in profit or loss.*

*Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the assets has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.*

#### **Financial liabilities**

*Basic financial liabilities, including trade, other payables and amounts due to group undertakings 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.*

*Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.*

*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 amortized cost using the effective interest method.*

#### **Related party transactions**

*The company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 4 Critical accounting estimates and judgements

*Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.*

**Critical accounting estimates and assumptions**

*The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom 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.*

**Share-based payments**

*Certain employees have been granted share-based payments entitlements by the company. Estimates have been made with regard to the likely future shares to be issued under these schemes based on historical information and using latest information available on expected exercise of entitlements. This is set out in more detail in note 18 to the financial statements.*

**Useful economic lives of tangible assets**

*The annual depreciation on tangible fixed 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 reviewed 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 note 10 for the carrying amount of the tangible fixed assets, and note 3 for the useful economic lives for each class of tangible fixed assets.*

## 5 Turnover

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
<i>The analysis of turnover, all of which originates in the UK, is as follows:</i>		
<i>Sales, Marketing, research and development fees receivable</i>	<u>113,886,981</u>	<u>102,107,754</u>

## 6 Operating profit

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
<i>Operating profit is stated after charging:</i>		
<i>Depreciation</i>	793,227	1,025,639
<i>Operating lease charges:</i>		
- Land and buildings	1,033,968	944,788
- Other	17,047	13,431
<i>Foreign exchange loss</i>	<u>275,257</u>	<u>127,153</u>

*The above charges are included in administrative expenses in the profit and loss account.*

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 6 Operating profit - continued

Remuneration (including expenses) for the statutory audit and other services carried out for the company by the company's auditors is as follows:

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
Audit of entity financial statements	11,750	7,700
Other non-audit services	-	-
	<u>11,750</u>	<u>7,700</u>

## 7 Employees and directors

## Employees

The average monthly number of persons (including executive directors) employed during the period was:

## By activity

	10 months ended 31 December 2019 No.	Year ended 28 February 2019 No.
Sales and marketing	321	300
Research and development	117	115
Professional services	148	148
Administration	9	10
	<u>595</u>	<u>573</u>

## Employee costs

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
Wages and salaries	66,984,792	55,786,557
Social security costs	8,237,597	7,841,533
Defined contribution pension costs (note 16)	1,900,203	1,879,770
Equity-settled share-based payments (note 18)	9,970,038	9,371,387
	<u>87,092,630</u>	<u>74,879,247</u>

## Directors

No emoluments or retirement benefits were payable to any director by the company during the period (28 February 2019: €Nil).

## 8 Interest payable and similar charges

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
Intercompany expense	7,667	-
Bank charges	<u>8,541</u>	<u>8,229</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 9 Tax on profit on ordinary activities

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
<b>(a) Tax expense included in profit or loss</b>		
Current tax:		
United Kingdom corporation tax on profit for the period/year	1,826,627	1,653,992
Adjustment to current tax in respect of prior years	(17)	1,738,540
<b>Total current tax</b>	<b>1,826,610</b>	<b>3,392,532</b>
Deferred tax:		
Origination and reversal of timing difference	(35,586)	56,062
Adjustment in respect of previous periods	3	(465,393)
Effects of changes in tax rates	3,747	(5,902)
<b>Total deferred tax charge</b>	<b>(31,836)</b>	<b>(415,233)</b>
<b>Tax charge on profit on ordinary activities</b>	<b>1,794,774</b>	<b>2,977,299</b>

**(b) Reconciliation of tax charge**

The tax assessed for the period/year is different than the standard rate of corporation tax in the UK for the period ended 31 December 2019 (2018: differs). The differences are set out below:

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
Profit on ordinary activities before tax	9,193,017	8,754,270
Profit multiplied by the standard rate of UK corporation tax applicable in the financial period of 19% (28 February 2019: 19%)	1,746,673	1,663,311
Effects of:		
Expenses not deductible	33,916	42,149
Differences in capital allowance and depreciation	-	-
Movement in short term timing differences	=	=
Income not taxable	-	(19,870)
Transfer pricing adjustments	218,647	219,758
Tax rate changes	3,746	(5,901)
Share award deduction	(208,194)	(195,294)
Adjustment to tax in respect of prior years	(14)	1,273,146
<b>Tax charge for the financial period/year</b>	<b>1,794,774</b>	<b>2,977,299</b>

The tax rate for the current period is consistent with the prior year (28 February 2019: 19%).

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Any deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS - continued

<b>10 Tangible assets</b>	<i>Computer equipment</i> €	<i>Fixtures and fittings</i> €	<i>Equipment</i> €	<i>Leasehold improvements</i> €	<i>Asset purchase</i> €	<i>CIP</i> €	<i>Total</i> €
<b>At 28 February 2019</b>							
<i>Cost or deemed cost</i>	3,057,916	800,312	715,163	3,017,021	1,314	-	7,591,726
<i>Accumulated depreciation and impairment</i>	(2,399,127)	(634,073)	(346,576)	(2,345,697)	-	-	(5,725,473)
<i>Carrying amount</i>	<u>658,789</u>	<u>166,239</u>	<u>368,587</u>	<u>671,324</u>	<u>1,314</u>	<u>-</u>	<u>1,866,253</u>
<b>Financial period ended 31 December 2019</b>							
<i>Opening carrying amount</i>	658,789	166,239	368,587	671,324	1,314	-	1,866,253
<i>Additions</i>	527,169	-	17,422	-	777	2,220	547,588
<i>Write offs</i>	-	-	(15,024)	-	-	-	(15,024)
<i>Depreciation</i>	(387,780)	(33,563)	(95,678)	(276,206)	-	-	(793,227)
<i>Carrying amount</i>	<u>798,178</u>	<u>132,676</u>	<u>275,305</u>	<u>395,118</u>	<u>2,091</u>	<u>2,220</u>	<u>1,605,588</u>
<b>At 31 December 2019</b>							
<i>Cost or deemed cost</i>	3,585,085	800,312	717,560	3,017,021	2,091	2,220	8,124,289
<i>Accumulated depreciation and impairment</i>	(2,786,907)	(667,636)	(442,255)	(2,621,903)	-	-	(6,518,701)
<i>Carrying amount</i>	<u>798,178</u>	<u>132,676</u>	<u>275,305</u>	<u>395,118</u>	<u>2,091</u>	<u>2,220</u>	<u>1,605,588</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

<b>11 Debtors</b>		<b>31 December 2019 €</b>	<b>28 February 2019 €</b>
Amounts owed by group undertakings	(i)	32,349,441	6,763,307
Prepayments and other debtors		6,307,530	14,483,346
Corporation tax receivable		1,818,983	-
Deferred tax (note 17)		447,069	415,233
Value added tax		813,471	720,218
		<u>41,736,494</u>	<u>22,382,104</u>

(i) Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

<b>12 Creditors: amounts falling due within one year</b>		<b>31 December 2019 €</b>	<b>28 February 2019 €</b>
Trade creditors	(i)	900,870	1,476,774
Amounts owed to group undertakings	(ii)	15,527,152	76,443
Taxation and social security	(iii)	3,435,995	2,552,439
Accruals		8,459,197	9,757,196
		<u>28,323,214</u>	<u>13,862,852</u>

(i) Trade creditors are payable at various dates in the three months after the end of the financial year in accordance with the creditors usual and customary credit terms.

(ii) Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

(iii) Taxation and social security costs are repayable in the timeframe set down in the relevant legislation.

<b>13 Called up Share capital</b>		<b>31 December 2019 €</b>	<b>28 February 2019 €</b>
<b>Authorised</b>			
1,000 ordinary shares (28 February 2019: 1,000) of Stg£1 each		<u>1,521</u>	<u>1,521</u>
<b>Allotted and fully paid</b>			
2 ordinary shares (28 February 2019: 2) of Stg£1 each		<u>3</u>	<u>3</u>

**Profit and loss account**

Profit and loss account represents accumulated profits for the financial period and prior financial years plus related tax credits less dividends paid.

**Share based payment reserve**

The share based payments reserve represents the accumulated charges in respect of share based payments for the financial period and prior financial years. On the 9 of July 2019, IBM acquired Red Hat and any unvested stocks were converted to IBM shares at this date.



## NOTES TO THE FINANCIAL STATEMENTS - continued

## 14 Financial instruments

Notes	31 December 2019	28 February 2019
	€	€

The company has the following financial instruments:

Financial assets that are debt instruments measured at amortised cost:

- Amounts owed by group undertakings

11	357,107	6,763,307
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Cash at bank and in hand

	63,563,266	28,806,053
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Financial liabilities measured at amortised cost:

- Trade creditors

12	900,870	1,476,774
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- Amounts owed to group undertakings

12	15,527,152	76,443
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	16,428,022	1,553,217
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## 15 Commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land and buildings	
	31 December 2019	28 February 2019
	€	€

Not later than one year

1,048,204	953,583
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Later than one year and not later than five years

2,698,657	3,806,792
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Later than five years

-	993,098
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3,746,861	5,753,473
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## 16 Pension commitments

The pension entitlements of certain employees arise under a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to €1,900,203 (28 February 2019: €1,879,770). The amounts owing at period end were €477,383 (28 February 2019: €372,251).

## 17 Deferred tax

	31 December 2019	28 February 2019
	€	€

The provision for deferred tax consists of the following deferred tax assets:

Deferred tax at the balance sheet date is comprised as follows:

Fixed asset timing differences

365,914	351,946
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Short term timing differences - trading

81,155	63,287
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447,069	415,233
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## NOTES TO THE FINANCIAL STATEMENTS - continued

### 18 Share based payments reserve

*On the 9 of July 2019, IBM acquired Red Hat and any unvested stocks were converted to IBM shares at this date.*

*Restrictive stock units (RSUs) are granted to permanent employees of the company. The exercise price of the share is equal to the fair value at the date the grant and was approved by the Board of directors of IBM Inc. The shares are conditional on the employees completing at least one years service. The typical vesting period is 25% on the first anniversary of the grant date and 25% per annum thereafter. RSUs are fully vested on the fourth anniversary. The company has no legal or constructive obligation to repurchase or settle the options for cash.*

*On exercise of the RSU's by employees of Red Hat UK Limited, the company is charged the intrinsic value of the RSU's by IBM Inc in the period in which the RSUs vest. Red Hat UK Limited was charged €9,970,038 (28 February 2019: €9,371,387) for RSUs that vested during the financial period and this was recognised in the profit and loss account. The company settled this liability with the parent company during the period.*

### 19 Post balance sheet events

*As the new coronavirus, COVID-19, evolves, we continue to prioritize the health and well-being of both Red Hat associates and the communities where we live and work. Even if there are temporary changes in how Red Hatters engage with each other, our partners, our customers and our communities, we do not expect COVID-19 to impact the availability of Red Hat's products, services or support. Red Hat has a comprehensive business continuity plan down to the business functional level and we regularly test business resiliency across our core functions to enable us to serve our customers and partners.*

### 20 Approval of financial statements

*The financial statements were approved and authorised for issue by the board of directors on 13 July 2020 and were signed on its behalf on that date.*

**DETAILED PROFIT AND LOSS ACCOUNT****For the financial period ended 31 December 2019****(Supplementary information not covered by the Independent Auditors' Report)**

	10 months ended 31 December 2019 €	Year ended 28 February 2019 €
<i>Sales, marketing and development fees</i>	<u>113,886,981</u>	<u>102,107,754</u>
<b>Less expenses</b>		
<i>Training costs</i>	591,209	583,009
<i>Office and computer supplies</i>	718,533	828,262
<i>Employee costs</i>	87,092,630	74,879,247
<i>Rent</i>	1,497,774	1,257,361
<i>Telephone and internet</i>	318,539	400,783
<i>Repairs and maintenance</i>	92,848	76,262
<i>Light and heat</i>	60,186	79,197
<i>Insurance</i>	16,158	4,417
<i>Professional fees</i>	3,353,682	4,780,850
<i>Recruitment</i>	474,985	320,416
<i>Printing and delivery</i>	29,122	18,520
<i>Property rates</i>	211,044	407,450
<i>Advertising and promotional</i>	1,929,447	2,368,744
<i>Bank fees</i>	8,541	8,229
<i>Subscriptions and public relations</i>	356,097	99,572
<i>Depreciation</i>	793,227	1,025,639
<i>Intercompany Interest Expense</i>	7,667	-
<i>Travel costs</i>	5,738,624	5,664,968
<i>Foreign exchange losses</i>	275,257	127,153
<i>Other operating costs</i>	2,049,635	1,705,636
<i>Interest Income</i>	60,136	-
<i>Research and development tax credit</i>	(981,377)	(1,282,231)
	<u>104,693,964</u>	<u>93,353,484</u>
<b>Net profit before tax</b>	<u>9,193,017</u>	<u>8,754,270</u>