

**VMWARE INTERNATIONAL UNLIMITED COMPANY**

**Annual Report**

**Financial Year Ended 29 January 2021**

**CONTENTS**

	<b>Page</b>
DIRECTORS AND OTHER INFORMATION	2
DIRECTORS' REPORT	3 to 8
INDEPENDENT AUDITORS' REPORT	9 to 14
PROFIT AND LOSS ACCOUNT	15
STATEMENT OF FINANCIAL POSITION	16
STATEMENT OF CHANGES IN EQUITY	17
NOTES TO THE FINANCIAL STATEMENTS	18 to 46
APPENDIX 1 – NON-FINANCIAL STATEMENT DISCLOSURE REPORT	47 to 49

## DIRECTORS AND OTHER INFORMATION

### Board of Directors at 9 December 2021

K Barry-Murphy  
K Egan  
A Lyons  
H Dursun

### Solicitors

Matheson Ormsby Prentice  
70 Sir John Rogerson's Quay  
Dublin 2

### Secretary and Registered Office

K Egan  
70 Sir John Rogerson's Quay  
Dublin 2

### Bankers

Citibank  
Citigroup Centre  
Canary Wharf  
London  
UK

**Registered Number:** 402208

### Independent Auditors

PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
One Albert Quay  
Cork

## DIRECTORS' REPORT

The directors present their annual report of the company for the year ended 29 January 2021. The comparative financial statements are prepared for the year ended 31 January 2020.

### Directors' responsibilities statement

The directors are responsible for preparing the annual report in accordance with Irish law.

Irish 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 Irish Generally Accepted Accounting Practice (accounting standards issued by the UK Financial Reporting Council, including Financial Reporting Standard 101 *'Reduced Disclosure Framework'* and Irish law).

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the company for the financial year.

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 the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to 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 2014 and enable those financial statements to be audited.

The directors 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.

### Principal activities and future developments

The principal activity of VMware International Unlimited Company ("VIC" or "the company") is to design, develop, produce, sell, market and support software products and related services of VMware Inc. ("VMware") in all jurisdictions outside of the United States. These software products and services relate to the virtualisation of computer hardware and other associated hardware, including virtualisation software, management software, configuration and provisioning software, security-related software, test and measurement software and other supporting software.

Prior to 31 May 2019, the company had been granted the marketing rights to the VMware technology under an Operating Licence Agreement from its immediate parent company, VMware Bermuda Unlimited Company (formerly known as VMware Bermuda Limited). On 31 May 2019, the company completed the purchase of certain intellectual property ('IP') rights to produce and distribute certain software products and services for all international jurisdictions outside of the United States from VMware Bermuda Unlimited Company. As a result of this transaction, the company now operates under a cost sharing agreement (CSA) with VMware, Inc. and became the full beneficial owner of the IP rights for all international jurisdictions outside of the United States. As the full beneficial owner of IP rights, the company no longer incurs royalty charges from VMware Bermuda Unlimited Company but takes all the risks and returns attached to the IP rights including expected future profitability and amortisation of IP.

## DIRECTORS' REPORT - continued

### Principal activities and future developments (continued)

VMware is a leading provider of virtualisation solutions; the solutions represent a pioneering approach to computing that separates the operating system and application software from the underlying hardware to achieve significant improvements in efficiency, availability, flexibility and manageability. These solutions address complex IT problems that include infrastructure optimisation, business continuity, software lifecycle management and desktop management. Benefits to customers include substantially lowering IT and energy costs, choice of operating systems and a more automated systems infrastructure.

The company's primary source of revenue is the licensing of virtual infrastructure software solutions and related support and services through a variety of distribution channels for use by businesses and organisations of all areas and across numerous industries in their information technology infrastructure. VMware's virtual infrastructure software solutions run on industry-standard desktops and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures. VMware have developed a multi-channel distribution model to expand its presence and to reach various segments of the industry.

VMware's current financial focus is on sustaining its revenue growth to expand its industry segment share. Although VMware is currently the leading provider of virtual infrastructure solutions, the company believes the use of virtual infrastructure solutions is at the early stages of adoption by customers. The company expects to face competitive threats to VMware's leadership of this industry sector from a number of companies, some of which may have significantly greater resources than VMware. As a result, the directors believe it is important to continue to invest in strategic initiatives related to product research and development and associated support functions to maintain or expand VMware's leadership in providing virtual infrastructure solutions. VMware will be able to continue to fund its product development through operating cash flows as it continues to sell its existing products and services.

### Business review – key developments

The company was a wholly owned subsidiary of VMware Bermuda Unlimited Company until 20 December 2020 when as part of a wider group re-organisation, VMware Bermuda Unlimited Company transferred its 100% shareholding in VMware International Unlimited Company to another group company, VMware Technology Holdings Limited ("VTH"), a company incorporated in Bermuda.

VMware was part of the Dell Technologies Group ("Dell Group") until 1 November 2021, when Dell Technologies Inc. (the ultimate parent entity at 29 January 2021) completed its spin off of its 81% equity ownership interest in VMware Inc. The spin-off was completed through a special dividend of VMware shares to Dell's shareholders. VMware also distributed a special cash dividend to all VMware shareholders at this date.

On 28 March 2020, Pivotal Software International Holdings Limited ("PSIHL"), a fellow subsidiary undertaking incorporated in Ireland, transferred certain 'rest of world' rights to Pivotal intellectual property (the "Pivotal ROW IP") to the company for a total consideration of \$536.0m, which was financed by way of an 8 year interest-bearing promissory note. The fair value of the IP rights acquired was \$660.0m, with the difference between the fair value and the consideration accounted for as a capital contribution in the financial statements of the company. This step effected the transfer of PSIHL's rights and obligations under the Pivotal Cost Sharing Agreement ("Pivotal CSA") to VIC. On the same date, VIC entered into an exclusive license agreement with Pivotal Software Inc. for the exclusive right to use Pivotal Mexico's IP rights ("Pivotal Mexico IP") for a cash consideration of \$1.2m. On 28 March 2020, subsequent to the acquisition of the Pivotal ROW IP and the Pivotal Mexico IP, VIC and Pivotal Software Inc. terminated the existing Pivotal CSA, and on the same day entered into a Memorandum of Understanding ("MOU") regarding the utilisation and integration of the Pivotal IP rights within the VMware CSA.

Additionally, at various dates during the year, the company acquired other IP rights from other VMware Group companies for a consideration of \$109.3m. The fair value of these rights and licenses acquired was \$135.5m, with the difference accounted for as a capital contribution of \$26.2m.

During the year, the company also acquired other IP rights from other VMware Group companies for a consideration of \$34.0m with the fair value of these rights and licenses amounted to \$23.9m. The difference of \$10.1m was accounted for as a deemed dividend in the financial statements of the company.

## DIRECTORS' REPORT - continued

### Business review – key developments (continued)

On 30 March 2020, PSIHL transferred its shares in Pivotal Software International Limited (“PSIL”), a company registered in Ireland, to the company for a nominal consideration of US\$131. On that date, PSIL became a wholly owned subsidiary of the company.

On 1 April 2020, PSIL was merged into the company, the latter being the surviving entity. The merger was a merger by absorption such that, on the effective date of the merger, PSIL, as the transferor company, transferred its assets and liabilities to the company, as the transferee company, and PSIL was dissolved without going into liquidation. As a result of the merger, the company acquired PSIL’s net liabilities of \$167.4m, resulting in a debit to the merger reserve of \$167.4m being recognised in equity in the company’s financial statements.

### Business review – trading performance

Turnover for the year amounted to \$5,571.0m (2020: \$4,892.2m), an increase of \$678.8m. The increased turnover is a result of the increased presence and penetration of VMware International Unlimited Company in the international market. This increase is largely attributable to increases of \$246.0m, \$213.2m and \$172.8m in the Asia Pacific; European, Middle East and African; and Canadian markets respectively. Gross profit for the year amounted to \$2,960.1m (2020: \$2,434.8m) and net operating profit amounted to \$97.1m (2020: \$183.6m). The improved gross margin is driven by strong revenue growth compared to a cost base which is not growing at the same rate due to certain costs being relatively fixed.

The company's loss for the year was \$1,487.2m (2020: loss of \$809.4m). The Company's loss was driven by the interest expense of \$1,715.7m arising on the loan notes issued to finance the purchase of IP rights. As the full beneficial owner of the IP rights, the directors expect revenue growth will return the company to profitability in the longer term.

The company’s trading performance is not directly comparable with the prior year. As noted above, during the prior year the company purchased certain intellectual property from VBU, ceased its Operating Licence Agreement with VBU and started to operate under a cost sharing agreement (CSA) with VMware, Inc. The company merged with PSIL during the year.

Net assets at 29 January 2021 were \$8,512.6m (2020: \$9,330.7m). The decrease in net assets is mainly due to a decrease in intangible assets of \$548.5m, an increase in contract liabilities of \$781.8m and an increase in amounts due to parent and fellow group undertaking by \$396.0m offset in part by an increase in cash and cash equivalents amounting to \$473.8m. Average headcount for the year ended 29 January 2021 was 947 (2020: 858).

### Dividends

During the financial year, the Board of Directors of the company declared and paid dividends in the amount of \$30.9m (2020: \$21.3m) to VMware Bermuda Unlimited Company (immediate parent company). Of this amount, \$20.8m was paid during the year and \$10.1m was a deemed dividend (note 18).

### 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 personnel. The accounting records are kept at 3401 Hillview Avenue, Palo Alto, CA 94304, United States, and at Parnell House, Ballincollig, Co. Cork, Ireland.

### Directors' and secretary's interests in shares

The names of the persons who are currently and/or were directors for the year ended 29 January 2021 are set out below. Except where indicated, they served for the entire year.

K Barry-Murphy

A Lyons

K Egan (director and secretary)

K Chou (resigned on 18 June 2021)

H Dursun

The directors and secretary of the company in office at 29 January 2021 did not have a beneficial interest in the share capital of the company at 29 January 2021. The directors' interests in the shares of the intermediate parent (VMware Inc.) and the ultimate parent (Dell Technologies Inc.) are not disclosed as the company is exempt under section 260 of the Companies Act 2014, as the directors' shares are less than 1% of the parent undertakings' issued share capital.

## DIRECTORS' REPORT - continued

### Financial risk management

The directors consider that the key financial risks attributable to the company are foreign exchange, cash flow and liquidity, interest rate, and credit risk. These are reviewed and managed by the directors on an ongoing basis in conjunction with management of VMware Inc. who have appropriate risk management programmes in place.

#### *Foreign exchange risks*

The company is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from 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.

#### *Cash flow and liquidity risk:*

The company has in place a programme of financial and non-financial performance indicators as part of its management reporting systems. Management review key financial performance indicators of sales, margin, profitability, cash flow and investment in working capital. In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, surplus funds are placed with related parties with short notice demand features.

#### *Interest rate risk*

The company is not exposed to interest-rate risk deriving from the fact that interest on its intercompany balances accrues at fixed rates. Management regularly assess early repayment or prepayment clauses in intercompany loan agreements designed to provide flexibility.

#### *Credit risk*

Credit risk arises from credit exposure to trade receivables and cash and cash equivalents including deposits with banks. Trade receivables arise from a wide and varied customer base and as such there is no significant concentration of credit risk. The group's credit risk management policy in relation to trade receivables involves periodically assessing the financial reliability of customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

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

### Principal risks and uncertainties

#### *Adverse economic conditions may harm our business*

Our overall markets could decline due to lower consumer spend caused by external economic factors.

Our business depends on the overall demand for IT and on the economic health of our current and prospective customers. The purchase of our products and services is often discretionary and may involve a significant commitment of capital and other resources. Weak economic conditions or significant uncertainty regarding the stability of financial markets, including as a result of volatility in the stock market, changes in tariffs and trade agreements or the imposition of fines or government sanctions, could adversely impact our business, financial condition and operating results in a number of ways, including by lengthening sales cycles, affecting the size of enterprise agreements ("EA") that customers will commit to, reducing the level of our non-EA transactional sales, lowering prices for our products and services, reducing unit sales and reducing the rate of adoption of our products and services by new customers and the willingness of current customers to purchase upgrades to our existing products and services.

Regional economic uncertainty can also result in general and ongoing tightening in the credit markets, lower levels of liquidity, increases in the rates of default & bankruptcy and significant volatility in the credit, equity and fixed income markets. Changes in governmental fiscal, monetary and tax policies may also impact interest rates on credit and debt. As a result, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services.

## DIRECTORS' REPORT - continued

### Principal risks and uncertainties (continued)

#### *Adverse economic conditions may harm our business - continued*

The potential impacts of these adverse economic conditions are assessed on a regular basis and the ultimate parent company, VMware Inc., has appropriate risk management programmes in place together with VMware International Unlimited Company to manage any such risks that may arise.

#### *COVID-19 impact*

The worldwide spread of COVID-19 has resulted in, and may continue to cause, a global slowdown of economic activity while also disrupting sales channels and marketing activities for an unknown period of time until the disease is contained. While the COVID-19 pandemic has not had a material adverse financial impact on our operations to date, the future course of the pandemic, any resulting economic impact and the degree and rate of economic recovery remain highly uncertain and continue to rapidly evolve. The pandemic has not had the level of financial impact on our business in the 2021 financial year we initially expected, however, there continues to be uncertainty regarding the economic effects of the COVID-19 pandemic and the extent to which it will have a negative impact on our sales and our financial results into the 2022 financial year. Although pandemic conditions in most regions of the world began easing following the start of 2022 financial year, there remains considerable uncertainty regarding the progress of vaccination programmes, the dangers posed by COVID-19 variants and when a return to pre-pandemic conditions can occur. Accordingly, should the pandemic persist for a long period of time, economic conditions globally or in particular regions may fail to recover or even worsen, which could cause material adverse impacts to our earnings and other results of operations. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets, which has and may continue to adversely impact our stock price and our ability to access the equity or debt capital markets on attractive terms or at all for a period of time, which could have an adverse effect on our liquidity position.

#### *Other principal risks and uncertainties*

- A significant customer's business could fail with consequent credit risk exposure to the company and a loss of future sales.
- Customers could stop purchasing from the company and leave for a competing brand.
- Operations at the company's facilities could be interrupted due to a fire, flood, or equipment failure.
- The company may not continue to have the ability to attract and retain suitably qualified employees.
- Laws and regulations could change with a negative impact on the company.
- Our operating results may be adversely impacted by exposure to additional tax liabilities and higher than expected tax rates.

### Events since the end of the financial year

Refer to note 20 for Events since the end of the financial year.

### Going concern

The company meets its day-to-day working capital requirements through cash resources and cash inflows from operations. The directors, after making enquiries and having regard to the company's financial position, the company's expected trading performance and cash flows, have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. Although the balance sheet shows net current liabilities at year-end, the directors note that the company is in a net current assets position when adjusted for contract liabilities and assets recognised for costs incurred to fulfil a contract. The balance sheet also shows a net assets position at year-end. For this reason, the going concern basis continues to be adopted in preparing the financial statements.



## DIRECTORS' REPORT - continued

### Political donations

The Electoral (Amendment) (Political Funding) Act 2012 requires companies to disclose all political donations over €200 in aggregate made during the financial year. The directors, on enquiry, have satisfied themselves that no such donations in excess of this amount have been made by the company.

### Research and development

The company incurred research and development expenses during the year of \$1.4m (2020: \$1.4m) related to employees directly employed.

As owner of certain IP rights to produce and distribute certain software products and services for all international jurisdictions outside of the United States, the company incurred intercompany R&D cross charges under a cost sharing agreement with VMware Inc. of \$1,008.3m (2020: \$638.0m) and cross charges from group subsidiaries for R&D activity performed of \$600.0m (2020: \$443.0m) during the year.

### Non-Financial Information

Pursuant to the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, the company is required to report on certain non-financial information to provide an understanding of its development, performance, position and the impact of its activities, relating to, at least, environmental matters, social matters, employee matters, respect for human rights and bribery and corruption. Refer to Appendix 1 of these financial statements for this report.

### 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.

### Audit Committee

The directors of the company have considered the requirements of section 167 of the Companies Act 2014 with regard to the establishment of an audit committee. Upon review, the directors have satisfied themselves that the intended activities and responsibilities set out in section 167 of the Companies Act 2014 are being appropriately discharged by the Audit Committee established by VMware Inc., as currently constituted. The directors intend to keep this under review during the 2022 financial year and in subsequent years, in conjunction with VMware Inc.'s Audit Committee, for the purposes of determining any additions to existing activities and responsibilities that may be introduced, as they see appropriate, in the context of the company as a stand-alone entity. For these reasons the directors have decided not to establish a company specific audit committee.

### Statutory auditors

The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed by the directors.

### On behalf of the board

K Barry-Murphy 

K Egan 

9 December 2021



# Independent auditors' report to the members of VMware International Unlimited Company

## Report on the audit of the financial statements

### Opinion

In our opinion, VMware International Unlimited Company's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 29 January 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report, which comprise:

- the statement of financial position as at 29 January 2021;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) 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 Ireland, which includes IAASA's Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Our audit approach

#### Overview

	<p>Materiality</p> <ul style="list-style-type: none"> <li>• \$83.5m (2020: \$48.4m)</li> <li>• Based on circa 1.5% of total turnover (2020 circa 1%)</li> </ul>
	<p>Audit scope</p> <ul style="list-style-type: none"> <li>• We performed a full scope audit of the company's financial statements, based on materiality levels.</li> </ul>
	<p>Key audit matters</p> <ul style="list-style-type: none"> <li>• Assessment of carrying value of intangible assets</li> <li>• Revenue Recognition — Identifying and Evaluating Terms and Conditions in Contracts</li> </ul>



*The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

*Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Assessment of carrying value of intangible assets</i></p> <p>Refer to note 3(g) - Summary of significant accounting policies, note 4 (i) and (ii) - Critical accounting estimates and assumptions and note 10 - Intangible assets to the financial statements.</p> <p>At 29 January 2021, following amortisation from the dates of acquisition, the company's intangible assets are reflected at their carrying value of US\$39 billion. In accordance with the company's accounting policies, management determined that these assets should be tested for impairment at 29 January 2021.</p> <p>Management engaged third party experts to perform an impairment assessment, as at 29 January 2021, applying a value-in use-model using management approved cash flow forecasts.</p> <p>As disclosed in note 10 to the financial statements, management concluded that there was no impairment at the balance sheet date.</p> <p>The key assumptions in the model include turnover growth rates, operating profit assumptions and the discount rate.</p> <p>We determined this to be a key audit matter due to the significant judgement and estimation used in determining the value of the intangible assets.</p>	<p>We obtained the valuation report issued by management's third party experts supporting management's conclusions.</p> <p>We evaluated management's cash flow forecasts in the model, including comparing them to the latest management approved forecasts. In evaluating these cash flow forecasts we considered the reliability of management's cash flow forecasting process by considering actual historic results compared to previous forecasts. We also considered year to date trading for fiscal year 2022.</p> <p>We critically assessed and challenged management on the key assumptions included in the model, in particular the turnover growth rates assumed over the period, the discount rate and the related operating profit assumptions. Turnover growth rates and the related operating profit assumptions were assessed by comparison to historical experience and other relevant data.</p> <p>We considered the appropriateness of the discount rate applied by comparing the elements of the weighted average cost of capital calculation to external benchmarks. We also assessed the appropriateness of the company's forecasted long term growth rate used to estimate terminal value by comparing it to independent sources. Our audit work in this regard included support from PwC professionals with specialised skill and knowledge.</p> <p>We performed sensitivity analysis on the impact of key assumptions on the impairment model.</p> <p>We found management's conclusion that there was no impairment at year end to be reasonable.</p> <p>We assessed the appropriateness of the related disclosures in the financial statements and we consider the disclosures to be reasonable.</p>



<p><i>Revenue Recognition – Identifying and Evaluating Terms and Conditions in Contracts</i></p> <p>Refer to note 3(c) - Summary of significant accounting policies, note 4 (i) - Critical judgements in applying the company’s accounting policies and note 5 - Turnover to the financial statements.</p> <p>The company derives revenue primarily from licensing software under perpetual licenses or consumption-based contracts and related software maintenance and support, software subscriptions (“subscriptions”), hosted services, training, and consulting services.</p> <p>The Company’s contracts with customers may include a combination of licenses, subscriptions and services that are accounted for as distinct performance obligations. In addition, control of a promised license, subscription or service may be transferred to a customer either at a point in time or over time, which affects the timing of revenue recognition.</p> <p>Management assesses relevant contractual terms in contracts with customers and applies judgement in identifying and accounting for all terms and conditions in certain contracts.</p> <p>We determined this to be a key audit matter due to the judgement required by management in identifying terms and conditions in certain contracts that impact revenue recognition.</p>	<p>We tested the effectiveness of controls relating to the revenue recognition process, including controls relating to the identification and evaluation of terms and conditions in revenue contracts that impact revenue recognition.</p> <p>We evaluated the completeness and accuracy of management’s identification and evaluation of the terms and conditions in contracts by selecting revenue contracts on a test basis and evaluating management’s determination of the impact of the contract terms and conditions on revenue recognition.</p> <p>Based on the procedures performed, we did not identify any material misstatements in Revenue.</p> <p>We assessed the appropriateness of the related disclosures in the financial statements and we consider the disclosures to be reasonable.</p>
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*How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We performed a full scope audit of the company’s financial statements, based on materiality levels. The company’s accounting function is managed out of its shared service centre in Cork, Ireland and is supported by global functions such as the VMware head office in Palo Alto, California. Accordingly, as part of our audit procedures, we determined the nature of audit work required in the VMware head office to support our opinion on the company financial statements and instructed our PwC network firm in this location to perform certain specified audit procedures on our behalf.

*Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	\$83.5m (2020: \$48.4m).
<b>How we determined it</b>	Circa 1.5% of total turnover (2020: Circa 1%)
<b>Rationale for benchmark applied</b>	Having considered the key users of the financial statements and the fact that the principal activity of this company is to sell, market and support VMware products and services, we believe that turnover provides us with an appropriate basis for determining materiality.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$4.2m (2020: \$2.4m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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### Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern assessment for the going concern period of twelve months from the date on which the financial statements are authorised for issue;
- Assessing the basis of management's conclusions including consideration of the net current liabilities of the company and assessing the liquidity position, including consideration of assets recognised for costs incurred to fulfil a contract and contract liabilities;
- Reviewing board minutes during the year under audit and those up to the date of this report; and
- Reviewing the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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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 Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included.



Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report (excluding the information included in the "Non Financial Statement" on which we are not required to report) for the year ended 29 January 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report (excluding the information included in the "Non Financial Statement" on which we are not required to 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 Directors' responsibilities statement set out on page 3, 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 (Ireland) 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

[https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description\\_of\\_auditors\\_responsibilities\\_for\\_audit.pdf](https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf)

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 section 391 of the Companies Act 2014 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 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

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### Other exception reporting

#### *Directors' remuneration and transactions*

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

#### *Prior financial year Non Financial Statement*

We are required to report if the company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 in respect of the prior financial year. We have nothing to report arising from this responsibility.

*Declan Maunsell*  
Declan Maunsell  
for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
Cork  
10 December 2021

**PROFIT AND LOSS ACCOUNT**  
For the financial year ended 29 January 2021

	Notes	Year ended 29 January 2021 US\$'000	Year ended 31 January 2020 US\$'000
<b>Turnover</b>	5	5,571,034	4,892,230
Cost of sales		<u>(2,610,978)</u>	<u>(2,457,441)</u>
<b>Gross profit</b>		2,960,056	2,434,789
Operating expenses		<u>(2,862,944)</u>	<u>(2,251,190)</u>
<b>Operating profit</b>	6	97,112	183,599
Profit on disposal of subsidiary undertakings	12	29,201	-
Dividend income	12	15,015	99,040
<b>Profit before interest and tax</b>		<u>141,328</u>	<u>282,639</u>
Interest income	7	2,883	22,757
Interest expense	8	<u>(1,715,740)</u>	<u>(1,136,876)</u>
<b>Loss before taxation</b>		<u>(1,571,529)</u>	<u>(831,480)</u>
Tax credit on loss	9	<u>84,358</u>	<u>22,116</u>
<b>Loss for the financial year</b>		<u><u>(1,487,171)</u></u>	<u><u>(809,364)</u></u>

All activities included in the profit and loss account arise from continuing activities. There is no other comprehensive income other than those dealt with in the profit and loss account.

The notes on pages 18 to 46 form an integral part of the financial statements.



**STATEMENT OF FINANCIAL POSITION**  
**As at 29 January 2021**

	Notes	29 January 2021 US\$'000	31 January 2020 US\$'000
<b>Fixed assets</b>			
Intangible assets	10	38,474,649	39,023,160
Tangible assets	11	9,168	10,937
Right-of-use assets	16	15,289	17,660
Investment in subsidiaries	12	140,015	80,053
		<u>38,639,121</u>	<u>39,131,810</u>
<b>Current assets</b>			
Trade and other receivables	13	2,442,672	2,051,500
Cash and cash equivalents		1,501,782	1,027,996
		<u>3,944,454</u>	<u>3,079,496</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(4,210,106)</u>	<u>(3,525,169)</u>
<b>Net current liabilities</b>		<u>(265,652)</u>	<u>(445,673)</u>
<b>Total assets less current liabilities</b>		38,373,469	38,686,137
<b>Creditors: amounts falling due after more than one year</b>	15	<u>(29,860,843)</u>	<u>(29,355,413)</u>
<b>Net assets</b>		<u>8,512,626</u>	<u>9,330,724</u>
<b>Equity</b>			
Called up share capital presented as equity	18	162	158
Share premium	18	535,996	-
Capital contribution	18	10,177,172	9,856,552
Non-distributable reserve	18	3,006	3,006
Deficit in retained earnings	18	(2,271,062)	(585,609)
Share-based payment reserve	17	67,352	56,617
<b>Total equity</b>		<u>8,512,626</u>	<u>9,330,724</u>

The notes on pages 18 to 46 form an integral part of the financial statements.

**On behalf of the board**

K Barry-Murphy



K Egan



**STATEMENT OF CHANGES IN EQUITY**  
**For the financial year ended 29 January 2021**

	Called-up share capital presented as equity US\$'000	Share premium US\$'000	Capital contribution US\$'000	Share-based payment reserve US\$'000	Non distributable reserve US\$'000	Merger reserve US\$'000	Retained earnings/ (deficit) US\$'000	Total US\$'000
At 2 February 2019	158	-	2,188	49,720	3,006	-	245,055	300,127
Loss for the financial year	-	-	-	-	-	-	(809,364)	(809,364)
Total comprehensive expense for the financial year	-	-	-	-	-	-	(809,364)	(809,364)
<i>Transactions with owners, recognised directly to equity:</i>								
Capital contribution from parent undertaking (note 15 & 18)	-	-	9,854,364	-	-	-	-	9,854,364
Dividend paid (note 18)	-	-	-	-	-	-	(21,300)	(21,300)
Equity settled share-based payment expense (note 17)	-	-	-	6,897	-	-	-	6,897
Transactions with owners, recognised directly to equity	-	-	9,854,364	6,897	-	-	(21,300)	9,839,961
<b>Balance at 31 January 2020</b>	<b>158</b>	<b>-</b>	<b>9,856,552</b>	<b>56,617</b>	<b>3,006</b>	<b>-</b>	<b>(585,609)</b>	<b>9,330,724</b>
At 1 February 2020	158	-	9,856,552	56,617	3,006	-	(585,609)	9,330,724
Loss for the financial year	-	-	-	-	-	-	(1,487,171)	(1,487,171)
Total comprehensive expense for the financial year	-	-	-	-	-	-	(1,487,171)	(1,487,171)
<i>Transactions with owners, recognised directly to equity:</i>								
Capital contribution from parent undertaking (note 15 & 18)	-	-	320,620	-	-	-	-	320,620
Dividend paid (note 18)	-	-	-	-	-	-	(30,919)	(30,919)
Equity settled share-based payment expense (note 17)	-	-	-	10,735	-	-	-	10,735
Issue of share capital and share premium (note 18)	4	535,996	-	-	-	-	-	536,000
Merger reserve (note 22)	-	-	-	-	-	(167,363)	-	(167,363)
Transfer of merger reserve to retained earnings/(deficit)	-	-	-	-	-	167,363	(167,363)	-
Transactions with owners, recognised directly to equity	4	535,996	320,620	10,735	-	-	(198,282)	669,073
<b>Balance at 29 January 2021</b>	<b>162</b>	<b>535,996</b>	<b>10,177,172</b>	<b>67,352</b>	<b>3,006</b>	<b>-</b>	<b>(2,271,062)</b>	<b>8,512,626</b>

The notes on pages 18 to 46 form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General information

The principal activity of VMware International Unlimited Company ("the company") is to sell, market and support VMware's software products and related services in all jurisdictions outside of the United States. These software products and services relate to the virtualisation of computer hardware and other associated hardware, including virtualisation software, management software, configuration and provisioning software, security-related software, test and measurement software and other supporting software.

The address of the company's registered office is 70 Sir John Rogerson's Quay, Dublin 2. The company's registered number is 402208.

During the prior financial year, on 9 December 2019, the company converted from a limited liability company to a public unlimited company and the company changed its name from VMware International Limited to VMware International Unlimited Company.

The current year financial statements are for the financial year from 1 February 2020 to 29 January 2021. The comparative financial statements are for the financial year from 2 February 2019 to 31 January 2020.

### 2 Scope of financial statements and group status

The company's immediate parent undertaking is VMware Technology Holdings Limited, a company incorporated in Bermuda. VMware Bermuda Unlimited Company, a company incorporated in Ireland, was the company's immediate parent undertaking until 20 December 2020. On this date, as part of a wider group re-organisation, VMware Bermuda Unlimited Company transferred its 100% shareholding in the company to VMware Technology Holdings Limited.

The ultimate parent company at year-end was Dell Technologies Inc., a company incorporated in the United States of America; it prepares consolidated financial statements. VMware Inc. (a company incorporated in the United States of America) was an intermediate parent company at year-end; it also prepares consolidated financial statements. VMware Inc. is the parent undertaking of the smallest group to consolidate these financial statements and Dell Technologies Inc. was the parent undertaking of the largest group to consolidate these financial statements. Copies of the intermediate parent's consolidated financial statements may be obtained from the Secretary, VMware Inc, 3401 Hillview Avenue, Palo Alto CA 94304, United States of America. Consequently, the company is exempt from preparing and delivering to the Registrar of Companies consolidated financial statements, and these financial statements present information about it as an individual company. Copies of VMware Inc.'s consolidated financial statements are publicly available.

The ultimate parent company changed after the year end, as outlined in note 20.

### 3 Summary of significant accounting policies

The significant accounting policies adopted by the company are set out below:

#### (a) Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with Irish GAAP (Irish Generally Accepted Accounting Practice (accounting standards issued by the UK Financial Reporting Council, including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' and Irish law). The financial statements have been prepared on the historical cost basis.

As permitted by the Companies Act 2014, the directors have adapted the prescribed format of the profit and loss account in a manner appropriate to the nature of the company's business.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3 Summary of significant accounting policies - continued

## (a) Basis of preparation - continued

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. 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.

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- 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':
  - The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    - i. paragraph 79(a)(iv) of IAS 1;
    - ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    - iii. paragraph 118(e) of IAS 38 Intangible Assets;
  - 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 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3 Summary of significant accounting policies – continued

## (a) Basis of preparation - continued

- The requirements of second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers'.
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

The remaining exemptions available under the Framework are not applicable to the company at this time.

**New and amended standard adopted by the company**

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 29 January 2021 that have had a material impact on the company.

## (b) Going concern

The company meets its day-to-day working capital requirements through cash resources. The directors, after making enquiries and having regard to the company's financial position, the company's expected trading performance and cash flows, have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. Although the balance sheet shows net current liabilities at year-end, the directors note that the company is in a net current assets position when adjusted for contract liabilities and asset recognised for costs incurred to fulfil a contract. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

## (c) Turnover and revenue recognition

Revenue is measured based on the consideration in exchange for transferring promised goods or services to a customer. Revenue is recognised when the company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point of time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

*(i) License revenue*

The company generally sells its license software through distributors, resellers, system vendors, systems integrators and its direct sales force. Performance obligations related to license revenue, including the license portion of term licenses, represent functional intellectual property under which a customer has the legal right to the on-premises license. The license provides significant standalone functionality and is a separate performance obligation from the maintenance and support and professional services sold by the company. On-premises license revenue is recognised at a point in time, upon delivery and transfer of control of the underlying license to the customer.

License revenue from on-premises license software sold to original equipment manufacturers ("OEMs") is recognised when the sale to the end user occurs. Revenue is recognised upon reporting by the OEMs of their sales, and for the period where information of the underlying sales has not been made available, revenue is recognised based upon estimated sales.

In relation to VMware Cloud Provider Program ("VCP"), VCP partners rent on-premises licenses from the company, and the rental fee is recognised as license revenue upon consumption. Generally, contracts with VCP partners include cancellation rights. License revenue is based upon reported consumption by VCP partners and includes estimates for the period when consumption information has not been made available.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (c) Turnover and revenue recognition - continued

License revenue also includes an allocated portion of hosted services, which is recognised as revenue over time as the hosted services are consumed.

##### *(ii) Service revenue*

The company's service revenue generally consists of software maintenance and support, professional services and an allocated portion of hosted services.

Software maintenance and support offerings entitle customers to receive major and minor product upgrades, on a when-and-if-available basis, and technical support. Maintenance and support services are comprised of multiple performance obligations including updates, upgrades to licenses and technical support. While separate performance obligations are identified within maintenance and support services, the underlying performance obligations generally have a consistent continuous pattern of transfer to a customer during the term of a contract. Maintenance and support services revenue is recognised over time on a rateable basis over the contract duration.

Professional services include design, implementation, training and consulting services. Professional services performed by the company represent distinct performance obligations as they do not modify or customize licenses sold. These services are not highly interdependent or highly interrelated to licenses sold such that a customer would not be able to use the licenses without the professional services. Revenue from fixed fee professional services engagements is recognised based on progress made toward the total project effort, which can be reasonably estimated. As a practical expedient, the company recognizes revenue from professional services engagements invoiced on a time and materials basis as the hours are incurred based on the company's right to invoice amounts for performance completed to date.

The company's hosted services consist of certain software offerings sold as a service-based technology without the customer's ability to take possession of the software over the subscription term. Currently, hosted services are recognised as revenue equally in both license and services over time as customers consume the services or rateably over the term of the subscription, commencing upon provisioning of the service.

##### *(iii) Rebates reserves and marketing development funds*

Rebates, which are offered to certain channel partners and represent a form of variable consideration, are accounted for as a reduction to the transaction price on eligible contracts.

Rebates are determined based on eligible sales during the quarter or based on actual achievement to quarterly target sales. The reduction of the aggregate transaction price against eligible contracts is allocated to the applicable performance obligations. The difference between the estimated rebates recognised and the actual amounts paid has not been material to date.

Certain channel partners are also reimbursed for direct costs related to marketing or other services that are defined under the terms of the marketing development programs. Estimated reimbursements for marketing development funds are accounted for as consideration payable to a customer, reducing the transaction price of the underlying contracts. The most likely amount method is used to estimate the marketing fund reimbursements at the end of the quarter and the reduction of transaction price is allocated to the applicable performance obligations. The difference between the estimated reimbursement and the actual amount paid to channel partners has not been material to date.

With limited exceptions, the company's return policy does not allow product returns for a refund. The company estimates and records reserves for product returns at the time of sale based on historical return rates. Amounts are recorded as a reduction of revenue or unearned revenue. Returns reserves are not material.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (c) Turnover and revenue recognition - continued

##### *(iv) Contracts with multiple performance obligations*

The company enters into revenue contracts with multiple performance obligations in which a customer may purchase combinations of licenses, maintenance and support, training, consulting services, hosted services and rights to future products and services. For contracts with multiple performance obligations, the company allocates total transaction value to the identified underlying performance obligations based on relative standalone selling price ("SSP"). The company typically estimates SSP of services based on observable transactions when the services are sold on a standalone basis and those prices fall within a reasonable range.

The company utilizes the residual approach to estimate SSP of licenses as the licenses are not sold standalone and the same products are sold to different customers at a broad range of prices which are highly variable.

Unearned revenue substantially consists of customer billings and payments received in advance of revenue recognition for products and services described above.

#### (d) Foreign currency translation

##### *(i) 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 US Dollar (\$), which is also the company's functional currency on the basis that the cost of providing goods is primarily the intercompany fees which are denominated in US dollar. The US dollar's competitive forces influence sales prices.

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

#### (e) Interest income/(expense)

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense.

#### (f) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### (g) Intangible assets

The company's rights and licenses represent intellectual property rights acquired from group companies. Intangible assets acquired from group companies under common control are measured on initial recognition at fair value, based on accounting policy choice. Where there is a difference between the fair value of assets transferred and the consideration paid, the company recognises any difference between fair value and agreed consideration as a contribution to or a distribution of equity. Following initial recognition, these intangible assets are carried at the amount initially recognised less any accumulated amortisation and accumulated impairment losses.

Other intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, these intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3 Summary of significant accounting policies – continued

**(g) Intangible assets - continued**

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit and loss account in the expense category that is consistent with the function of the intangible assets.

The company's policy is to review the remaining economic lives and residual values of intangible assets on an ongoing basis and to adjust the amortisation charge to reflect the remaining estimated life and residual value.

Fully amortised assets are retained in cost and the related accumulated amortisation until they are removed from service. In the case of disposals, assets and related amortisation are removed from the financial statements and the net amount, less proceeds from disposal, is charged or credited to the profit and loss account.

*Amortisation*

Amortisation is provided on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives from the date the asset is available for use. The estimated economic lives assigned to intangible assets are as follows:

	<b>Years</b>
Software	2 – 5
Rights and licenses	5 – 30

*Internally developed software*

Costs incurred in the research of new software products are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Intention to complete and ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Projects less than \$3m are expensed as incurred.

Technical feasibility is defined as the earlier of the completion of a detailed programme design or a working model. Such costs include salaries and benefits, including share-based compensation, consultants, facilities-related costs, equipment costs and depreciation.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.



## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3 Summary of significant accounting policies – continued

**(h) Tangible assets**

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses thereon. Property, plant and equipment comprise mainly computer equipment and software, furniture and fittings and leasehold improvements.

Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives from the date the asset is available for use. The estimated economic lives assigned to property, plant and equipment are as follows:

**Years**

Leasehold Improvements	Lease term, not to exceed 20 years
Furniture and fixtures	7
Computer/office equipment	3 – 6

The company's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

Fully depreciated property, plant and equipment are retained in the cost of property, plant and equipment and related accumulated depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the financial statements and the net amount, less proceeds from disposal, is charged or credited to the profit and loss account.

*Assets in the course of construction*

Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. Construction in progress assets comprise of expenses incurred to date for work-in-progress on capital projects. All capital projects which require a year of time for completion are categorised as construction in progress.

**(i) Impairment of non-financial assets**

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

The company bases its impairment calculation on the most recent budgets and forecast calculations, which are prepared for VMware International Unlimited Company's (VIC's) single CGU to which the individual assets are allocated.

Impairment losses are recognised in the profit and loss account in expense categories consistent with the function of the impaired asset.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (i) Impairment of non-financial assets - continued

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indications exist, the company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss account.

#### (j) Investment in subsidiaries

Investment in subsidiary undertakings is stated in the company's balance sheet as financial assets at cost less provision for any impairment in their value.

#### (k) 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. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

#### (l) Provisions

A provision is recognised when, and only when (a) the company has a present obligation (legal or constructive) as a result of a past event, (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

#### (m) Taxation

The company is managed and controlled in the Republic of Ireland and, consequently, is tax resident in the Republic of Ireland.

Current tax is calculated on the profits of the year. Current tax is determined using tax rates (and laws) that have been enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (n) Called-up share capital presented as equity

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

#### (o) Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period. Interim dividends are recognised in the financial year they are authorised.

#### (p) Financial instruments

##### (i) *Financial assets at amortised cost:*

The company classifies its financial assets as at amortised cost.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

##### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

##### (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 amortised cost using the effective interest method.

#### (q) 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.

Trade receivables are recognised initially at fair value which is normally the original invoiced amount and subsequently measured at amortised cost using the effective interest rate method less any provision for impairment, in accordance with the company's held to collect business model. A provision for impairment of trade and other receivables is recognised using the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the lifetime expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and aging category and measured based on historical loss rates adjusted by forward looking estimates and individual assessment.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3 Summary of significant accounting policies – continued

**(r) Contingent liabilities and contingent assets**

A contingent liability, including contingent liabilities in respect of financial guarantee contracts, is a possible obligation that arises from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company or a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. A contingent liability is not recognised but is disclosed in the notes to the financial statements.

A contingent asset is a possible asset that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the company. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain an asset is recognised.

**(s) Employee benefits***Short term benefits*

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

*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.

*Pension obligations*

The company operates a post-employment scheme, in the form of a defined contribution pension plan. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(t) Share-based payments**

The VMware 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 and as the company does not receive a charge from VMware Inc. an equivalent 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); 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 year between service commencement and grant date.

**NOTES TO THE FINANCIAL STATEMENTS - continued****3 Summary of significant accounting policies – continued****(t) Share-based payments - continued**

At the end of each reporting year, 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 profit and loss account, with a corresponding adjustment to equity.

VMware Inc.'s 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 recognised on a straight-line basis over the awards' requisite service years.

PSU awards will vest if certain VMware-designated performance targets, 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 Inc.'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 recognised on a straight-line basis over the PSUs' requisite service years. The expected levels of achievement are reassessed over the requisite service years 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 unrecognised stock-based compensation is recognised over the remaining requisite service year.

**(u) Leases**

The company leases various offices. Rental contracts are typically made for fixed periods of 12 months to 12 years but may have extension options.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

## NOTES TO THE FINANCIAL STATEMENTS - continued

**3 Summary of significant accounting policies – continued****(u) Leases - continued**

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss as interest expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised an expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

IFRS 16 *Leases* became effective on for accounting reporting periods beginning on or after 1 January 2019 and lease liabilities were measured at the transition date for the remaining lease payments using the discount rate, lease term and other assumptions (reasonable certainty of extensions, terminations, etc) as at 2 February 2019.

**(v) Deferred commission/asset recognised for costs incurred to fulfil a contract**

Direct sales commissions, including the employer portion of related payroll taxes, earned by the company's sales force are considered incremental and recoverable costs of obtaining a contract, and are deferred and generally amortized on a straight-line basis over the expected period of benefit. The expected period of benefit is determined using the contract term or underlying technology life, if renewals are expected and the renewal commissions are not commensurate with the initial commissions. The determination of the expected period of benefit requires critical estimates and assumptions, including the life of the underlying technology and the estimated period of contract renewal. Differences in the estimated period of benefit could have a significant impact on the timing and amount of amortisation expense recognised.

**(w) Business combination – common control**

The predecessor method of accounting is used to account for business combinations involving entities or businesses under common control. Cost is measured as the book value of the assets given, or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Assets acquired and liabilities assumed in a business combination are measured at their carrying amounts at the acquisition date. No assets or liabilities are restated to their fair values at the date of transfer. Instead, the acquirer incorporates the assets and liabilities at their predecessor values. Any difference between the consideration paid and the amounts at which the assets and liabilities are carried at are recognized directly in equity. All significant intra-group transactions and balances are eliminated.

## NOTES TO THE FINANCIAL STATEMENTS - continued

**4 Critical accounting judgements and estimation uncertainty**

Estimates and judgements made in the process of preparing the entity financial statements 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 directors make estimates and assumptions concerning the future in the process of preparing the entity financial statements. 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.

*(i) Carrying value of intellectual property intangible asset*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use ("VIU").

The company considered whether there have been any indicators of impairment in respect of its intellectual property intangible asset in line with the accounting policies stated. As noted further in Note 10, having determined that indicators of impairment existed at the balance sheet date, the company used a VIU model to test for impairment. A VIU model was considered the most appropriate method to determine if an impairment existed.

The VIU model is based on a Discounted Cash Flow (DCF) model. The cash flows are derived from the budget for the next nine years. A fading growth model is applied after 2029, tapering to a long-term growth rate. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The discount rate applied to cash flows in the VIU model was estimated using our weighted average cost of capital as determined by the Capital Asset Pricing Model with regard to the risks associated with the cash flows being considered (country, market and specific risks of the asset). The modelled cash flows take into account the company's established history of earnings, cash flow generation and the nature of the markets in which we operate. The key assumptions employed in modelling estimates of future cash flows are subjective and include the selection of appropriate discount rates, growth rates and operating profit assumptions. The terminal value included in the model assumed long-term growth based on a combination of factors including long-term inflation in addition to industry and market specific factors.

*(ii) Useful economic lives of intangible assets*

The amortisation charge for intangible 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, and economic utilisation of the assets. See note 10 for carrying value of intangible assets and note 3 (g) for the useful economic lives for each class of assets.

*(iii) Deferred commission*

Sales commissions, including the employer portion of payroll taxes, earned by our sales force are considered incremental and recoverable costs of obtaining a contract, and are deferred and generally amortised on a straight-line basis over the expected period of benefit. The expected period of benefit is determined using the contract term or underlying technology life. If renewals are expected and the renewal commissions are not commensurate with the initial commissions, the determination of the expected period of benefit requires us to make significant estimates and assumptions, including the life of the underlying technology and the estimated period of contract renewal. Management believe the assumptions and estimates made are reasonable. Differences in the estimated period of benefit could have a significant impact on the timing and amount of amortisation expense recognised.

*(iv) Recoverability of deferred tax asset*

The directors have recognised a deferred tax asset amounting to \$346.4 million (2020: \$135.2 million). The majority of this relates to capital allowances related to the IP and interest deductions which have not been utilised against current year or prior year taxable profits. The directors are satisfied that this will be utilised in the coming years against future tax profits. The directors intend to re-evaluate this estimate on an annual basis. Refer to note 13.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 4 Critical accounting judgements and estimation uncertainty - continued

*Critical judgements in applying the company's accounting policies*

The following judgements, apart from those involving estimates, made by the directors has had significant effect on the amounts recognised in the entity financial statements:

*(i) Turnover and revenue recognition*

Revenue is recognised upon transfer of control of licenses, subscriptions or services to the customer in an amount that reflects the consideration the company expects to receive in exchange for those licenses, services or subscriptions. The company's contracts with customers may include a combination of licenses, subscriptions and services that are accounted for as distinct performance obligations. Management assesses relevant contractual terms in contracts with customers and applies judgement in identifying and accounting for all terms and conditions in certain contracts. See note 3(c) for revenue recognition accounting policies.

## 5 Turnover

The company is engaged in the marketing and sale of VMware software products and solutions in all international jurisdictions outside of the United States of America.

The company's turnover by class of business all relates to the sale of services.

An analysis of sales by region is as follows:

<b>Region</b>	2021 US\$'000	2020 US\$'000
Europe, Middle East and Africa	3,550,137	3,336,975
Asia Pacific	1,381,450	1,135,369
Latin America	303,949	257,216
Canada	335,498	162,670
	<u>5,571,034</u>	<u>4,892,230</u>

*(i) Assets and liabilities related to contracts with customers*

The company has recognised the following liabilities related to contracts with customers:

	2021 US\$'000	2020 US\$'000
Contract liabilities	<u>5,289,834</u>	<u>4,508,072</u>



NOTES TO THE FINANCIAL STATEMENTS - continued

5 Turnover - continued

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2021 US\$'000	2020 US\$'000
Services	<u>2,329,406</u>	<u>1,941,703</u>

(iii) Assets recognised from costs incurred to fulfil a contract

	2021 US\$'000	2020 US\$'000
Asset recognised from costs to obtain a contract	680,599	531,866
Amortisation recognised as cost of providing services during the year	<u>(189,478)</u>	<u>(138,397)</u>
	<u>491,121</u>	<u>393,469</u>

6 Operating profit

	2021 US\$'000	2020 US\$'000
Operating profit has been arrived at after charging/(crediting):		
Employee costs:		
Wages and salaries	91,591	84,017
Social insurance costs	8,984	8,025
Pension costs (note 19)	3,922	3,206
Equity-settled share-based payment expense (note 17)	<u>10,736</u>	<u>6,897</u>
Employee costs recognised in the profit and loss account	<u>115,233</u>	<u>102,145</u>

	2021 US\$'000	2020 US\$'000
Depreciation of tangible assets (note 11)	3,531	2,879
Depreciation of right-of-use asset (note 16)	2,453	3,324
Amortisation of intangible assets - rights & licenses (note 10) (included in 'cost of sales')	1,384,995	885,856
Amortisation of intangible assets - software (note 10) (included in 'operating expenses')	879	190
Loss on disposal of tangible assets	22	20
Foreign exchange losses/(gains)	<u>53,171</u>	<u>(33,044)</u>

Additionally, \$8.2m (2020: \$2.9m) of costs has been capitalised into software in development (note 11).

**Auditors' remuneration**

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

	2021 US\$'000	2020 US\$'000
Audit of entity financial statements	382	286
Other assurance services	<u>-</u>	<u>-</u>
	<u>382</u>	<u>286</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Operating profit - continued

<b>Employees and directors</b>	2021	2020
	Number	Number
<b>Employees</b>		
The average monthly number of persons (including executive directors) employed by the company during the year was:	947	858
<b>By activity</b>		
Selling and distribution	689	649
Finance and administration	228	192
Research and development	30	17
	<u>947</u>	<u>858</u>
<b>Directors</b>	2021	2020
	US\$'000	US\$'000
The directors' emoluments were as follows:		
- Aggregate emoluments	1,209	1,097
- Contributions to defined contribution scheme	49	50
- Gain on exercise of share options	16	19
	<u>16</u>	<u>19</u>

7 Interest income

	2021	2020
	US\$'000	US\$'000
Interest receivable on bank deposits	<u>2,883</u>	<u>22,757</u>

8 Interest expense

	2021	2020
	US\$'000	US\$'000
Interest expense on loans and similar costs	<u>1,715,740</u>	<u>1,136,876</u>

Interest expense primarily relates to intercompany loan notes (note 15). This amounted to \$1,697.0m (2020: \$1,136.9m).

9 Tax on loss

<b>(a) Tax credit included in profit and loss account</b>	2021	2020
	US\$'000	US\$'000
<b>Current tax charge</b>		
Irish corporation tax on loss for the financial year	36,331	25,512
Foreign tax - Irrecoverable withholding tax	90,505	85,948
	<u>126,836</u>	<u>111,460</u>
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences (note 13)	<u>(211,194)</u>	<u>(133,576)</u>
Total tax credit for the year	<u>(84,358)</u>	<u>(22,116)</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 9 Tax on loss - continued

## (b) Reconciliation of effective tax rate

The tax credit on the company's loss before tax differs (2020: differs) from the theoretical amount that would arise using the standard rate of tax in the Republic of Ireland applicable to the loss of the company as follows:

	2021 US\$'000	2020 US\$'000
Loss before tax	<u>(1,571,529)</u>	<u>(831,480)</u>
Income tax at the standard rate of Irish corporation tax (12.5%)	(196,441)	(103,935)
<i>Effects of:</i>		
Foreign tax - Irrecoverable withholding tax	79,244	75,440
Imputed interest not deductible	31,005	20,162
Double taxation relief	(3,725)	(14,232)
Income tax at higher rate	1,974	2,854
Other items (including non-deductible expenditure)	3,585	(2,405)
<b>Total tax credit for the year</b>	<u>(84,358)</u>	<u>(22,116)</u>

## 10 Intangible assets

	Rights and licenses US\$'000	Software US\$'000	Software in development US\$'000	Total US\$'000
<b>Cost</b>				
At 1 February 2020	39,906,202	1,749	1,870	39,909,821
Additions	829,174	-	8,189	837,363
Transfers	-	6,161	(6,161)	-
Disposals	-	(19)	-	(19)
At 29 January 2021	<u>40,735,376</u>	<u>7,891</u>	<u>3,898</u>	<u>40,747,165</u>
<b>Accumulated amortisation</b>				
At 1 February 2020	885,666	995	-	886,661
Charge for the financial year	1,384,995	879	-	1,385,874
Disposals	-	(19)	-	(19)
At 29 January 2021	<u>2,270,661</u>	<u>1,855</u>	<u>-</u>	<u>2,272,516</u>
<b>Net book amount</b>				
At 29 January 2021	<u>38,464,715</u>	<u>6,036</u>	<u>3,898</u>	<u>8,474,649</u>
At 31 January 2020	<u>39,020,536</u>	<u>754</u>	<u>1,870</u>	<u>39,023,160</u>

On 28 March 2020, the company purchased certain intellectual property ("IP") (rights and licenses) from PSIHL, a fellow subsidiary undertaking, with a fair value of \$660.0m. This related to 'rest of world' rights to Pivotal intellectual property (the "Pivotal ROW IP"). This transaction gave rise to a capital contribution which is outlined in further detail in note 18.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 10 Intangible assets - continued

At various dates during the year, the company acquired other IP rights from other VMware Group companies with a fair value of \$135.5m. These transactions also gave rise to capital contributions outlined in note 18.

At various dates during the year, the company acquired other IP rights from other VMware Group companies with a fair value of \$23.9m. These transactions gave rise to deemed dividends outlined in note 18.

These assets have a definite useful life of 5-30 years and are amortised on a straight-line over this period.

Amortisation for rights and licenses is recorded in cost of sales while the amortisation of software is recorded in operating expenses in the profit and loss account.

Additional patents were acquired during the year amounting to \$9.8m from VMware US. These patents have useful lives of 5 years and amortised on a straight-line over this period.

Having regard to changes in certain macroeconomic factors and other external benchmarks, as well as the post transaction date performance of the business in the financial year to 29 January 2021, the carrying value of the intellectual property asset was assessed for impairment at 29 January 2021. As a result of this impairment test, management concluded the value of the intellectual property asset was fully recoverable as at 29 January 2021.

11 Tangible assets	Furniture and fittings US\$'000	Leasehold improvements US\$'000	Computer equipment US\$'000	Construction in progress US\$'000	Total US\$'000
<b>Cost</b>					
At 1 February 2020	5,357	9,995	17,221	194	32,767
Additions	78	312	1,096	360	1,846
Transfers	-	-	392	(392)	-
Transfers to fellow group undertakings	-	-	(10)	-	(10)
Disposals	(130)	-	(512)	-	(642)
At 29 January 2021	<u>5,305</u>	<u>10,307</u>	<u>18,187</u>	<u>162</u>	<u>33,961</u>
<b>Accumulated depreciation</b>					
At 1 February 2020	4,796	5,305	11,729	-	21,830
Charge for the financial year	126	1,131	2,274	-	3,531
Transfers to fellow group undertakings	-	-	(2)	-	(2)
Disposals	(55)	-	(511)	-	(566)
At 29 January 2021	<u>4,867</u>	<u>6,436</u>	<u>13,490</u>	<u>-</u>	<u>24,793</u>
<b>Net book amount</b>					
At 29 January 2021	<u>438</u>	<u>3,871</u>	<u>4,697</u>	<u>162</u>	<u>9,168</u>
At 31 January 2020	<u>561</u>	<u>4,690</u>	<u>5,492</u>	<u>194</u>	<u>10,937</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 12 Investment in subsidiaries

	US\$'000
<b>Cost</b>	
At 1 February 2020	
Cost	80,053
Additions	60,363
Disposals	(401)
At 29 January 2021	<u>145,300</u>
<b>Provision for impairment</b>	
At 1 February 2020 and at 29 January 2021	<u>-</u>
<b>Net book amount</b>	
At 31 January 2020	<u>80,053</u>
At 29 January 2021	<u>140,015</u>

Additions in the year relate to:

- investment in subsidiaries related to Pivotal entities amounting to \$35.5m received by the company as a result of the merger;
- capital contributions given to existing subsidiaries amounting to \$19.3m;
- investment in VMware Canada ULC received from parent company amounting to \$2.8m (accounted for as a capital contribution (note 18)); and
- capital given to new subsidiaries, VMware Philippines and VMware QFC LLC, totalling to \$2.7m, during the year.

During the year, the company disposed of certain subsidiaries with a net book value of \$0.4m to other VMware entities, generating proceeds of \$29.6m. The gain on the disposal amounted to \$29.2m.

The directors are satisfied that the investment in subsidiary undertakings is worth at least the amount at which it is stated. The subsidiary companies are involved in the marketing and development of VMware Inc. software.

Interest in group undertakings:

Name of company	Registered office	Description of shares held	Proportion of nominal value
VMware Australia Pty Ltd	L8, 175 Pitt Street Sydney NSW 2000, Australia	Ordinary shares	100%
VMware Bulgaria EOOD	16A G.M. Dimitrov Blvd 8 <sup>th</sup> Floor, Izgrev Region 1797 Sofia, Bulgaria	Ordinary shares	100%
VMware Denmark ApS	Frydenlandsvej 30, 2950 Vedbaek, Copenhagen, Denmark	Ordinary shares	100%
VMware Italy S.r.l.	Via Giovanni Spadolini 5/7 Torre A, 20141 Milano, Italy	Ordinary shares	100%

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 12 Investment in subsidiaries - continued

Name of company	Registered office	Description of shares held	Proportion of nominal value
VMware UK Limited	9th Floor, 107 Cheapside, London, EC2V 6DN, United Kingdom	Ordinary shares	100%
VMware, K.K.**	Level 13, Hamamatsucho Square 1-30-5 Hamamatsucho, Minato-ku Tokyo 105-0013, Japan	Ordinary shares	100%
VMware Singapore Pte Ltd	1 Marina Boulevard #28-00 Singapore 018989	Ordinary shares	100%
VMware Sweden AB	Gustav III Boulevard 54-58 SE-169 74 Solna, Sweden	Ordinary shares	100%
VMware Switzerland Sàrl	Hardturmstrasse 181 Zurich, Switzerland 8005	Ordinary shares	100%
VMware Malaysia SDN. BHD.	Suite 6.01, 6th Floor, Plaza See Hoy Chan, Jalan Raja Chulan Kuala Lumpur Wilayah Persekutuan Malaysia 50200	Ordinary shares	1%
Taiwan VMware Information Technology LLC	Suites No. 5728-5738, The Executive Center, 57th Flr Taipei 101 Tower, 7 Xinyi Road, Taipei, Taiwan	Ordinary shares	100%
VMware Turkey Software Solutions and Services Company Limited	Levent Mah. Büyükdere Cad., Business Towers, Tower 2, Floor: 26 34330, Besiktas, Istanbul, Turkey	Ordinary shares	100%
VMware (Thailand) Co. Ltd.	No. 173/18 Asia Centre, Level 17, South Sathorn Road, Khwaeng Thungmakamek, Khet Sathorn, Bangkok, 10120, Thailand	Ordinary shares	99.9%
VMware NZ Company	Level 19, 157 Lambton Quay, Wellington, New Zealand, 6011	Ordinary shares	100%
VMware Saudi Limited	Olata Towers Building, 3074 Prince Muhammed Ibn Abdulaziz Road – Al Ulaya, Unit No 110, Riyadh, Kingdom of Saudi Arabia	Ordinary shares	99%
VMware Belgium BVBA	De Kleetlaan 4 1830 Machelen (Diegem) Belgium	Ordinary shares	99.9%

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 12 Investment in subsidiaries - continued

Name of company	Registered office	Description of shares held	Proportion of nominal value
VMware Mexico S. de R.L. de C.V.	Av. Paseo De La Reforma 250 Col. Juarez Suite 933 A, B C D; 985, 986 Del Cuauhtemoc Mexico D.F. 06600, Mexico	Ordinary shares	99%
VMware South Africa (Pty) Ltd	3021 William Nicol Drive Bryanston Johannesburg 2191, South Africa	Ordinary shares	100%
VMware Rus LLC	Nordstar Tower Begovaya str. 3 Building 1, 30th Floor 125284 Moscow, Russian Federation	Ordinary shares	99%
VMware Poland sp. Z.o.o	Inflancka 4, bud. B 00-189, Warsaw, Poland	Ordinary shares	100%
VMware Argentina S.R.L	Alicia Moreau De Justo Building, 140 Puerto Madero Unit 16, 3rd Floor Buenos Aires, Argentina	Ordinary shares	95%
VMware Colombia SAS**	Cra. 7 No. 71-52 Torre B Piso 9 Bogota, Colombia	Ordinary shares	100%
V M Ware Egypt**	1st Floor, Red-Con Building New Cairo Financial Center (140) Zone 1, Banking Road from 90th Street New Cairo, Egypt	Ordinary shares	99%
VMware Chile SpA**	Av. Apoquindo 3885 piso 18 Las Condes, Santiago 416-36 Chile	Ordinary shares	100%
VMware International Spain, S.L.**	Hexagon Building Calle Granada 121 08018 Barcelona, Spain	Ordinary shares	100%
VMware Norway AS**	Regus Centre 3690 Lysaker Lysaker Torg 5 Lysaker, Oslo 1366, Norway	Ordinary shares	100%

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Investment in subsidiaries - continued

Name of company	Registered office	Description of shares held	Proportion of nominal value
VMware QFC LLC*	8th Floor, Unit 815-818, Unit 827-829, The Gate Tower 2. Doha, State of Qatar	Ordinary shares	100%
VMware Software India Private Limited	Kalyani Magnum, Tower 1, 3rd Floor No165/2, Doraisanipalya, IIM Post Bannerghatta Road Bangalore Karnakata-KS 560076 India	Ordinary shares	89.9%
PT VMware Software Indonesia	The Plaza Office Tower, Lantai 7 Jalan MH Thamrin KAV 28-30 10350 Jakarta, Malaysia	Ordinary shares	99%
VMware Philippines Inc.*	Level 17, 6750 Ayala Avenue, Makati City, 1226 Philippines	Ordinary shares	99.96%
VMware Canada Unlimited Liability Company*	c/o Deloitte Legal Canada LLP 1500-885 West George Street Vancouver BC V6C 3EB Canada	Ordinary shares	100%
GoPivotal Deutschland GmbH*	Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft Johannstrasse3940476 Düsseldorf, Germany	Ordinary shares	100%
GoPivotal Israel Ltd.*	7 Hamada Street Herzliya, 4673341 Israel	Ordinary shares	100%
GoPivotal Singapore Pte. Limited*	8 Marina Boulevard #05-02 Marina Bay Financial Centre Singapore 018981	Ordinary shares	100%
GoPivotal Software India Private Limited*	The Millenia, Level 2 Tower B, No. 1 & 2 Murphy Road, Philip Tower Bangalore Ulsoor 560 008 India	Ordinary shares	99.99%
Pivotal Technology (Beijing) Co., Ltd.*	Room 1202-1205 12th Floor, Building #1, No. 2 Kexueyuan South Road Beijing China	Ordinary shares	100%



## NOTES TO THE FINANCIAL STATEMENTS - continued

## 12 Investment in subsidiaries - continued

Name of company	Registered office	Description of shares held	Proportion of nominal value
GoPivotal (UK) Limited***	Dell EMC Tower Great West Road Middlesex Brentford TW8 9AN United Kingdom	Ordinary shares	100%
Lastline Technologies Private Limited***	3rd Floor Hindustan Times House 18-20, Kasturba Gandhi Marg New Delhi 100001 India	Ordinary shares	99.99%
Pivotal Software Australia Pty Limited***	L8 175 Pitt Street Sydney NSW 2000 Australia	Ordinary shares	100%
Pivotal Labs Sydney Pty Ltd***	Level 11, 155 Clarence Street Sydney NSW 2000 Australia	Ordinary shares	80%

\* New investments made during the year to 29 January 2021

\*\* Capital contributions made during the year to existing investments

\*\*\* Indirect subsidiaries as of 29 January 2021

The company received dividend income during the year of \$15.0m (2020: \$99.0m) which was recorded in the profit and loss account.

## 13 Trade and other receivables

	2021 US\$'000	2020 US\$'000
Amounts due within one year		
Trade debtors	671,562	639,615
Prepayments and other receivables	21,211	21,670
Contract assets	162,304	137,431
Assets recognised for costs incurred to fulfil a contract	12,477	2,808
Amounts due from parent and fellow group undertakings	634,200	553,458
Amounts due from subsidiaries	115,900	167,605
Corporation tax receivable	-	3,072
	<u>1,617,654</u>	<u>1,525,659</u>
Amounts due after more than one year		
Assets recognised for costs incurred to fulfil a contract	478,644	390,661
Deferred tax asset (see below)	346,374	135,180
	<u>2,442,672</u>	<u>2,051,500</u>

Trade debtors are disclosed net of provisions of \$1.2m (2020: \$1.2m).

Amounts due from parent and fellow group undertakings and amounts due from subsidiaries are unsecured, have no fixed date of repayment and do not bear interest. All amounts due are repayable within one year.

The fair value of debtors approximates their carrying amounts.

Corresponding amounts at 2020 year-end have been adjusted so they are directly comparable with the amounts shown in respect of the current financial year. Assets recognised for costs incurred to fulfil a contract includes a reclassification of \$303.6m from Amounts due within one year to Amounts due after more than one year to correct the corresponding amounts at 2020 year-end.

## NOTES TO THE FINANCIAL STATEMENTS - continued

**13 Trade and other receivables - continued**

	2021 US\$'000	2020 US\$'000
An analysis of the deferred tax asset is as follows:		
Excess amortisation over capital allowances	283,870	111,315
Interest deductions timing differences	60,835	21,600
Other timing differences	1,668	2,265
Total deferred tax asset	<u>346,374</u>	<u>135,180</u>

The movement during the year in the deferred tax asset was as follows:

	2021 US\$'000	2020 US\$'000
At beginning of year	135,180	1,604
Deferred tax credit in profit and loss (note 9)	211,194	133,576
At year end	<u>346,374</u>	<u>135,180</u>

As at 29 January 2021, the deferred tax assets, which mainly relates to capital allowances, are all expected to be recovered after 12 months.

**14 Creditors: amounts falling due within one year**

	2021 US\$'000	2020 US\$'000
Trade creditors	9,359	15,619
Other creditors and accruals	248,816	190,168
Amounts due to parent and fellow group undertakings	700,841	670,360
Amounts due to subsidiaries	374,387	256,891
Tax and social insurance payable (see below)	32,063	12,948
Accrued revenue related costs	36,366	47,126
Lease liability (note 16)	2,252	2,651
Contract liabilities	<u>2,806,022</u>	<u>2,329,406</u>
	<u>4,210,106</u>	<u>3,525,169</u>
Tax and social insurance payable is comprised of:		
Value added tax	21,484	8,883
PAYE and social insurance	6,830	4,065
Corporation tax	3,749	-
	<u>32,063</u>	<u>12,948</u>

Amounts due to parent and fellow group undertakings and amounts due to subsidiaries are unsecured, do not bear interest, have no fixed date of repayment and are repayable within one year.

The fair value of amounts due to group companies approximates to their carrying amounts.

Trade creditors, other creditors and accruals are payable at various dates in the immediate months after the year end in accordance with the suppliers' usual and customary credit terms.

Contract liabilities balance of \$2,806.0m (2020: \$2,329.4m) contains balances related to group subsidiaries of \$451.1m (2020: \$398.8m).

Accrued revenue related costs are charges from the company's former immediate parent of \$36.4m (2020: \$47.1m) under the operating licence fee which will unwind in line with deferred commissions in future periods.

Creditors for tax and social insurance are payable in the timeframe set down in the relevant legislation.

## NOTES TO THE FINANCIAL STATEMENTS - continued

<b>15 Creditors: amounts falling due after more than one year</b>	2021 US\$'000	2020 US\$'000
Amounts due to parent and fellow group undertakings	27,254,974	27,006,936
Contract liabilities	2,483,812	2,178,666
Lease liability (note 16)	14,068	14,689
Accrued revenue related costs	51,593	87,959
Other creditors and accruals	56,396	67,163
	<u>29,860,843</u>	<u>29,355,413</u>

As 29 January 2021, the amounts due to parent and fellow group undertakings due after more than one year comprise \$23,500.0m (2020: \$23,500.0m) (undiscounted) of an unsecured, interest-bearing loan note at 6.1% per annum maturing in 2034 and \$13,200.0m (2020: \$13,500.0m) (undiscounted) of an unsecured, non-interest-bearing loan note maturing in 2039.

The difference between the principal amount and the fair value of the non-interest-bearing loan note, representing the market interest that would have been charged for such a facility, was recognised as a capital contribution in the prior year and is outlined in note 18.

Interest on the interest-bearing loan note is calculated semi-annually on 30 April and 31 October of each year and payable within 30 days respectively following each of those dates. The interest-bearing loan note of \$23,500.0m was listed in the Cayman Stock Exchange on 9 October 2019.

After the balance sheet date (note 20), on 28 April 2021, the directors resolved that the outstanding balance on the company's non-interest-bearing loan note of \$13,200.0m (undiscounted) with VTH be converted into capital in exchange for 92,520 ordinary shares with par value of €1 each.

The interest expense recognised on the interest-bearing loan note and the imputed interest on the non-interest-bearing loan note amounted to \$1,449.4m and \$248.0m respectively for the year ended 29 January 2021 (note 8) (2020: \$975.6m and \$161.3m respectively).

Contract liabilities balance of \$2,483.8m (2020: \$2,178.7m) contains balances related to group subsidiaries of \$340.5m (2020: \$262.0m).

Accrued revenue related costs are charges from the immediate parent of \$51.6m (2020: \$88.0m) under the operating licence fee which will unwind in line with deferred commissions in future periods.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 16 Leases

The company has lease contracts for offices used in the operations. The amount recognised in the financial statements in relation to the leases are as follows:

	29 January 2021 US\$'000	31 January 2020 US\$'000
<b>Amounts recognised in the statement of financial position</b>		
Right-of-use asset	20,598	23,218
Additions	500	1,140
Disposal	(32)	(3,374)
Less: accumulated depreciation	(5,777)	(3,324)
Net carrying amount	<u>15,289</u>	<u>17,660</u>
<b>Lease liabilities</b>		
Current (note 14)	2,252	2,651
Non-current (note 15)	14,068	14,689
Net carrying amount	<u>16,320</u>	<u>17,340</u>
<b>Amounts recognised in profit and loss account</b>	2021 US\$'000	2020 US\$'000
Depreciation charge of right-of-use asset	<u>2,453</u>	<u>3,324</u>
Finance cost (included in 'operating expenses')	<u>613</u>	<u>712</u>

## 17 Share-based payments reserve

VMware Inc. grant long-term incentive awards in the form of service-based RSUs in order to align critical talent retention programmes with the interests of holders of VMware Inc. Class A Common Stock. The majority of RSUs granted are time based (i.e. with a 3 years service condition), with the remainder consisting of performance based RSUs. Certain employees of the company participate in these share based awards.

All service-based RSUs subject to internal financial metrics vest over a three-year period, and have a fair value based on the closing price of VMware Inc.'s Class A Common Stock price as reported on the NYSE on the grant date or the trade day immediately preceding the grant date, if the grant date falls on a non-trading day. Each service-based RSU represents the right to acquire one share of VMware Inc.'s Class A Common Stock upon vesting.

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. During the financial year ended 29 January 2021 the company recognised a share-based payment expense of US\$10.7m (2020: US\$6.9m) based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution.

## NOTES TO THE FINANCIAL STATEMENTS - continued

18 Share capital and reserves	2021 US\$'000	2020 US\$'000
<b>Authorised</b>		
1,000,000 ordinary shares of €1 each (€1 = US\$1.2833)	<u>1,283</u>	<u>1,283</u>
<b>Allotted, called up and fully paid - presented as equity</b>		
At beginning of year: 117,000 ordinary shares of €1 each (€1 = US\$1.3452)	1,283	1,283
Issued during the year: 3,790 ordinary shares of €1 each (€1 = US\$1.2177)	<u>4</u>	<u>-</u>
At beginning of year: 120,790 ordinary shares of €1 each (€1 = US\$1.3412) (2020: 117,000 ordinary shares of €1 each (€1 = US\$1.3452))	<u>162</u>	<u>158</u>

The opening balance, closing balance and movements in each reserve are outlined in the statement of changes in equity. A description of each reserve within equity is outlined below:

**Share premium**

On 4 December 2020, following the merger of the company with PSIL on 1 April 2020 (note 22), the interest bearing promissory note used as the consideration for the Pivotal IP acquired (see note 10) was converted into shares. The company issued 3,790 shares at €1 (€1 = US\$1.2177) par value each to VMware Technology Holdings Limited. In return, it was agreed that the company would not be required to repay intercompany loans payable of \$536.0m. The difference between the share capital issued and the value of the interest bearing promissory note was recognised as share premium of \$536.0m.

**Capital contribution**

The company received capital contributions totalling from \$320.6m during the year (2020: \$9,854.4m) from entities in the VMware Inc. group. These contributions are not repayable. The additional capital contributions received during the year were comprised of:

- The company converted certain intercompany loans payable to equity, giving rise to a capital contribution of \$167.6m. This arose whereby the company was not required to repay certain loans payable to VBU of \$149.3m. Additionally, there was interest payable forgiven of \$18.3m.
- On 28 March 2020, the company acquired Pivotal IP for a total consideration of \$536.0m, which was financed by way of an 8 year interest-bearing promissory note (Note 10). The fair value of the IP rights acquired was \$660.0m, with the difference between the fair value and the consideration amounting to \$124.0m was accounted for as a capital contribution.
- The company acquired other IP rights from other VMware Group companies for a consideration of \$109.3m. The fair value of these rights and licenses acquired was \$135.5m, with the difference accounted for as a capital contribution of \$26.2m.
- The company received investment in VMware Canada ULC from parent company resulting in a capital contribution of \$2.8m.

In the prior year, the company issued a non-interest-bearing note from VMware Bermuda Unlimited Company amounting to \$13,500.0m (undiscounted) repayable in 2039 (note 15). The difference between the principal amount and the fair value of non-interest-bearing notes was recognised as a capital contribution of \$9,854.4m in the prior year.

**Non-distributable reserve**

The non-distributable reserve was created during 2008 and 2016 from the retained earnings carried forward to satisfy the conditions of an IDA grant agreement. If certain circumstances occur before 10 December 2023, grants could be repayable up to a maximum of €3.1m (\$3.4m) (2020: €3.1m (\$3.4m)) where the terms and conditions of the related grant agreements are not fully satisfied by the company.

**Deficit in retained earnings**

This represents accumulated comprehensive expense/income for the current and prior financial years plus share-based payment adjustments and related tax credits, charges from the ultimate parent company for share-based payments, less dividends paid. The merger reserve that arose from the PSIL merger (note 20) was subsequently transferred to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS - continued

**18 Share capital and reserves (continued)****Dividend paid**

During the year, the Board of Directors of the company declared and paid dividends in the amount of \$30.9m to VMware Bermuda Unlimited Company (immediate parent company until 20 December 2020). Out of this amount, \$20.8m was paid on 23 June 2020. The remaining amount relates to deemed dividend amounting to \$10.1m. The deemed dividends arose from the purchase of other IP rights from other VMware Group companies for a consideration of \$34.0m with the fair value of these rights and licenses amounted to \$23.9m. The dividend per share was \$255.

In the prior year, the Board of Directors of the company declared and paid dividends in the amount \$21.3m to VMware Bermuda Unlimited Company (then immediate parent company). Of this amount, \$20.2m was paid on 24 June 2019, while the remaining \$1.1m was a deemed dividend. The deemed dividend arose from the purchase of IP rights from group companies for a consideration of \$707m with a fair value of \$706m, with the difference between the fair value and the consideration paid amounting to \$1.1m accounted for as a deemed dividend. The dividend per share was \$182.

**Share-based payment reserve**

The share-based payments reserve represents accumulated stocks awards by VMware Inc. to VMware International Unlimited Company employees.

**19 Post-employment benefits**

## Defined contribution scheme

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

	2021	2020
	US\$'000	US\$'000
Current year contributions	<u>3,922</u>	<u>3,206</u>

Contributions payable at 29 January 2021 are \$0.7m (2020: \$Nil).

**20 Events since the end of the financial year**

On 14 April 2021, Dell Technologies Inc. (the ultimate parent entity at 29 January 2021) announced the planned spin-off of its 81% equity ownership interest in VMware Inc. The transaction was concluded on 1 November 2021. Following that transaction, VMware Inc. changed from being the company's intermediate parent undertaking to its ultimate parent undertaking.

On 28 April 2021, the directors resolved that the company's non interest bearing loan with a principal amount of \$13,200.0m (undiscounted) payable to VTH be converted into capital in exchange for 92,520 ordinary shares with par value of €1 held by VTH.

In October 2021, the Organisation for Economic Co-operation and Development (OECD) released an outline that describes the conceptual agreement between 136 countries on fundamental reforms to international tax rules. The OECD outline suggests that these reforms be implemented by 2023, but is highly contingent upon the independent actions of participating countries to enact law changes. These new proposals may impact VMware.

There have been no other significant post balance sheet events affecting the company.

**NOTES TO THE FINANCIAL STATEMENTS - continued****21 Capital and other commitments**

At 29 January 2021, the company had no capital commitments (2020: None).

**22 Merger with Pivotal Software International Limited**

On 30 March 2020, Pivotal Software International Holdings Limited (PSIHL), a fellow subsidiary undertaking incorporated in Ireland, transferred its shares of Pivotal Software International Limited (PSIL) (its wholly owned subsidiary, incorporated in Ireland) to the company for a nominal consideration (€99/US\$131). On that date, PSIL became a wholly owned subsidiary of the company.

On 1 April 2020, the company and PSIL entered into a merger agreement. The transaction was a merger by absorption (as defined in Section 461 of the Companies Act 2014) such that, on the effective date of the merger, PSIL, as the transferor company transferred its assets and liabilities to VIC, as the transferee company, and PSIL was dissolved without going into liquidation. No consideration was paid or received by the company in respect of this transaction.

The net liabilities transferred at book value, and details of the merger reserve arising (which was debited to reserves), are disclosed below.

	\$'000
Cash at bank	6,114
Debtors	85,690
Tangible assets	122
Investment in subsidiaries	35,560
Creditors and other liabilities	(294,849)
Net liabilities acquired	<u>(167,363)</u>
Debit to merger reserve	<u>(167,363)</u>

**23 Related party transactions**

Related party transactions with entities within the Dell Group (of which the company is a non-wholly owned subsidiary) were as follows:

During the financial year, sales to entities within the Dell Group amounted to \$1,950.8m (2020: \$1,415.1m). Purchases from the related parties of \$93.3m (2020: \$210.0m) were also recorded during the financial year. The net amount owing to the company by the related parties at the year-end was \$634.2m (2020: \$553.5m).

Contract liabilities at year end includes balances arising from related party transactions with entities within the Dell Group of \$2,377.8m (2020: \$1,730.1m).

**24 Approval of the financial statements**

The financial statements were approved and authorised for issue by the board of directors on 9 December 2021 and were signed on its behalf on that date.

## APPENDIX 1 – NON-FINANCIAL STATEMENT DISCLOSURE REPORT

### Non-Financial Statement Disclosure Report

#### Background

The company is part of the VMware Inc Group. VMware was part of the Dell Technologies Inc. Group until 1 November 2021, which arose after the end of the reporting period. The Dell Group is a leader in numerous high-growth areas of the information technology market, with a complementary portfolio, sales team and research and development ("R&D") organisation 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. We operate globally across key functional areas such as technology and product development, marketing, go-to-market and global services.

VMware streamlines the journey for organizations to become digital businesses that deliver better experiences to their customers and empower employees to do their best work. Our software spans App Modernization, Cloud, Networking & Security and Digital Workspace.

Since VMware's founding in 1998, our employees and ecosystem of 75,000 partners have been behind the technology innovations transforming entire industries - from banking, healthcare, and government to retail, telecommunications, manufacturing, and transportation. Every day, we work to solve our customers' toughest challenges through disruptive technologies like edge computing, artificial intelligence, blockchain, machine learning, Kubernetes and more to define the digital foundation that will accelerate the next wave of innovation.

We believe in technology as a force for good. We understand that our products, operations, and people collectively have an impact on the world, and we strive to be net-positive through all that we do.

#### Statement of Corporate Social Responsibility

##### Introduction

The company participates in VMware Group's global guidelines. VMware strives to be a global leader in every aspect of our business and to do so with the utmost integrity and ethics.

At VMware, we are committed to driving human progress. Through our reach, technology and people, we strive to create a positive and lasting impact by advancing sustainability, cultivating diversity and inclusion and transforming lives around the world through our VMware Foundation. Imperative to our ability to drive meaningful impact is an enduring commitment to upholding ethics and data privacy.

VMware has an ambitious, long-term set of goals that fundamentally shapes how the company operates and engages with the world. The company is committed to putting technology and expertise to work, where it can do the most good for people and the planet.

Our approach to Corporate Social Responsibility operates under the key pillars of:

- Advancing Sustainability
- Cultivating Diversity and Inclusion
- Transforming lives through our VMware Foundation
- Ethics
- Data Privacy



## **APPENDIX 1 – NON-FINANCIAL STATEMENT DISCLOSURE REPORT - continued**

### **Advancing Sustainability**

We recognize that technology has an impact on our planet, and we see sustainability as the next frontier of innovation. To find out more on our initiatives in this area please visit our website at:

<https://www.vmware.com/company/sustainability.html>

Sustainability is core to VMware's values and future success. As a global corporate citizen, we are responsible for innovating for a more resilient world by decarbonizing digital infrastructure across our customer ecosystem, supply chain and operations. Through our collective efforts to drive net-zero emissions, radical efficiency, carbon-free clouds, and sustainable innovation, VMware will help accelerate a low carbon future.

Our 2030 Goals are: Workload Carbon Efficiency, Distributed Energy, E-Waste Responsibility, Carbon Transparency, Impact Investments, Zero-Carbon Clouds, Water Resilience, Net-Zero Emissions, Water Resilience, Business Resilience, Sustainable IT Infrastructure Advocacy.

### **VMware Foundation**

Citizen Philanthropy is about empowering everyone to be active, engaged citizens in their communities. The VMware Foundation does this by providing a platform for VMware people to contribute time, talent, and financial resources to their non-profit entities of choice. To find out more on our initiatives in this area please visit our website at: <https://www.vmware.com/company/foundation.html> In 2020, more than 26,000 VMware people supported more than 14,000 non-profits entities in 98 countries.

The world's social issues are complex and interconnected. As such, systemic change requires many people to take action across social issue areas. We know that each of us has what it takes to make change happen. We are all Citizen Philanthropists.

### **Cultivating Diversity and Inclusion**

We are building a culture of ingenuity and inclusivity. Our team of multinational, multicultural employees uses our diverse and dynamic backgrounds to deliver exceptional outcomes. To find out more on our initiatives in this area please visit our website at: <https://www.vmware.com/company/diversity.html>

### **Data Privacy**

Customer privacy and data security continue to present complex and challenging issues for organizations everywhere. New and emerging privacy and security legislation place specific regulatory obligations on organizations, while cyberattacks are rapidly growing in sophistication and scope. At VMware, we are passionate about privacy and data security and have developed comprehensive procedures and controls to help protect our customers and their infrastructures as well as our own. We continue to invest in our commitment to privacy by maintaining and enhancing our global privacy programme. We regularly review our privacy strategy against emerging legal requirements as well as regulatory guidance, to adopt privacy controls that meets our customers' expectations as well as those of our internal stakeholders. Our global privacy team partners with legal and information security to support the operationalization of our global privacy programme across the business. This includes working closely with various business groups to help embed privacy controls into the design and build of our products and services, as well as into our internal processes and applications

VMware respects the privacy of our customers, business partners and visitors. We provide appropriate privacy notices through our product and service interfaces, our customer contracts and our website privacy policies.

## **APPENDIX 1 – NON-FINANCIAL STATEMENT DISCLOSURE REPORT - continued**

### **Ethics**

A culture of ethical conduct and compliance is key to maintaining a sustainable business. This is core to VMware's commitment to integrity which underpins our Business Conduct Guidelines ("BCG") which are available on our website at:

[https://ir.vmware.com/download/companies/vmware/Corporate%20Policies/VMW%20Business%20Conduct%20Guidelines%20\(11.1.2021\).pdf](https://ir.vmware.com/download/companies/vmware/Corporate%20Policies/VMW%20Business%20Conduct%20Guidelines%20(11.1.2021).pdf)

Our values define us as a company and differentiate us from our competition. Importantly, our values unify us as a VMware community to take this great company to the next level. EPIC2 is the name we use to describe our core values. For VMware to continue on its path of proven success, we must live these values at every level in the company. Having a culture of integrity is a key component of our foundation and for our growth. Integrity forms the basis for the VMware Business Conduct Guidelines. These Guidelines outline the standards of behaviour expected of each one of us at all times. They are not simply about how to comply with the law. From our perspective, compliance with the law is the minimum requirement of every person in the VMware community, but acting with integrity and upholding our values means much more.

These guidelines specify standards of behaviour that go beyond just complying with the law by requiring all employees, directors and executive officers of VMware to uphold our shared corporate values: to build and protect trusted relationships with customers, partners, shareholders and the communities within which we operate.

Integrity is a core value at VMware. We are a market leader, and we never take our leadership for granted. We are as bold as we are humble, as competitive as we are fair, as decisive as we are respectful. We build and protect trusted relationships with our customers, partners, shareholders, and extended communities. We are expected to act with integrity at all times, which means:

- Be honest and ethical in all of our dealings
- Comply with all laws and seek help in cases of uncertainty
- Adhere to all VMware policies, guidelines, and rules
- Be respectful of others
- Be accountable, be responsible, and meet commitments
- Do what is right

Through our BCG, we coach employees to recognize ethical dilemmas through customized multi-media training. In addition, our ethical decision-making framework is available to all employees, which encourages inclusion of diverse perspectives and enables an informed and sound decision-making process aligned with our EPIC2 values. We also offer employees, customers, partners and other external stakeholders a helpline service (ETICA) to report ethics and compliance concerns related to our business or to ask us questions about our compliance policies. ETICA is available year-round, 24 hours a day, seven days a week. The service is made available in eight languages and can be accessed through an online worldwide portal or by calling a toll-free number. Professionally trained intake specialists review online submissions and answer calls during which they guide the user through a series of questions designed to identify relevant details for the question or concern. Multinational operators are available so that callers may make reports or ask questions in their preferred language. We safeguard the identify of individuals voicing their concerns to the maximum extent possible and also provide anonymous reporting options.