

Company registered no: 08362475

Elasticsearch Limited
Annual report and financial statements
for the year ended 30 April 2018

TUESDAY



L84029CZ

LD2

23/04/2019

#109

COMPANIES HOUSE

Contents

Directors' report for the year ended 30 April 2018	3
Statement of directors' responsibilities in respect of the financial statements	5
Independent auditors' report to the members of Elasticsearch Limited for the year ended 30 April 2018	6
Statement of comprehensive income for the year ended 30 April 2018	9
Statement of financial position as at 30 April 2018	10
Statement of changes in equity for the year ended 30 April 2018	11
Notes to the financial statements for the year ended 30 April 2018	12-24

Directors' report for the year ended 30 April 2018

The directors present their report for the year ended 30 April 2018.

Principal activities and Review of business

Elasticsearch is on a mission to organise data and make it easily accessible. It delivers the world's most advanced open source search and analytics engine available and makes real-time data exploration available to anyone. By having a focus on achieving the best user experience imaginable, it has become one of the most popular and rapidly growing open source solutions in the market and is used by thousands of enterprises in virtually every industry.

Elasticsearch Limited ('the Company') is part of a wider Group focused on continuing to develop open source solutions. In the current year the Company's principal activity was the provision of subscriptions, consulting and training to its customers. The Company expects to continue its principal activities into the foreseeable future.

Results and dividends

The results for the year are set out on page 9. No dividends are proposed in respect of the year ended 30 April 2018 (2017: £nil).

Key Financial and Other Performance Indicators

The Company's key financial and non-financial performance indicators as assessed by management and the Board during the year were as follows:

	2018	2017
	£	£
Revenue	13,264,156	8,116,746
Cost of sales and operating expenses	(12,861,440)	(8,124,758)
Cash	4,922,143	2,361,147
Deferred income	6,540,039	3,775,214
Total shareholders' funds	2,267,158	820,896
Monthly average number of employees	64	41

In the current year the Company is considered to have met its objectives through customer growth and the provision of new consulting offerings.

Principal risks and uncertainties

The key risks associated with the Company's operations are as follows:

- **Competitive Risks** – there are open source and proprietary products in the market that compete with the Group's products. The Group's objective is to grow the base of open source users aggressively and to provide paid product, services and support to those customers. These products, services and support are designed to aid customers in their implementation, training and use of the Group software.
- **Parent Company support risk** – The Company is dependent on the continued liquidity of its parent, Elastic N.V.

Directors' report for the year ended 30 April 2018 (continued)

Directors

The following directors have held office from 1 May 2017 and up to the date of signing of the financial statements, unless otherwise noted:

Robin Sharpe

W.H. Baird Garrett

Shay-Shalom Banon (appointed 18 April 2017, resigned 2 April 2018)

Janesh Moorjani (appointed 15 September 2017)

Research and development

The Company is part of a wider Group focused on continuing to develop open source solutions. The primary development is undertaken by other Companies in the Group but certain development work is undertaken by the Company. The charge for the year is set out on page 8.

Going concern

The directors believe that, after making appropriate enquiries, the Company has adequate resources to continue in operation for the foreseeable future. Further, the directors have received confirmation that Elastic N.V. intends to support the Company for at least one year from the date these financial statements are signed. For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. This report has been prepared in accordance with the Companies Act 2006.

Directors' indemnities

During the financial year and at the date of approval of these financial statements, the Company has provided an indemnity for certain directors of the Company, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006. The Company also maintains directors' and officers' liability insurance.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

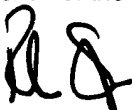
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

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

On behalf of the board.



Robin Sharpe
Director
23 April 2019

Independent auditors' report to the members of Elasticsearch Limited

Report on the audit of the financial statements

Opinion

In our opinion, Elasticsearch Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 30 April 2018; the Statement of comprehensive income, 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 (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 UK Companies Act 2006 have been included.

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

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

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 30 April 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Elasticsearch Limited

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Louise Lazarus (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 April 2019

**Statement of comprehensive income
for the year ended 30 April 2018**

	Note	2018 £	2017 £
Revenue	4	13,264,156	8,116,746
Cost of sales		(1,617,019)	(647,446)
Gross profit		11,647,137	7,469,300
Operating expenses:			
Sales and marketing costs		(5,459,052)	(4,254,883)
Research and development costs		(2,948,110)	(1,331,051)
Administrative expenses		(1,520,459)	(1,244,805)
Other operating expense		(1,316,800)	(646,573)
Total operating expenses		(11,244,421)	(7,477,312)
Operating profit/(loss)	5	402,716	(8,012)
Finance income	7	-	-
Finance costs	7	(76)	(9,173)
Profit/(Loss) before taxation		402,640	(17,185)
Tax on profit/(loss)	8	(131,501)	(55,054)
Profit/(Loss) for the financial year		271,139	(72,239)
Total comprehensive income/(expense)		271,139	(72,239)


The notes on pages 12 to 24 form an integral part of these financial statements.

Statement of financial position as at 30 April 2018

	Note	2018 £	2017 £
Fixed assets			
Property, plant and equipment	9	407,655	533,296
Deferred tax asset	14	<u>317,956</u>	<u>69,395</u>
		725,611	602,691
Current assets			
Trade and other receivables	10	5,706,304	2,967,761
Cash and cash equivalents		<u>4,922,143</u>	<u>2,361,147</u>
		10,628,447	5,328,908
Creditors: amounts falling due within one year	11	(8,993,716)	(4,969,134)
Net current assets		<u>1,634,731</u>	<u>359,774</u>
Total assets less current liabilities		2,360,342	962,465
 Creditors: amounts falling due after more than one year	12	 <u>(93,184)</u>	 <u>(141,569)</u>
Net assets		<u>2,267,158</u>	<u>820,896</u>
Capital and reserves			
Called up share capital	17	1,000	1,000
Other reserves		1,826,755	651,632
Retained earnings		<u>439,403</u>	<u>168,264</u>
Total shareholders' fund		<u>2,267,158</u>	<u>820,896</u>

The notes on pages 12 to 24 are in integral part of these financial statements.

The financial statements on pages 9 to 11 were authorised for issue by the Board of Directors on 23 April 2019 and signed on its behalf by:



Robin Sharpe
Director
Elasticsearch Limited

Registered Number: 08362475

**Statement of changes in equity
for the year ended 30 April 2018**

	Called up share capital £	Retained earnings £	Other Reserves £	Total shareholders' funds £
Balance as at 1 May 2016	1,000	240,503	202,400	443,903
Total comprehensive expense	-	(72,239)	-	(72,239)
Share based payment expense	-	-	449,232	449,232
Movement on deferred tax relating to share based payment expense	-	-	-	-
Balance as at 30 April 2017	<u>1,000</u>	<u>168,264</u>	<u>651,632</u>	<u>820,896</u>
Balance as at 1 May 2017	1,000	168,264	651,632	820,896
Total comprehensive income	-	271,139	-	271,139
Share based payment expense	-	-	1,080,279	1,080,279
Movement on deferred tax relating to share based payment expense	-	-	94,844	94,844
Balance as at 30 April 2018	<u>1,000</u>	<u>439,403</u>	<u>1,826,755</u>	<u>2,267,158</u>

Notes to the financial statements for the year ended 30 April 2018

1. General information

Elasticsearch is on a mission to organize data and make it easily accessible. The Company delivers the world's the most advanced open source search and analytics engine available and make real-time data exploration available to anyone. By having a laser focus on achieving the best user experience imaginable, Elasticsearch has become one of the most popular and rapidly growing open source solutions in the market. Today, Elasticsearch is used by thousands of enterprises in virtually every industry.

Elasticsearch Limited is a company limited by shares and incorporated and domiciled in the UK. The address of its registered office is 5 Southampton Street, London, WC2E 7HA.

The principal accounting policies applied in the preparation of these financial statements are set out in note 2. These policies have been consistently applied to all years presented, unless otherwise stated.

2. Summary of significant accounting policies

2.1. Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"), and the Companies Act 2006, as applicable to companies using FRS 101.

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The following exemptions have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2; 'Share-based payment' (details of number and weighted-average exercise prices of share options, and how the fair value of goods and services received was determined).
- IFRS 7, 'Financial Instruments: Disclosures'.
- 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).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - Paragraph 79(a)(iv) of IAS 1
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for disclosure of information when an entity has not applied a new IFRS that has been issued but is not effective).

Notes to the financial statements for the year ended 30 April 2018 (continued)

2.1 Basis of preparation (continued)

- Paragraph 17 of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

2.1.1. Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Elastic N.V. The directors have received confirmation that Elastic N.V. intend to support the company for at least one year after these financial statements are signed.

2.2. Foreign currency translation

(a) 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 entity operates ("the functional currency"). The financial statements are presented in Pounds Sterling (£), which is the Company's presentation currency.

(b) Transactions and balances

Transactions in foreign currencies are translated to 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 recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other operating expenses'.

2.3. Property and equipment

All property and equipment is stated at cost or valuation less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight line method to allocate their cost to their residual lives over their estimated useful lives, as follows:

Leasehold improvements	Remainder of lease term
Computer equipment	3 years
Fixtures, fittings and equipment	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.4. Financial assets

The company initially recognizes trade and other receivables on the date that they originate.

The company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognized as a separate asset or liability.

Notes to the financial statements for the year ended 30 April 2018 (continued)

2.4 Financial assets (continued)

The Company has the following non-derivative financial assets: trade and other receivables and cash and cash equivalents.

2.5 Financial liabilities

The Company initially recognizes financial liabilities which include trade and other accounts payables and other noncurrent liabilities on the date that they originate.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: trade and other accounts payables, deferred income and other current liabilities.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

2.6 Receivables

Receivables are financial assets with fixed or determinable terms. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables comprise deposits, trade and other receivables, and other current assets (Note 10).

2.7 Cash and cash equivalents

Cash and cash equivalents comprise bank account balances.

2.8 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Notes to the financial statements for the year ended 30 April 2018 (continued)

2.8 Current and deferred income tax (continued)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.9. Employee benefits

The Company operates a defined contribution pension plan for all current employees. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the income statement in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company's open obligation under this plan is recorded in "Trade and other payables" at the year end.

2.10. Share based payments

The parent company, Elastic N.V. issues equity-settled share-based payments in the Group share option plan to certain employees. The benefits given to the employees regarding the grant of the stock options consists of additional compensation to these employees estimated at the grant date by reference to the fair value of the equity instruments granted.

Stock options have been granted to certain Group employees entitling them to purchase Elastic N.V. shares over a period of four years, at a strike price set when the options are granted. Stock options are measured at fair value, corresponding to the value of the benefit granted to the employee at the grant date. This amount is recognized in "Other operating expenses" in the income statement over the vesting period, with a corresponding entry to "Reserves". The change associated to Company employees is included in the Company statements.

The fair value of stock options is calculated using the Black Scholes model, which incorporates assumptions concerning the option strike price and term, implicit share price volatility and the risk free interest rate. The expense recognized also takes into account employee attrition rates for eligible employee categories which are reviewed each year.

2.11. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Deferred tax liabilities are recognised as provisions through the Statement of Financial Position.

2.12. Revenue Recognition

Revenue is derived from three sources:

- (a) Subscription and support revenues which are comprised of direct or indirect sales of Elasticsearch technologies, and of support;
- (b) Related professional services revenue; and
- (c) Marketing subsidies

The Company recognizes revenue in line with IAS 18.20 Revenue, as follows:

Notes to the financial statements for the year ended 30 April 2018 (continued)

2.12 Revenue Recognition (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The sale is recognized net of returns and allowances, trade discounts and volume rebates.

Subscription and Support Revenue

Subscription and support revenues are recognized ratably over the contract terms beginning with the commencement date of each subscription agreement. Elasticsearch generally has a one-year average base subscription period. Subscriptions include support subscriptions to the open source version of the software and subscriptions that provide the end user with a commercial license to the technology itself.

The Company sells its offerings through two channels: 1) direct, which includes sales by the Company sales force and (2) indirect, which includes distributors and resellers. The Partner fees for the Company resellers are recognized ratably over the term of the Partner agreement.

Professional Services Revenue

The Company offers Professional Services which include consulting, training, user conferences and rebilling of associated expenses. Revenue is recognized using the percentage-of-completion method. Consulting services include implementation support to our customers during development stage and consists of time-based arrangements. Training revenue results from contracts to provide educational services to customers and partners regarding the use of the Group technologies.

Deferred income was generated from the sale of annual subscriptions and collection of services revenues in advance of delivery.

Marketing subsidies

The Company receives marketing subsidies from an affiliate company, Elasticsearch B.V. These marketing subsidies are received on a monthly basis and recognized in relation to the overall operations of the Company.

2.13. Research and development

Research and development expenses include all direct costs, primarily headcount costs for Company personnel and outside consultants, related to the development of new software products, significant enhancements to existing software products. Indirect costs that can be attributed to the research and development function, primarily rent and legal expenses in relation to the Intellectual Property, are also included in this expense. Research and development costs are charged to operations as incurred.

Notes to the financial statements for the year ended 30 April 2018 (continued)

2.14. Finance income and finance costs

Interest income is recognized as it accrues in the income statement, using the effective interest method. Finance costs comprise interest expense on borrowings that are recognized in the income statement.

2.15. Leases

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements are disclosed in this note.

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of property and equipment: The annual depreciation charge for property and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates. See Note 9 for carrying amount of the property and equipment, and note 2.3 for the useful economic lives for each class of assets.

Share-based payment transactions: The Company has used the Black Scholes valuation model to determine the fair value of the share based payments. Any changes to volatility and assumptions are made by management and impact the overall share based payment expense as included in the financial statements. See note 16 for additional information.

Notes to the financial statements for the year ended 30 April 2018 (continued)

4. Revenue

The Company's activities consist solely of providing subscriptions, support and training for its open source solutions in the United Kingdom.

	2018 £	2017 £
Analysis of revenue by geography:		
United Kingdom	6,876,124	4,235,289
Europe	6,161,666	3,576,305
Rest of the World	226,366	305,152
	<u>13,264,156</u>	<u>8,116,746</u>
Analysis of revenue by category:		
Subscriptions	6,882,585	4,164,515
Marketing subsidy	5,596,762	3,223,051
Professional services	784,809	729,180
	<u>13,264,156</u>	<u>8,116,746</u>

5. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2018 £	2017 £
Depreciation of property and equipment	376,693	329,588
Operating lease rentals – other	512,683	475,127
Gain on foreign exchange transactions	(77,953)	(22,023)
Loss on disposal of property, plant and equipment	-	23,085
Services provided by the company's auditors:		
Fees payable for the audit	35,355	24,000
Fees payable for other services – tax compliance	-	4,500

6. Employee and directors

	2018 £	2017 £
Staff costs		
Wages and salaries	6,757,404	4,393,781
Social security costs	820,059	532,044
Other pension costs	436,039	183,352
Share based payments	1,080,279	449,232
Staff costs	<u>9,093,781</u>	<u>5,909,820</u>

Notes to the financial statements for the year ended 30 April 2018 (continued)

6 Employee and directors (continued)

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

	2018 Number	2017 Number
By activity		
Sales	24	20
Marketing	1	1
R&D	22	10
Service Delivery	4	2
Support	7	3
G&A	6	5
	<u>64</u>	<u>41</u>

The Directors' remuneration was as follows which relates wholly to the highest paid director:

	2018 £	2017 £
Aggregate remuneration	180,125	168,958
Company pension contributions to money purchase schemes	16,113	11,510
	<u>196,238</u>	<u>180,468</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounts to one (2017: one).

The emoluments of the other directors are paid by other Group companies, which make no recharge to the Company. They are directors of other group companies and it is not possible to make an accurate apportionment of their emoluments to the subsidiaries.

7. Finance income and costs

	2018 £	2017 £
Interest income on bank balances	-	-
Interest payable on bank balances	(76)	-
Interest payable on amounts due to group undertakings	-	(9,173)
	<u>(76)</u>	<u>(9,173)</u>

Notes to the financial statements for the year ended 30 April 2018 (continued)

8. Tax on profit/(loss)

	2018 £	2017 £
Analysis of charge for year		
Current tax:		
UK corporation tax on profits for the financial year	287,605	134,916
Adjustments in respect of previous years	(2,387)	(127)
Total current tax	285,218	134,789
Deferred tax:		
Origination and reversal of timing differences	(171,801)	(107,825)
Adjustment in respect of previous periods	-	13,626
Effect of changes in tax rates	18,804	14,464
Total deferred tax (note 14)	(153,717)	(79,735)
Tax per Statement of comprehensive income	131,501	55,054
Equity items:		
Deferred tax current year charge	(94,844)	-

Factors affecting total tax charge for the current year

The charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2018 £	2017 £
Profit/(Loss) before taxation	402,640	(17,185)
Tax on profit at standard UK tax rate of 19.00% (2017: 19.92%)	76,502	(3,423)
Effects of:		
Adjustments in respect of prior years	(2,387)	13,499
Expenses not deductible	21,690	111,754
Tax rate changes	18,084	14,464
Share based payments	17,612	(81,240)
Exempt amounts	-	-
Tax charge for the year	131,501	55,054

The tax rate of corporation tax is 19% for the financial year beginning 1 April 2017. UK Legislation has been enacted to further decrease the tax rate to 17%, effective from 1 April 2020. Deferred taxes as of the balance sheet date have been measured using the enacted tax rate and reflected in the financial statements.

Notes to the financial statements for the year ended 30 April 2018 (continued)

9. Property, plant and equipment

	Leasehold improvement £	Computer equipment £	Fixtures, fittings & equipment £	Total £
Cost				
Balance at 1 May 2017	591,126	177,068	284,181	1,052,375
Additions	2,006	227,410	34,056	263,472
Disposals	-	(10,353)	(2,126)	(12,479)
Balance at 30 April 2018	593,132	394,125	316,111	1,303,368
Accumulated Depreciation				
Balance at 1 May 2017	(294,821)	(92,754)	(131,504)	(519,079)
Charge for year	(195,308)	(80,043)	(101,342)	(376,693)
Disposals	-	-	59	59
Balance at 30 April 2018	(490,129)	(172,797)	(232,787)	(895,713)
Carrying amounts				
Balance at 1 May 2017	296,305	84,314	152,677	533,296
Balance at 30 April 2018	103,003	221,328	83,324	407,655

10. Trade and other receivables

	2018 £	2017 £
Trade receivables net of provision for bad debt	2,529,997	1,254,946
Amounts owed by Group undertakings	1,677,379	375,713
Other receivables	551,928	577,050
Prepayments	947,000	760,052
	5,706,304	2,967,761

All trade receivables fall due within one year for both years.

Amounts owed by group undertakings do not bear interest, are unsecured and repayable on demand.

11. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade payables	165,774	41,977
Amounts owed to Group undertakings	17,713	149,095
Taxation and social security	909,969	677,577
Accruals	1,165,801	331,923
Deferred income	6,446,855	3,633,646
Corporation tax liability	287,604	134,916
	8,993,716	4,969,134

Amounts owed to group undertakings do not bear interest, are unsecured and repayable on demand.

Notes to the financial statements for the year ended 30 April 2018 (continued)

12. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Deferred income	<u>93,184</u>	<u>141,569</u>

13. Operating leases

As at 30 April the Company had future minimum lease payments under non-cancellable operating leases on property as follows:

	2018 £	2017 £
Less than one year	456,750	456,750
Between one and five years	<u>609,000</u>	<u>1,065,750</u>
	<u>1,065,750</u>	<u>1,522,500</u>

14. Deferred tax

	2018 £	2017 £
Deferred tax (assets) / liabilities:		
(Asset)/Provision at start of year	(69,395)	10,340
Adjustment in respect of prior years	-	13,626
Deferred tax charge to income statement for the year	(153,717)	(93,361)
Deferred tax charge to equity for the year	<u>(94,844)</u>	<u>-</u>
Deferred tax (asset) / liability	<u>(317,956)</u>	<u>(69,395)</u>

	2018 £	2017 £
Fixed assets	35,763	43,517
Temporary differences trading	(16,502)	-
Share based payments	<u>(337,217)</u>	<u>(112,912)</u>
	<u>(317,956)</u>	<u>(69,395)</u>

15. Post-employment benefits

The Group makes contributions to certain employees' and directors' defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds.

16. Share based payments

All employees of the Company along with other group employees have been granted options in Elastic N.V. The options are granted with a fixed exercise price, generally vest over a four-year term, initially the first 25% after one year from commencement date and then 1/48 of the total grant vests

Notes to the financial statements for the year ended 30 April 2018 (continued)

16 Share based payments (continued)

monthly over the remainder of the term. The option expires ten years after the date of grant. Employees are required to remain in employment with the group to be able to exercise the options. Compensation cost for employee stock-based awards is based on the grant-date fair value estimated in accordance with the provisions of IFRS 2 and is recognized over the vesting period of the applicable award on an accelerated basis, typically four years.

On exercise of the shares by the employees, the Company is charged the intrinsic value of shares by Elastic N.V. This amount is treated as a reduction of the capital contribution and is recognised directly as equity.

Out of the 1,238,965 outstanding options (2017: 924,208 options), 432,222 options (2017: 283,952) were exercisable. 43,227 options were exercised in 2018 (2017: No options).

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

Exercise price in £ per share option	Share options outstanding	
	2018	2017
0.81	117,500	123,500
3.18	28,000	73,000
3.35	122,000	133,208
4.08	50,500	50,500
5.42	218,875	240,000
6.95	19,500	19,500
7.58	372,250	-
8.56	106,000	-
9.77	204,340	-
10.02	-	284,500
	<u>1,238,965</u>	<u>924,208</u>

A Black Scholes option pricing model has been used to calculate the fair value of the options granted in the year. The pricing model applied an expected life of four to five years, a risk-free interest rate of 1.51% to 2.48%, an expected dividend yield of zero, volatility of 50%. The weighted average option exercise price at £8.35 (2017: £3.21).

The share based payment charge in the year was £1,080,279 (2017: £449,232).

17. Called up share capital

	2018 £	2017 £
Authorised		
1,000 (2017: 1,000) Ordinary Shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted and fully paid		
1,000 (2017: 1,000) Ordinary Shares of £1 each	<u>1,000</u>	<u>1,000</u>

Notes to the financial statements for the year ended 30 April 2018 (continued)

18. Related party transactions

During the year the Company performed services totalling £5,596,762 (2017: £3,223,051) to Elasticsearch B.V., another group company wholly owned by Elastic N.V. At 30 April 2018, £1,335,382 (2017: £375,713) was outstanding and included within debtors. The amount is unsecured and no guarantees were received.

At 30 April 2017, the Company had repaid an intercompany loan in full from Elastic N.V. on which no interest (2017: £9,173) was charged during the year. The company bought £66,238 (2017: £69,665) services from Elastic N.V. At 30 April 2018 £17,713 (2017: £69,155) was outstanding and included within creditors in relation to intercompany trading.

The Company bought £158,565 (2017: £175,178) in services from Elasticsearch AS, another group company wholly owned by Elastic N.V. At 30 April 2018 £341,997 (2017: £79,940) was outstanding and included within debtors (2017 in creditors).

19. Controlling party

The Company is 100% controlled and owned by Elastic N.V., a company incorporated in the Netherlands.

The ultimate parent undertaking and controlling party is Elastic N.V. a company registered in the Netherlands. Elastic N.V. prepares group financial statements, which incorporate the results of the Company this is both the smallest and largest group to consolidate the Company's results. Copies of the group's financial statements are available from:

Elastic N.V., Keizersgracht 281, 1016 ED Amsterdam.