Adobe Systems Europe Limited

Directors' Report and Financial Statements

Year Ended 30 November 2017

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CONTENTS

DIRECTORS AND OTHER INFORMATION

Board of Directors

Tracy Hanson (US)
Christian Keim (UK)
Keith San Felipe (US)

Solicitors

Messrs Maclay, Murray & Spens LLP
1 George Square
Glasgow
G2 1AL
United Kingdom

Secretary

Dentons Secretaries Ltd
One Fleet Place
London
EC4M 7WS
United Kingdom
(resigned 21 June 2018)

Bankers

Bank of America
5, Canada Square
London, E14 5AQ
United Kingdom

Registered Office

1 George Square
Glasgow
G2 1AL
United Kingdom

Registered number: SC101089

Auditor

KPMG
1 Stokes Place
St Stephen's Green
Dublin 2
Ireland

STRATEGIC REPORT

The directors set out their strategic report for the year ended 30 November 2017 below.

Principal activities

Adobe Systems Europe Limited (the "Company") is a member of the Adobe Systems Inc group. The principal activity of the Company during the year was sales solicitation and marketing of Adobe products on behalf of a group member company. Its revenues are derived 100% from fellow group companies in accordance with service agreements with those entities.

Review of performance of the business and its financial position including key performance indicators

Both the level of business and the year-end financial position were satisfactory with profit on ordinary activities before taxation of £9,449,000 (2016: £7,730,000). The Company recorded a profit after tax £7,989,000 for the year (2016: loss £4,181,000) in its Profit & Loss account. Turnover increased by 16% compared with 2016. Average headcount increased to 652 (2016: 603). The Company remains in a strong financial position with net assets of £31,427,000 at 30 November 2017 (2016: £16,105,000).

On 1 April 2017, the company purchased the trade, assets and liabilities of TubeMogul UK Limited for £238,475. This resulted in a small increase in activity.

Future development

The Company is expecting its operations to remain stable for the near term, but is dependent on current economic climate changes.

Principal risks and uncertainties facing the Company

Credit risk
The Company trades with a small number of group companies and credit risk is deemed to be low.

Currency risk
The majority of revenues and purchases are in GBP so currency risk is deemed to be low.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations, ensuring there are adequate funds to meet potential liabilities.

Cash flow risk
Cash flow risk is the risk that inflows and outflows of cash and cash equivalents will not be sufficient to finance day-to-day operations of the Company. The Company manages cash flow risk by maintaining funds to enable it to meet its liabilities as they fall due.

On behalf of the board

Keith San Felipe

8 August 2018

DIRECTORS' REPORT

The directors present their directors' report and financial statements for the year ended 30 November 2017.

Results and dividends

The results for the year ended 30 November 2017 are shown in the profit and loss account on page 9. The Company neither declared nor paid a dividend to its parent during the year (2016: £ nil).

Research and development

The Company undertakes limited research and development activities.

Post balance sheet events

There have been no material post balance sheet events, which would require adjustment to, or disclosure in, the financial statements.

Directors

The directors who served the Company during the year were as follows:

Tracy Hanson	(US)
Christian Keim	(UK)
Richard Rowley	(US)
Keith San Felipe	(US)

On 30 January 2017, Richard Rowley resigned as a director of the Company and Tracy Hanson was appointed as a director of the Company.

The Company is a wholly-owned subsidiary of a company incorporated outside Great Britain. During the year, and up to the date of approval of the financial statements, the group had in place a third-party indemnity provision for the benefit of all the directors of the Company.

Statement of disclosure of information to auditors

The directors confirm that, so far as each person who was a director as at the date of approving this report is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- each director has 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.

Books of account

The measures taken by the directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Adobe Systems Software Ireland Limited, 4-6 Riverwalk, Citywest Business Park, Dublin, D24DCW0, Ireland.

Political donations

The Company made no political donations during the year.

Policy and practice of payment

The Company endeavours to agree terms of payment with suppliers prior to placing business. This ensures that suppliers are aware of the terms of payment in advance. It is the Company's policy to pay to agreed terms.

DIRECTORS' REPORT - continued

Employees

Disabled Employees

The Company has an equal opportunity policy in place which extends to disabled persons. This reflects the Company's philosophy that people should be treated fairly and with dignity, and that the Company must continue to value and benefit from a wide diversity of ideas, perspectives and backgrounds. It is Adobe's policy to base all employment decisions, both in terms of recruitment and employment decisions relating to individuals after hiring, on the principles of equal employment opportunity, without regard to disability (or indeed other classifications protected by applicable law). The Company will also make reasonable adjustments in relation to disabled employees and job applicants to ensure, in so far as is reasonably possible, that they are not disadvantaged by their disability.

Employee Consultation and involvement

The Company consults with its employees where required by law and as otherwise appropriate in relation to matters which impact on them. All employees are invited to regular communications in which the financial performance of business units, and the Group as a whole, are discussed as well as key business initiatives and priorities. All employees also have access to the Company intranet which contains further information on company initiatives, priorities and performance, and managers are expected to have regular meetings and discussions with employees throughout the year.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will continue in office.

On behalf of the board

Keith San Felipe

8 August 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 assets, liabilities and financial position of the Company and of its profit or loss for that 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 applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Act 2006.

On behalf of the board

Keith San Felipe
Director

8 August 2018

Independent auditor's report to the members of Adobe Systems Europe Limited

1 Report on the audit of the financial statements

Opinion

We have audited the financial statements of Adobe Systems Europe Limited ('the Company') for the year ended 30 November 2017, which comprise the profit and loss account and statement of other comprehensive income, balance sheet, statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

In our opinion, the accompanying financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 30 November 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic and directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information;

- we have not identified material misstatements in the directors' report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report on these matters/in regard to these matters.

2 Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and 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.

Auditor's 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 auditor's 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 fuller description of our responsibilities is provided on the FRC's website at
www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Corrigan Senior Statutory Auditor — 8 August 2018
for and on behalf of
KPMG Statutory Auditor
1 Stokes Place
St. Stephen's Green,
Dublin 2

PROFIT AND LOSS ACCOUNT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
Year ended 30 November 2017

	Notes	2017 £'000	2016 £'000
Turnover – continuing operations	2	**130,560**	113,008
Administrative expenses		**(121,112)**	(104,474)
Operating profit - continuing operations	3	**9,448**	8,534
Income from other financial assets	6	**1**	-
Interest payable and similar charges	7	**-**	(804)
Profit on ordinary activities before taxation		**9,449**	7,730
Tax expense on profit on ordinary activities	8	**(1,460)**	(11,911)
Total comprehensive income / (loss) for the year		**7,989**	(4,181)

All amounts above relate to continuing activities.

The Company had no income or loss in the current or previous financial year other than those shown above and accordingly, no separate statement of other comprehensive income or loss has been presented.

BALANCE SHEET
As at 30 November 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	9	**7,833**	835
Financial assets	10	**1**	1
		7,834	836
Current assets			
Debtors	11	**44,621**	35,969
Cash at bank and in hand		**6,331**	2,244
		50,952	38,213
Creditors - amounts falling due within one year	12	**(25,936)**	(22,858)
Net current assets		**25,016**	15,355
Total assets less current liabilities		**32,850**	16,191
Provisions for liabilities	14	**(1,423)**	(86)
Net assets		**31,427**	16,105
Capital and reserves			
Called up share capital	15	**30**	30
Share premium account		**2,312**	2,074
Equity contribution from parent		**52**	52
Profit and loss account		**29,033**	13,949
Shareholders' funds - equity		**31,427**	16,105

The financial statements on pages 9 to 21 were approved by the board of directors on 8 August 2018 and signed on its behalf by:

Keith San Felipe
Company registered number:
SC101089

STATEMENT OF CHANGES IN EQUITY

	Called up share capital	Share premium account	Equity contribution from parent	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 30 November 2015	**30**	**2,074**	**52**	**12,361**	**14,517**
Share-based compensation contribution	-	-	5,769		5,769
Transfer to profit and loss account	-	-	(5,769)	5,769	-
Total comprehensive loss for the year	-	-	-	(4,181)	(4,181)
Balance at 30 November 2016	**30**	**2,074**	**52**	**13,949**	**16,105**
Issue of shares	-	238	-	-	238
Share-based compensation contribution	-	-	7,095	-	7,095
Transfer to profit and loss account	-	-	(7,095)	7,095	-
Total comprehensive income for the year	-	-	-	7,989	7,989
Balance at 30 November 2017	**30**	**2,312**	**52**	**29,033**	**31,427**

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

Basis of preparation

Adobe Systems Europe Limited (the "Company") is a private company incorporated, domiciled and registered in the UK. The registered number is SC101089 and the registered address is 1 George Square, Glasgow, G2 1AL.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Exemptions for qualifying entities under FRS 102

The Company's ultimate parent undertaking, Adobe Systems Incorporated (ASI) includes the Company in its consolidated financial statements. Detail on the availability of the group financial statements are given in note 20. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of ASI include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred. Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Company assesses at each reporting date whether tangible fixed assets are impaired. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Leasehold improvements	20% per annum
Fixtures, fittings and equipment	20% per annum
Computer hardware and software	between 20% and 33% per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

1 **Statement of accounting policies – continued**

Financial assets

Financial assets are recorded at cost less any necessary provisions for permanent diminution in value.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Employee costs

Defined contribution plans and other long-term employee benefits
A defined contribution plan is a post-employment benefit plan under which the Company 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 recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits
Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the time effect value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Statement of accounting policies – continued

Interest income and expense

Interest income and interest expense are recognised in profit or loss as they accrue.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account.

Current 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Share based compensation

The Company's ultimate parent company operates an equity-settled, share-based compensation plan for its employees, which include employees of the group.

ASI grants restricted stock units as the primary form of equity awards to employees. The Executive Compensation Committee of ASI's Board of Directors eliminated the use of stock option grants for all employees in fiscal 2012, but may choose to issue stock options in the future.

Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognised as an expense over the requisite service period, which is generally the vesting period.

ASI currently uses the Black-Scholes option pricing model to determine the fair value of employee stock purchase plan ("ESPP") shares. This fair value is affected by the stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate and expected dividends.

ASI uses a 24-month expected term, which approximates the offering period. ASI estimates the volatility of its common stock by using implied volatility in market traded options. ASI's decision to use implied volatility was based upon the availability of actively traded options on its common stock and an assessment that implied volatility is more representative of future stock price trends than historical volatility. ASI bases the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term on the options. ASI does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option pricing model.

If ASI uses different assumptions for estimating stock-based compensation expense for ESPP shares in future periods the change in the stock-based compensation expense could materially affect the operating income and net income.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Statement of accounting policies – continued

National Insurance Contributions on share options

On exercise of share options, the Company is required to pay national insurance on the difference between the exercise price and market value of the shares issued. The Company becomes unconditionally liable to pay the national insurance upon exercise of the options. The Company therefore makes a provision for the National Insurance contributions over the vesting period of the options and this provision is re-measured at each period end until the options are exercised.

2 Turnover

Turnover represents fees for marketing and support services charged to other group companies.

An analysis of turnover by geographical market is given below:

	2017 £'000	2016 £'000
European Union (EU)	**126,117**	108,158
Outside EU	**4,443**	4,850
	130,560	113,008

3 Profit / (loss) on ordinary activities before interest and taxation

	2017 £'000	2016 £'000
Profit / (loss) on ordinary activities before interest and taxation is stated after charging / (crediting):		
Depreciation of owned fixed assets	**1,251**	1,210
Operating lease rentals:		
- Land and buildings	**3,602**	1,846
- Onerous lease expense	**2,369**	-
Net loss on foreign currency translation	**29**	66
Auditor's remuneration:		
- Audit services	**21**	21
- Non-audit services – taxation	**7**	7

NOTES TO THE FINANCIAL STATEMENTS - continued

4 Employee costs

	2017 £'000	2016 £'000
Wages and salaries	**65,248**	57,866
Social security costs	**12,407**	11,480
Share based compensation expenses	**7,095**	5,769
Pension costs (note 17)	**3,240**	2,795
	87,990	77,910

The average number of employees during the year was as follows:

	2017 Number	2016 Number
Finance and operations	**55**	49
Sales and marketing	**551**	509
Engineering	**46**	45
	652	603

5 Directors' remuneration

	2017 £'000	2016 £'000
Emoluments and other benefits	**537**	1,379

The amounts in respect of the highest paid director are as follows:

Emoluments and other benefits	**537**	1,357

Certain directors' emoluments have been borne by fellow group companies. These directors' services to the Company do not occupy a significant amount of their time and as such these directors do not consider that they have received any remuneration for their incidental services to the Company.

6 Income from other financial assets

	2017 £'000	2016 £'000
Dividend income	**1**	-

7 Interest payable and similar charges

	2017 £'000	2016 £'000
Interest on late payments	**-**	2
Other interest payable	**-**	802
	-	804

The other interest payable for the prior year represents a provision for interest on a tax enquiry with HMRC.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Taxation	**2017**	2016
	£'000	£'000
(a) Tax on profit / (loss) on ordinary activities		
Current tax:		
UK corporation tax	**1,460**	781
Adjustments in respect of prior year	**(8)**	8,647
Total current tax charge	**1,452**	9,428
Deferred tax:		
Reversal and origination of timing differences (note 13)	**8**	2,483
Total tax	**1,460**	11,911

(b) Factors affecting tax charge

Following the 2015 Budget Statement, the main rate was reduced from 21% to 20% with effect from 1 April 2015. The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are reconciled below:

	2017	2016
	£'000	£'000
Profit on ordinary activities before taxation	**9,449**	7,730
Profit on ordinary activities multiplied by standard rate of tax of 20% (2016: 20%):	**1,890**	1,546
Effects of:		
Income not taxable for tax purposes	**(431)**	(714)
Capital allowances in excess of depreciation	**3**	538
Pension and payroll related provisions / (provision reversals)	**63**	(87)
Adjustments in respect of prior years	**(8)**	8,647
Losses carried forward	**-**	1,936
Other timing differences	**(57)**	45
Total tax (note 8(a))	**1,460**	11,911

In November 2016, the Company agreed a tax liability with HMRC due in respect of a tax inquiry for prior accounting periods up to 30 November 2015. The settlement was recognised as adjustments in respect of prior years in the financial statements period ended 30 November 2016.

9 Tangible assets

	Computer hardware and software £'000	Fixtures, fittings and equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At beginning of year	3,370	1,828	7,447	12,645
Additions	1,410	1,066	5,770	8,246
Disposals	(23)	-	-	(23)
At end of year	**4,757**	**2,894**	**13,217**	**20,868**
Depreciation				
At beginning of year	2,985	1,744	7,081	11,810
Provided during the year	418	142	691	1,251
Disposals	(26)	-	-	(26)
At end of year	**3,377**	**1,886**	**7,772**	**13,035**
Net book value				
At beginning of year	385	84	366	835
At end of year	**1,380**	**1,008**	**5,445**	**7,833**

10 Financial assets

	2017 £'000	2016 £'000
Cost		
Investment in fellow subsidiary undertakings	**1**	1

At 30 November 2017, the Company owns 4% of the ordinary share capital of Adobe Systems Italia SRL, a company incorporated in Italy and 1% of Adobe Systems Belgium BVBA, a company incorporated in Belgium.

The Company no longer owns 0.05% of Adobe Systems Istanbul Software Commerce LLC, a company incorporated in Turkey, following its liquidation.

The directors' are satisfied that the realisable value of the investments are not less than its net book value.

11 Debtors

	2017 £'000	2016 £'000
Amounts owed by Adobe Systems Software Ireland Ltd	**39,993**	28,270
Amounts owed by Adobe Software Trading Company Ltd	**506**	4,810
Other debtors	**825**	411
VAT recoverable	**318**	634
Prepayments	**2,086**	1,064
Prepayments - amounts falling due after more than 1 year	**121**	-
Deferred taxation (note 13)	**772**	780
	44,621	35,969

Amounts due from group companies are unsecured, non-interest bearing and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Creditors - amounts falling due within one year

	2017 £'000	2016 £'000
Amounts due to Adobe Systems Incorporated	**428**	2,597
Trade creditors	**1,361**	2,478
Social security taxes	**4,440**	3,458
Corporation tax	**1,185**	781
Accruals	**18,522**	13,544
	25,936	22,858

Amounts due to group companies are unsecured, non-interest bearing and are repayable on demand.

13 Deferred tax asset

	2017 £'000	2016 £'000
At beginning of year	**780**	3,263
Movement in the year	**(8)**	(2,483)
At end of year	**772**	780

Deferred taxation recognised in the financial statements is as follows:

	2017	2016
Capital allowances in excess of depreciation	**715**	780
Other timing differences	**57**	-
Deferred taxation asset	**772**	780

14 Provisions for liabilities and charges

	2017 £'000	2016 £'000
Provision for onerous lease	**1,389**	-
Provision for NIC on stock options	**34**	86
Provisions for liabilities	**1,423**	86

Following the purchase of the trade, assets and liabilities of TubeMogul UK Limited in April 2017, the Company inherited a lease agreement for additional office space in London. The office space was vacant at the end of period and a provision for onerous lease was made. The lease expires on December 14, 2025 and the Company has an option to break the lease on December 14, 2020.

15 Share capital

	2017 £'000	2016 £'000
Authorised		
500,000 ordinary shares of £1 each (2016: 500,000)	**500**	500
Allotted, called up and fully paid		
30,003 (2016: 30,002) ordinary shares of £1 each	**30**	30

16 Share based payments

ASI has a number of share based employee compensation plans, including restricted stock, stock purchase and stock option plans.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The Company avails of the exemptions to requirements of Section 26 *Share-based Payment* paragraphs 26.18(b), 26.19 to 26.21 and 26.23, based on:

- the share-based payment arrangement concerns equity instruments of another group entity,
- the equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated.

Therefore, the disclosure of number and weighted average exercise prices of share options, restricted stock units and employee share purchase plans are not presented. The ultimate parent undertaking, ASI, prepares consolidated financial statements in which the entity is consolidated and which are available to the public. Details on the availability of the group financial statements are given in note 20.

Restricted Stock Units

ASI grants restricted stock units to all eligible employees under the 2003 Equity Incentive Plan, as amended. Restricted stock units granted as part of the annual review process vest annually over three years. Restricted stock units granted to new hires generally vest over four years. Certain grants have other vesting periods approved by the ASI Board of Directors or an authorised committee of the ASI Board of Directors. Performance awards granted to officers and key employees under the 2003 Plan cliff-vest after three years. Restricted stock units are valued based on the closing price of ASI's stock on the grant date. The total grant-date fair value, adjusted for estimated forfeitures, is recognised as an expense over the vesting period.

Employee Share Purchase Plans

ASI's 1997 Employee Stock Purchase Plan (the "ESPP") allows eligible employee participants to purchase shares of ASI's common stock at a discount through payroll deductions. The ESPP consists of a twenty-four month offering period with four six-month purchase periods in each offering period. Employees purchase shares in each purchase period at 85% of the market value of ASI's common stock at either the beginning of the offering period or the end of the purchase period, whichever price is lower. The ESPP will continue until the earlier of (i) termination by the Board or (ii) the date on which all the shares available for issuance under the plan have been issued.

Stock Option Plans

ASI eliminated the use of stock option grants for all employees in fiscal 2012. Accordingly, no stock options were granted during the period ended 30 November 2017 or the period ended 30 November 2016. The stock option programme is a long-term retention programme that is intended to attract, retain and provide incentives to talented employees, officers and directors, and to align stockholder and employee interests. Under the 2003 Equity Incentive Plan, as amended ("2003 Plan"), options can be granted to all employees, including executive officers, and outside consultants and non-employee directors. The 2003 Plan will continue until the earlier of (i) termination by the Board or (ii) the date on which all the shares available for issuance under the plan have been issued and restrictions on issued shares have lapsed. Option vesting periods used in the past were generally four years and expire seven years from the effective date of the grant.

The exercise price of the options that are issued is equal to the fair market value of the ASI common stock on the date of grant, traded on the American NASDAQ Global Select Market.

17 Pension commitments

The Company participated in a defined contribution pension scheme for the year ended 30 November 2017. Contributions are charged to the profit and loss account in the year in which they become payable. The pension charge for the year was £3,240,000 (2016: £2,795,000). At the end of year, the Company had accrued pension liabilities of £467,000 (30 November 2016: £nil).

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Related party transactions

During the year, the Company made sales to other group companies. Its revenues are derived 100% from fellow group companies in accordance with service agreements with those entities.

An analysis of sales to related parties is given below:

	2017 £'000	2016 £'000
Adobe Systems Software Ireland Ltd	**126,117**	108,158
Adobe Software Trading Company Ltd	**4,443**	4,850
	130,560	113,008

The amount of outstanding intercompany receivable and payable balances at the period end are given in notes 11 and 12. Details of the availability of the group financial statements are given in note 20.

During the year the Company has availed of the exemption in FRS 102 Section 1.12 from the requirement to disclose key management personnel compensation.

19 Operating lease commitments

At year end, the Company had total future minimum office building lease payments under non-cancellable operating leases as set out below:

	2017 Land and Buildings £'000	2016 Land and Buildings £'000
Less than one year	**3,822**	58
Between two and five years	**18,234**	1,955
After more than five years	**18,508**	9,853
Total	**40,564**	11,866

During the year £5,971,000 was recognised in the profit and loss account in respect of operating leases (2016: £1,846,000).

20 Group membership

The Company's immediate parent company is Adobe Systems Benelux BV, a company incorporated in the Netherlands.

The Company's ultimate parent company and controlling party is ASI, a company incorporated in the United States. ASI is the parent company of the largest group of undertakings for which consolidated financial statements are drawn up and of which Adobe Systems Europe Limited is a member. The group financial statements of ASI are available to the public from 345 Park Avenue, San Jose, CA 95110, USA and from the parent company's website at www.adobe.com.

21 Subsequent events

There have been no material subsequent events, which would require adjustment to, or disclosure in, the financial statements.

22 Approval of financial statements

The board of directors approved the financial statements on 8 August 2018.