

Company Number : 06001046

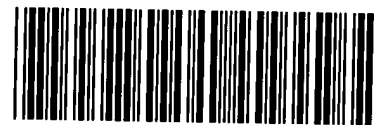
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VMware UK Limited

Annual Report

13 Month Financial Period Ended 2 February 2018

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DIRECTORS AND OTHER INFORMATION

Board of Directors at 16 October 2018

K Kryslar (USA)
C Norris (USA)
I Roberts (UK)

Secretary

OHS Secretaries Limited
9th Floor 107 Cheapside
London EC2V 6DN
United Kingdom

Registered office

9th Floor 107 Cheapside
London EC2V 6DN
United Kingdom

Bankers

Citibank NA
388 Greenwich Street
Floor 22
New York NY 10013
United States of America

Solicitors

Orrick, Herrington & Sutcliffe (UK) LLC
9th Floor 107 Cheapside
London EC2V 6DN
United Kingdom

Registered Number: 06001046

Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Albert Quay
Cork T12 X8N6
Republic of Ireland

STRATEGIC REPORT

The directors present their strategic report of VMware UK Limited ("the company") for the 13 month financial period ended 2 February 2018. The comparative financial statements are prepared for the year ended 31 December 2016.

The Strategic report has been prepared solely to provide additional information to shareholders to assess the company's strategies and the potential for those strategies to succeed.

The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Principal activities

Effective from 15 May 2017, the company acts as a limited risk distributor for its shareholder, VMware International Limited ("VIL") in respect of the sale of VMware products and services to customers in the UK territory. The company also provides EMEA management services to the VMware Group along with conducting research and development services for the benefit of VMware Bermuda Limited, a related party. Prior to 15 May 2017, the company also provided sales and marketing support to VIL in the UK territory. Support included the provision of marketing and promotional services in relation to VMware software technology. This activity ceased upon transition to the company's current limited risk distributor structure.

Review of business

Turnover for the 13 month financial period amounted to £297,567,000 (2016: £128,445,000) with an operating profit of £22,568,000 (2016: loss: £3,459,000). The increased turnover is as a result of the Company commencing as a limited risk distributor from 15 May 2017 onwards. Management are satisfied with the results for the year which reflect the strong presence of VMware in the UK where it operates. Net assets at the year-end amounted to £141,078,000 (2016: £104,945,000).

Results

Profit for the 13 month financial period after taxation amounted to £15,334,000 (2016: loss: £936,000). The directors recommend that this amount be transferred to reserves.

Key performance indicators (KPIs)

Given the nature of the entity, the directors consider turnover growth to be the key metric to assess performance. However, due to the company transitioning to a limited risk distributor structure from 15 May 2017, it should be noted that turnover figures for 2018 and 2016 are not directly comparable.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the company and the compliance team and company finance department take on an important oversight role in this regard. The audit committee of VMware Inc. is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

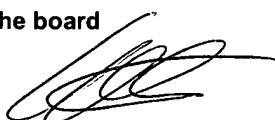
Financial risk management

Due to the nature of the company's business arrangements, the directors believe that risk attributable to interest rates, credit and cash flow are minimal. The ultimate parent company, Dell Technologies Inc. and the intermediate parent company, VMware Inc., have appropriate risk management programmes in place to manage any such risk that may arise.

The company is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions denominated in a currency that is not the company's functional currency and from the change in value of recognised assets and liabilities denominated in a currency that is not the company's functional currency. The company's policy is to ensure that its net exposure is kept to an acceptable level. The company does not enter into any derivative transactions to hedge its foreign currency exposures.

By order of the board

I Roberts



DIRECTORS' REPORT

The directors present their annual report of the company for the 13 month financial period ended 2 February 2018.

On 7 September 2016, the previous ultimate parent company, EMC Corporation, completed a transaction to combine Dell and EMC to form Dell Technologies Inc. which from this date is the ultimate parent company. The combined company will be a leader in numerous high-growth areas of the information technology market, with a complementary portfolio, sales team and research and development ("R&D") organization across four globally recognized technology franchises - servers, storage, virtualization and PCs - and brings together strong capabilities in the fast growing areas of the industry, including converged infrastructure, digital transformation, software-defined data centre, hybrid cloud, mobile and security.

As a result of the above merger, VMware has aligned to Dell's fiscal calendar. During the year, the company changed its financial year end from 31 December to a floating year end i.e. the accounting year starts on the day following the Friday closest to 31 January and shall end on the Friday closest to 31 January of each year. These financial statements are for the 13 month financial period from 1 January 2017 to 2 February 2018.

Directors' responsibilities statement

The directors are responsible for preparing the annual report in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year giving a true and fair view of the company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the company for the financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the directors shall 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, including FRS101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2006 and enable those financial statements to be audited.

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.

Future developments

There are no other significant future developments planned.

Post balance sheet events

There were no other significant events affecting the company since year end.

Accounting records

The measures taken by the directors to secure compliance with the company's obligation to keep adequate accounting records are the use of appropriate systems, procedures and employment of competent persons. The accounting records are kept at 9th Floor 107 Cheapside, London EC2V 6DN, United Kingdom.

DIRECTORS' REPORT - continued

Going concern

The directors, after making enquiries, have a reasonable expectation, that the company has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Research and development

The company continues to conduct research and development on behalf of VMware Bermuda Limited with particular reference to the development of computer software products.

Research and development expenses include payroll, employee benefits, equity compensation, and other headcount related costs associated with product development.

Directors

The names of the persons who are currently and were directors of the company during the 13 month period ended 2 February 2018 are set out below. Except where indicated, they served as directors for the entire year.

H Jul-Hansen (Resigned on 22 December 2017)
C Norris (Appointed on 22 December 2017)
K Kryslar
I Roberts

Political donations

The company made no political donation during the year (2016: Nil).

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

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 and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the in-house newsletters, briefing groups and company intranet.

Policy and practice on payment of creditors

Trade creditors on average represent 45 days (2016: 45 days) of relevant operating expenses. It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Dividends

No dividends were paid or proposed in respect of the financial period.

Disclosure of information to auditors

The directors in office at the date of this report have each confirmed that:

- as far as they are aware, there is no relevant audit information of which the company's statutory 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's statutory auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers, 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

I Roberts

16 October 2018



Independent auditors' report to the members of VMware UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, VMware UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 2 February 2018 and of its profit for the 13 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 101 "Reduced Disclosure Framework", 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 2 February 2018; the profit and loss account, the statement of changes in equity for the 13 month period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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.

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 2 February 2018 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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. 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.



Other required reporting

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.

A handwritten signature in dark ink, appearing to read 'Declan Maunsell'.

Declan Maunsell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Cork
Ireland
18 October 2018

PROFIT AND LOSS ACCOUNT
13 Month Financial Period Ended 2 February 2018

	Note	13 month financial period ended 2 February 2018 £'000	Year ended 31 December 2016 £'000
Turnover	5	297,567	128,445
Cost of sales		(80,497)	-
Gross profit		217,070	128,445
Operating expenses		(194,502)	(131,904)
Operating profit	6	22,568	(3,459)
Interest receivable and similar income	8	461	264
Interest payable and similar charges	8	(4)	(6)
Foreign exchange (losses)/gains	8	(5,694)	3,803
Profit on ordinary activities before taxation		17,331	602
Tax on profit on ordinary activities	9	(1,997)	(1,538)
Profit/(loss) for the financial period		15,334	(936)

All amounts included in the profit and loss derive from continuing operations.

The notes on pages 12 to 29 form part of the financial statements.

The company has no recognised gains and losses other than those included in the profit and loss account above and, therefore, no separate statement of comprehensive income has been prepared.

The financial statements on pages 9 to 29 were approved by the board of directors on 16 October 2018, and were signed on its behalf by:

On behalf of the Board

I Roberts



BALANCE SHEET
As at 2 February 2018

	Note	2 February 2018 £'000	31 December 2016 £'000
Fixed assets			
Tangible assets	10	5,665	5,408
Intangible assets	11	3	12
		<u>5,668</u>	<u>5,420</u>
Current assets			
Debtors	12	215,013	25,801
Cash at bank and in hand		107,641	95,062
		<u>322,654</u>	<u>120,863</u>
Creditors - amounts falling due within one year	14	<u>(122,192)</u>	<u>(20,414)</u>
Net current assets		<u>200,462</u>	<u>100,449</u>
Total assets less current liabilities		<u>206,130</u>	<u>105,869</u>
Creditors - amounts falling due after more than one year	15	<u>(65,052)</u>	<u>(924)</u>
Net assets		<u>141,078</u>	<u>104,945</u>
Capital and reserves			
Called-up share capital	16	1	1
Capital contribution	16	1,072	1,072
Share based payments reserve	16/19	86,200	65,401
Profit and loss account	16	53,805	38,471
Total equity		<u>141,078</u>	<u>104,945</u>

The notes on pages 12 to 29 form part of the financial statements.

The financial statements on pages 9 to 29 were approved by the board of directors on 16 October 2018 and were signed on its behalf by:

On behalf of the Board

I Roberts



VMware UK Limited registered number: 06001046

STATEMENT OF CHANGES IN EQUITY
13 Month Financial Period Ended 2 February 2018

	Called-up share capital	Capital contribution	Share based payment reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	1	1,072	46,752	39,407	87,232
Total comprehensive loss for the financial year	-	-	-	(936)	(936)
Share-based payment charge for the financial year (note 19)	-	-	18,649	-	18,649
At 31 December 2016	<u>1</u>	<u>1,072</u>	<u>65,401</u>	<u>38,471</u>	<u>104,945</u>
At 1 January 2017	1	1,072	65,401	38,471	104,945
Total comprehensive profit for the financial period	-	-	-	15,334	15,334
Share-based payment charge for the financial period (note 19)	-	-	20,799	-	20,799
At 2 February 2018	<u>1</u>	<u>1,072</u>	<u>86,200</u>	<u>53,805</u>	<u>141,078</u>

The notes on pages 12 to 29 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

VMware UK Limited ("the company"), effective from 15 May 2017, acts as a limited risk distributor for its shareholder, VMware International Limited ("VIL") in respect of the sale of VMware products and services to customers in the UK territory. The company also provides EMEA management services to the VMware Group along with conducting research and development services for the benefit of VMware Bermuda Limited, a related party. Prior to 15 May 2017, the company also provided sales and marketing support to VIL in the UK territory. Support included the provision of marketing and promotional services in relation to VMware software technology. This activity ceased upon transition to the company's current limited risk distributor structure. The address of the company's registered office is 9th Floor 107 Cheapside, London EC2V 6DN, United Kingdom.

2 Parent undertaking

The company's ultimate parent undertaking is Dell technologies Inc, a company incorporate in the United States of America. The company's immediate parent undertaking is VMware International Limited, a company incorporated in Ireland. In common with other group companies, the financial statements reflect the effects of such group membership. VMware Inc. is the parent undertaking of the smallest group to consolidate these financial statements and Dell Technologies Inc. is the parent undertaking of the largest group to consolidate these financial statements. Copies of the parent's consolidated financial statements may be obtained from the Secretary, VMware Inc, 3401 Hillview Avenue, Palo Alto CA 94304, U.S.A. As the company is a wholly owned subsidiary of VMware Inc., the group financial statements of which are publicly available, advantage is taken of the exemption available under FRS101 'Related Party Disclosures' from disclosing transactions with group companies and from presenting a cash flow statement.

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. The company prepares its Financial Statements in accordance with FRS 101.

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention. The financial statements comply with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 ('the Act'). The preparation of financial statements in conformity with FRS 101 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.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. The company is a qualifying entity for the purposes of FRS 101. Details of the company's parent and from where its consolidated financial statements prepared in accordance with US GAAP may be obtained are set out in note 2 to the financial statements.

(b) Going concern

The directors have satisfied themselves that the company is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view, the directors made enquiries into the financial position and resources available to the company including a review of the budget for the next year. Therefore, the directors continue to adopt the going concern basis in preparing the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(c) Exemptions for qualifying entities under FRS 101

In accordance with FRS 101 the company has availed of an exemption from the following requirements of IFRS:

- The requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows); 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third statement of financial position);
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures).
- The requirements of IAS 7 'Statement of Cash Flows'.
- The requirements of paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation).
- The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group where both parties to the transaction are wholly owned within the group.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 1351 to 1351 of IAS 36 'Impairment of Assets'.

(d) Foreign currency

(i) Functional and presentation currency

The company's functional and presentation currency is the pound sterling and unless where otherwise stated, have been presented in thousands (£'000).

(ii) 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.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement..

(i) Licence revenues

VMware recognises revenues from the sale of software licences when risk of loss transfers, which is generally upon electronic shipment.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(e) Revenue recognition (continued)

(i) *Licence revenues (continued)*

VMware licences most of its software under perpetual licences through its channel of distributors, resellers, system vendors, systems integrators and through its direct sales force. VMware also licences certain software products on a subscription basis. To the extent VMware offers product promotions and the promotional products are not yet available the revenue for the entire order is deferred until such time as all product obligations have been fulfilled. Revenues relating to products that have shipped into a channel are deferred until the products are sold through the channel. VMware obtains sell-through information from distributors and certain resellers on a monthly basis. For VMware's channel partners who do not report sell-through data, VMware determines sell-through information based on payment of such distributors' and certain resellers' accounts receivable balances and other relevant factors. For software sold by system vendors that is bundled with their hardware, unless the Company has a separate licence agreement with the end-user, revenue is recognised in arrears upon the receipt of binding royalty reports.

For all sales, VMware uses one of the following to constitute evidence of an arrangement:

- a purchase order or equivalent;
- a licence agreement and a purchase order or equivalent;
- a licence agreement which includes language that the agreement also serves as the purchase order; or
- a master agreement and a binding royalty report.

Sales through distributors and resellers are evidenced by a master distribution agreement, together with purchase orders or equivalent, on a transaction-by-transaction basis.

With limited exceptions, VMware's return policy does not allow product returns for a refund. Certain distributors and resellers may rotate stock when new versions of a product are released. VMware estimates future product returns at the time of sale based on historical return rates, levels of inventory held by distributors and resellers, and other relevant factors. Returns have not been material to date and have been in line with VMware's expectations.

VMware offers rebates to certain channel partners. When rebates are based on a set percentage of actual sales, VMware recognises the amount of the rebates as a reduction of revenues when the underlying revenue is recognised. Rebates are earned only if a cumulative level of sales is achieved, VMware recognises the amount of the rebates as a reduction of revenues proportionally for each sale that is required to achieve the target.

VMware also offers marketing development funds to certain channel partners. VMware records the amount of the marketing development funds, based on the maximum potential liability, as a reduction of revenues at the time the underlying revenue is recognised.

(ii) *Service revenues*

Services revenues consist of software maintenance and professional services. VMware recognises software maintenance revenues rateably over the contract period, which typically ranges from one to five years. Professional services include design, implementation and training. Professional services are not considered essential to the functionality of VMware's products as these services do not alter the product capabilities and may be performed by customers or other vendors. Professional services engagements performed for a fixed fee, for which VMware is able to make reasonably dependable estimates of progress toward completion, are recognised on a proportional performance basis based on hours and direct expenses incurred. Professional services engagements that are on a time and materials basis are recognised based upon hours incurred. Revenues on all other professional services engagements are recognised upon completion.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(e) Revenue recognition (continued)

(iii) *Multiple-element arrangements*

VMware software products are typically sold with software maintenance services. Vendor-specific objective evidence ("VSOE") of fair value for software maintenance services is established by the rates charged in stand-alone sales of software maintenance contracts or the stated renewal rate for software maintenance included in the licence agreement. VMware software products may also be sold with professional services. VSOE of fair value for professional services is based upon the standard rates VMware charges for such services when sold separately. VMware perpetual software products may be sold with products licenced on a subscription basis. VSOE of fair value for subscription licence products is established by the rates charged in stand-alone sales of subscription licence products. The revenues allocated to the software licence included in multiple-element contracts represent the residual amount of the contract after the fair value of the other elements has been determined. If VMware is unable to establish VSOE of fair value for one of the undelivered elements included in a multiple-element contract, the revenue is deferred until VSOE of fair value for the undelivered element has been established or the element has been delivered. If the element involves time-based delivery, the entire arrangement is recognised rateably over the delivery period.

Customers under software maintenance agreements are entitled to receive updates and upgrades on a when-and-if-available basis, and various types of technical support based on the level of support purchased. In the event specific features or functionality, entitlements, or the release number of an upgrade have been announced but not delivered, and customers will receive that upgrade as part of a current software maintenance contract, a specified upgrade is deemed created and product revenues are deferred on purchases made after the announcement date until delivery of the upgrade. The amount and elements to be deferred are dependent on whether the company has established VSOE of fair value for the upgrade. On occasion, VSOE of fair value of these upgrades is established based upon the price set by management. VMware has a history of selling such upgrades on a stand-alone basis.

Unearned revenues include unearned software maintenance fees, professional services fees and licence fees.

(iv) *Related party services revenues*

The company earns revenue under a Management Recharge Agreement with VMware International Limited and a Research and Development Agreement with VMware Bermuda Limited.

Prior to 15 May 2017, the company earned revenue under a Marketing Service Agreement with VMware International Limited which ceased upon the company's transition to a limited risk distributor structure.

The revenue receivable from the sales and marketing support and research and development services of the VMware software products is recognised as the services are rendered.

(f) **Deferred costs**

In accordance with the limited risk distributor agreement between the company and its immediate parent entity, the cost of products invoiced to the company is computed and agreed based on the appropriate EBIT based operating margin on the net revenue that is invoiced to the company's customers during the period. The company has therefore recognised a financial liability in respect of the cost of the products relating to the amount of deferred revenue that has been recognised as at the end of the financial period. The portion of the cost that has not yet been derived in the form of revenue into the profit and loss account of the company has been deferred on the balance sheet under the heading "deferred costs". Deferred costs are categorised between current and non-current in line with how deferred revenue is earned out.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(g) Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) *Short term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) *Defined contribution pension plans*

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

(iii) *Annual bonus plan*

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a 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.

(iv) *Share-based payments*

The group operates a number of equity-settled, share-based compensation plans, under which the company receives services from employees as consideration for equity instruments (options) of VMware Inc. The awards are granted by VMware Inc. and the company has no obligation to settle the awards. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. A credit is recognised directly in shareholders' funds. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets, and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances, employees might provide services in advance of the grant date, and so the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and grant date.

At the end of each reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. Below are details of VMware Inc's share-based payment accounting treatment.

The Black-Scholes option-pricing model is used to determine the fair value of VMware's stock option and Employee Stock Purchase Plan (the "ESPP") shares. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected term and risk-free interest rates. These assumptions reflect the company's best estimates, but these items involve uncertainties based on market and other conditions outside of the company's control. VMware restricted stock units are valued based on the company's stock price on the date of grant. These awards only contain a service vesting feature and compensation cost is recognized on a straight-line basis over the awards' requisite service periods.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(g) Employee benefits - continued

VMware restricted stock, including performance stock unit ("PSU") awards, are valued based on the company's stock price on the date of grant. For those awards expected to vest which only contain a service vesting feature, compensation cost is recognized on a straight-line basis over the awards' requisite service periods.

PSU awards will vest if certain VMware-designated performance target[s], including in certain cases a time-based or market-based vesting component, are achieved. All PSU awards also include a time-based vesting component. If minimum performance thresholds are achieved, each PSU award will convert into VMware's Class A common stock at a defined ratio depending on the degree of achievement of the performance target designated by each individual award. If minimum performance thresholds are not achieved, then no shares will be issued. Based upon the expected levels of achievement, stock-based compensation is recognized on a straight-line basis over the PSUs' requisite service periods. The expected levels of achievement are reassessed over the requisite service periods and, to the extent that the expected levels of achievement change, stock-based compensation is adjusted and recorded on the consolidated statements of income (loss) and the remaining unrecognized stock-based compensation is recognized over the remaining requisite service period.

(h) 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. Current or deferred taxation assets and liabilities are not discounted.

(i) *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.

Management periodically evaluates 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.

(ii) *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 except for certain exceptions. 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.

(i) **Intangible assets**

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of three to five years, on a straight line basis.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(j) Tangible assets

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 asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

(i) Leasehold improvements, office equipment, computers, servers, fixtures and fittings
Leasehold improvements, office equipment, computers, servers, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Depreciation and residual values
Depreciation on assets is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years
Office equipment	3 years
Computer equipment	2 years
Server equipment	5 years
Furniture and fixtures	5 years

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.

(iii) Subsequent additions and major components

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.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

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

(iv) Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until it is available for use.

(v) 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.

(k) 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.

(i) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(ii) Lease incentives

Incentives received to enter into an operation lease reduce the fair value of the asset and are credited to the profit and loss account, to reduce the lease expenses on a straight line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(l) Trade and other receivables

Trade and other receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors are recognised initially at fair value which is normally the original invoiced amount and subsequently measured at amortised cost, less any provision for impairment.

A provision for impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of the bad debt provision account, and the amount of the loss is recognised in the profit and loss account.

When a trade debtor or other debtor is uncollectible, it is written off against the bad debt provision account.

(m) 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 and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(n) Provisions and contingencies

(i) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(ii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(o) Financial instruments

(i) *Financial assets*

Basic financial assets, including trade and other debtors, cash and cash equivalents, short-term deposits and investments in corporate bonds, 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.

Trade and other debtors, cash and cash equivalents, investments in corporate bonds 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.

(ii) *Financial liabilities*

Basic financial liabilities, including trade and other payables, bank loans, 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.

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.

(p) Share capital

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.

(q) 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 judgements and estimation uncertainty

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the context of the company's activities there are no material accounting judgements or estimates affecting the company's results. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements are set out below:

(i) *Third party turnover and revenue recognition*

The company's revenue recognition process changed significantly from 15 May 2017 onwards as disclosed in note 1. From this date forward, the company derives revenues from the licensing of software and related services. VMware recognises revenues when persuasive evidence of an arrangement exists, and delivery has occurred. Certain sales streams (Licence revenue, services revenues and multiple-element arrangements) require judgement over the timing of the revenue recognition.

Accordingly the company has also started to recognise deferred revenue and deferred costs in relation to professional and maintenance services transactions that occurred during the year of which the recognition of income or expense is yet to be realised. See note 3 (f) for deferred costs accounting policies and see note 3 (e) for revenue recognition accounting policies.

(ii) *Customer rebates*

VMware offers rebates to certain channel partners. When rebates are based on a set percentage of actual sales, VMware recognises the amount of the rebates as a reduction of revenues when the underlying revenue is recognised. Rebates are earned only if a cumulative level of sales is achieved, VMware recognises the amount of the rebates as a reduction of revenues proportionally for each sale that is required to achieve the target.

(iii) *Impairment of debtors*

The directors make an assessment at the end of each financial year of whether there is objective evidence that a trade or other debtor is impaired. When assessing impairment of trade and other debtors, the directors consider factors including the current credit rating of the debtor, the age profile of outstanding invoices, recent correspondence and trading activity, and historical experience of cash collections from the debtor.

5 Turnover

	2018 £'000	2016 £'000
Analysis of turnover by activity:		
Licence and service revenue	172,026	-
Intercompany marketing services	87,708	109,532
Intercompany research and development services	37,833	18,913
	<u>297,567</u>	<u>128,445</u>

On 15 May 2017, the company commenced generating licence and service revenue from third parties. On the same date, the company ceased generating revenue from provision of marketing and promotional services to fellow group companies.

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Operating profit	2018	2016
	£'000	£'000
Operating profit is stated after charging:		
Wages and salaries	111,928	71,337
Social security costs	17,279	10,343
Other pension costs (note 17)	5,367	3,787
Equity - settled share-based payments	20,799	18,649
Staff costs	<u>155,373</u>	<u>104,116</u>
Depreciation of tangible assets - owned assets (note 10)	1,356	1,082
Depreciation of intangible assets - owned assets (note 11)	7	11
Operating lease charges – buildings	3,411	2,801
Fees payable for the audit	<u>18</u>	<u>18</u>

7 Employees and directors**(i) Employees**

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

	2018	2016
	Number	Number
By activity		
Finance and administration	43	43
Sales and marketing support	601	386
Marketing	57	46
Research and development	45	40
	<u>746</u>	<u>515</u>

(ii) Directors

Retirement benefits are not accruing to any directors under the company's defined contribution pension scheme. Details of emoluments paid to directors during the financial year are as follows:

	2018	2016
	£'000	£'000
Aggregate emoluments	254	245
Aggregate amounts (excluding shares) receivable under long terms incentive schemes	<u>334</u>	<u>106</u>
	<u>588</u>	<u>351</u>

Highest paid director

Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive scheme

	<u>588</u>	<u>351</u>
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The emoluments of two company directors, who were directors during the current period, were paid by fellow subsidiary undertakings and were not specifically recharged to the company. These directors are directors of a number of group and fellow subsidiary undertakings and it is not possible to make an accurate apportionment of their emoluments in respect of each of these subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Net finance (expense)/income	2018	2016
	£'000	£'000
(a) Finance income		
Interest receivable on bank deposits	461	264
Foreign exchange gains	-	3,803
	<u>461</u>	<u>4,067</u>
(b) Finance expense		
Bank charges payable - bank overdrafts	(4)	(6)
Foreign exchange losses	(5,694)	-
	<u>(5,698)</u>	<u>(6)</u>
(c) Net finance (expense)/income		
Finance income	461	4,067
Finance expense	(5,698)	(6)
Net finance (expense)/income	<u>(5,237)</u>	<u>4,061</u>
9 Income tax	2018	2016
	£'000	£'000
(a) Tax expense included in profit or loss		
Current tax:		
UK corporation tax on profit for the financial year	2,243	1,861
Adjustments in respect of prior periods	-	(263)
Total current tax	<u>2,243</u>	<u>1,598</u>
Deferred tax:		
Origination and reversal of timing differences	(246)	(60)
Total deferred tax	<u>(246)</u>	<u>(60)</u>
Tax on profit on ordinary activities	<u>1,997</u>	<u>1,538</u>
(b) Reconciliation of tax expense		
Tax assessed for the period is lower (2016: lower) than the standard rate of corporation tax in the UK for the year ended 2 February 2018 of 19.23% (2016: 20%). The differences are explained below:		
	2018	2016
	£'000	£'000
Profit on ordinary activities before tax	<u>17,331</u>	<u>602</u>
Profit multiplied by the standard rate of tax in the UK of 19.23% (2016: 20%)	3,333	120
Effects of:		
Share option (increase)/decrease	(1,390)	1,539
Expenses not deductible for tax purposes	136	130
Adjustments to tax charge in respect of previous financial years	-	(267)
Tax rate changes	19	16
Transfer of assets	(101)	-
Tax charge for the year	<u>1,997</u>	<u>1,538</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Income tax (continued)

The company is liable to corporation tax on trading profits at the standard rate of corporation tax in United Kingdom. Legislation was enacted as part of the Finance Bill 2015 to reduce the rate to 17 per cent effective from 1 April 2020. Accordingly, the deferred tax balance has been calculated using this rate of 17 per cent.

10 Tangible assets	Leasehold improvements	Office equipment and computers	Fixtures and fittings	Construction in progress	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2016	4,969	4,189	954	37	10,149
Additions	-	-	-	411	411
Transfers	26	309	(32)	(303)	-
Disposals	(405)	(904)	(3)	-	(1,312)
Transfers from fellow group undertakings	-	123	-	-	123
Adjustments	57	-	6	-	63
At 31 December 2016	<u>4,647</u>	<u>3,717</u>	<u>925</u>	<u>145</u>	<u>9,434</u>
At 1 January 2017	4,647	3,717	925	145	9,434
Additions	57	286	30	67	440
Transfers	-	(125)	-	-	(125)
Disposals	(1)	(262)	-	-	(263)
Transfers from fellow group undertakings	1,579	1,254	65	-	2,898
Reclassifications	-	145	-	(145)	-
At 2 February 2018	<u>6,282</u>	<u>5,015</u>	<u>1,020</u>	<u>67</u>	<u>12,384</u>
Accumulated depreciation					
At 1 January 2016	672	3,016	158	-	3,846
Disposals	(405)	(495)	(3)	-	(903)
Transfer from fellow group undertakings	-	1	-	-	1
Charge for year	<u>533</u>	<u>427</u>	<u>122</u>	<u>-</u>	<u>1,082</u>
At 31 December 2016	<u>800</u>	<u>2,949</u>	<u>277</u>	<u>-</u>	<u>4,026</u>
At 1 January 2017	800	2,949	277	-	4,026
Disposals	(1)	(180)	-	-	(181)
Transfer to fellow group undertakings	-	(112)	-	-	(112)
Transfer from fellow group undertakings	726	858	46	-	1,630
Charge for year	<u>803</u>	<u>416</u>	<u>137</u>	<u>-</u>	<u>1,356</u>
At 2 February 2018	<u>2,328</u>	<u>3,931</u>	<u>460</u>	<u>-</u>	<u>6,719</u>
Net book value					
At 31 December 2016	<u>3,847</u>	<u>768</u>	<u>648</u>	<u>145</u>	<u>5,408</u>
At 2 February 2018	<u>3,954</u>	<u>1,084</u>	<u>560</u>	<u>67</u>	<u>5,665</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Intangible assets

Software
£'000**Cost**

At 1 January 2016	25
Additions	5
At 31 December 2016	30
At 1 January 2017	30
Transfers	6
Disposals	(2)
At 2 February 2018	34

Accumulated amortisation

At 1 January 2016	7
Charge for year	11
At 31 December 2016	18
At 1 January 2017	18
Transfers	6
Charge for year	7
At 2 February 2018	31

Net book value

At 31 December 2016	12
At 2 February 2018	3

12 Debtors

2018
£'0002016
£'000

Amounts falling due within one year:

Trade receivables	36,928	-
Amounts owed by group undertakings	18,019	22,674
Deferred costs	94,718	-
Value Added Tax	-	1,374
Corporation tax	248	-
Deferred tax (note 13)	391	145
Prepayments and accrued income	1,409	1,219
	151,713	25,412

Amounts falling due after more than one year:

Deferred costs	63,146	-
Prepayments and accrued income	154	389
	215,013	25,801

Trade receivables are disclosed net of provisions of £nil. (2016: £nil)

The amounts owed by the group undertakings are unsecured, are repayable on demand, have no fixed date of repayment, and are interest free. The fair value of amounts due from group undertakings approximates to their carrying amount.

Deferred costs relate to the costs of products for which deferred revenue has been recognised following the commencement of the limited risk distribution agreement on 15 May 2017.

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Deferred tax	2018	2016
	£'000	£'000
An analysis of the deferred tax asset is as follows:		
Excess depreciation over capital allowances	343	145
Items deductible upon payment	47	-
Total deferred tax asset	<u>391</u>	<u>145</u>
At beginning of period	145	85
Deferred tax credit in profit and loss account (note 9)	246	60
At end of period	<u>391</u>	<u>145</u>

14 Creditors - amounts falling due within one year	2018	2016
	£'000	£'000
Deferred revenue	96,652	-
Accruals	19,455	16,664
Value Added Tax	4,090	-
Taxation and social insurance	1,672	1,220
Corporation tax	-	369
Trade creditors	319	1,122
Amounts owed to group undertakings	4	1,039
	<u>122,192</u>	<u>20,414</u>

The amounts owed to the group undertakings are unsecured, are repayable on demand and are interest free. The fair value of amounts due from group undertakings approximates to their carrying amount.

Value Added Tax, tax and social insurance are repayable at various dates over the coming months in accordance with the applicable statutory provision.

Deferred revenue arises on licence and service revenue following the commencement of the limited risk distributor agreement on 15 May 2017.

15 Creditors – amounts falling due after more than one year	2018	2016
	£'000	£'000
Deferred revenue	64,435	-
Accruals	617	924
	<u>65,052</u>	<u>924</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Called-up share capital

	2018 £'000	2016 £'000
Authorised		
1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>

Capital contribution

The capital contribution reserve represents funds contributed to the company.

Share based payments reserve

The share based payments reserve represents accumulated stocks awards by VMware Inc. to VMware UK employees.

Profit and loss

The profit and loss reserve represents accumulated profits or losses, net of dividends paid and other adjustments.

17 Post-employment benefits

The amount recognised as an expense for the defined contribution scheme was:

	2018 £'000	2016 £'000
Current period contributions	<u>5,367</u>	<u>3,787</u>

The amount payable at year end was £nil (2016: £nil).

18 Financial commitments

The company has operating lease commitments payable under non-cancellable operating leases in respect of land and buildings which expire as follows:

	2018 £'000	2016 £'000
Payments due:		
Not later than one year	2,718	2,518
Between two and five years	8,905	8,352
Greater than five years	<u>3,787</u>	<u>6,184</u>
	<u>15,410</u>	<u>17,054</u>

The company had no other off-balance sheet arrangements.

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Share-based payments

VMware Equity Plans

Certain employees of the company, along with other group employees, have been granted options over the shares in VMware Inc. Employees are required to remain in employment with the group until the options become exercisable.

In June 2007, VMware adopted its 2007 Equity and Incentive Plan (the "2007 Plan"). As of 2 February 2018, the number of authorized shares under the 2007 Plan was 121.6 million. The number of shares underlying outstanding equity awards that VMware assumes in the course of business acquisitions are also added to the 2007 Plan reserve on an as-converted basis. VMware has assumed 4.4 million shares, which accordingly have been added to authorized shares under the 2007 Plan reserve. Awards under the 2007 Plan may be in the form of stock-based awards, such as restricted stock units, or stock options. VMware's Compensation and Corporate Governance Committee determines the vesting schedule for all equity awards. Generally, restricted stock grants made under the 2007 Plan have a three-year to four-year period over which they vest and vest 25% the first year and semi-annually thereafter. The exercise price for a stock option awarded under the 2007 Plan shall not be less than 100% of the fair market value of VMware Class A common stock on the date of grant. Most options granted under the 2007 Plan vest 25% after the first year and monthly thereafter over the following three years and expire between six and seven years from the date of grant. VMware utilizes both authorized and unissued shares to satisfy all shares issued under the 2007 Plan. At 2 February 2018, there were an aggregate of 12.8 million shares of common stock available for issuance pursuant to future grants under the 2007 Plan.

VMware Stock Purchase Plan

In June 2007, VMware adopted its 2007 Employee Stock Purchase Plan (the "ESPP"), which is intended to be qualified under Section 423 of the Internal Revenue Code. As of 2 February 2018, the number of authorized shares under the ESPP was a total of 14.3 million shares. Under the ESPP, eligible VMware employees are granted options to purchase shares at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. The option period is generally twelve months and includes two embedded six-month option periods. Options are exercised at the end of each embedded option period. If the fair market value of the stock is lower on the first day of the second embedded option period than it was at the time of grant, then the twelve-month option period expires and each enrolled participant is granted a new twelve-month option. As of 2 February 2018, 2.1 million shares of VMware Class A common stock were available for issuance under the ESPP.

The company recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution.

Movement in the number of share options outstanding and their related weighted average exercise prices in US\$ are as follows:

	2018		2016	
	Average exercise price per share US\$	Number of Share options	Average exercise price per share US\$	Number of Share options
At beginning of year	75.34	31,834	79.03	46,147
Transferred options	31.74	25,002	2.69	1,709
Granted	25.26	3,603	-	-
Forfeited	69.32	(2,093)	82.78	(12,332)
Exercised	46.86	(33,843)	62.96	(3,690)
At end of year	<u>63.33</u>	<u>24,503</u>	<u>75.34</u>	<u>31,834</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Share-based payments (continued)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	2018		2016	
	Range of exercise prices US\$	Share options	Range of exercise prices US\$	Share options
2017	-	-	1.04	1,178
2019	-	-	6.21	483
2020	-	-	70.54 - 79.66	4,129
2021	7.67 - 95.05	15,722	7.67 - 95.05	22,398
2022	0.24 - 0.96	3,183	-	-
2023	0.96 - 19.07	1,995	20.87	3,646
2027	25.26	3,603	-	-
		<u>24,503</u>		<u>31,834</u>

Movement in the number of restricted stock units outstanding and their related weighted average grant date fair value prices in US\$ are as follows:

	2018		2016	
	Average Grant date fair value per share US\$	Number of Share options	Average Grant date fair value per share US\$	Number of Share options
At beginning of year	66.84	740,378	77.49	591,199
Transferred options	65.40	25,153	64.39	(4,240)
Granted	96.19	400,232	59.32	450,912
Forfeited	70.52	(72,694)	75.13	(76,671)
Vested	68.21	(339,031)	77.16	(220,822)
At end of year	<u>81.83</u>	<u>754,038</u>	<u>66.84</u>	<u>740,378</u>

Restricted Stock Units outstanding at the end of the year have the following vest dates:

	2018 Share options	2016 Share options
2016	-	793
2017	-	19,038
2018	31,481	70,880
2019	101,346	221,640
2020	369,703	428,027
2021	248,035	-
2022	3,473	-
	<u>754,038</u>	<u>740,378</u>

20 Subsequent events

There have been no significant subsequent events affecting the company.