

Registered number: 04570027

FORTINET UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



FORTINET UK LIMITED

COMPANY INFORMATION

Directors	J L Whittle K F Jensen L M Cayanan (appointed 20 June 2019)
Registered number	04570027
Registered office	Gainsborough House 2 Manor Park Manor Farm Road Reading Berkshire RG2 0NA
Independent auditors	Mazars LLP Chartered Accountants & Statutory Auditor The Pinnacle 160 Midsummer Boulevard Milton Keynes MK9 1FF

FORTINET UK LIMITED

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FORTINET UK LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Introduction

The Directors present their Strategic Report for Fortinet UK Limited ("the Company") for the year ended 31 December 2018.

Business review

The Company continued its principal activities throughout the current year as providing marketing, pre-sales and sales support for Fortinet Inc. Group.

As reported in the Company's Statement of Comprehensive Income, the Company's revenue has increased to £69,165,346 (2018) from £68,905,874 (2017), showing 0.38% growth year over year. The entire revenue for Fortinet UK Limited is derived from services provided to Fortinet Singapore, a fellow subsidiary. The increase in revenue is primarily due to the increase in services provided by the Company to Fortinet Singapore, as the group as a whole continues to expand its operation.

Results after tax reported a loss of £6,264,860 which compares with a loss of £5,929,112 in 2017.

The Statement of Financial Position shows that the Company's net assets at the year end of 31 December 2018 have increased to £14,640,042 (2018) from £11,540,857 (2017).

Principal risks and uncertainties

The management continually monitor the key risks facing the Company together with assessing controls used for managing these risks. The Board of Directors formally reviews and documents the principal risks facing the business at least annually.

The principal risks and uncertainties facing the Company are as follows:

- Future circumstances may differ to include general economic risks as well as specific economic risks, uncertainty regarding increased business;
- Technological changes that make the Company's products and services less competitive, as well as the risk associated with the adoption of and the demand for UTM model in general;
- The entire revenue for Fortinet UK Limited is derived from services provided to Fortinet Singapore, a fellow subsidiary. The Directors are aware of this arrangement and consider it to be the most appropriate business model.

The financial statements of Fortinet Inc. are publicly available in the United States of America. These state the key risks to the group as a whole.

FORTINET UK LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Financial key performance indicators

Management use a range of performance measures to monitor and manage the business. The financial key performance indicators as set out below:

- Working capital - The Company defines working capital as current assets less current liabilities. This financial metric represents operating liquidity available to the business.
- Free cash flow - The Company defines free cash flow as net cash provided by operating activities less capital expenditures. The Company considers free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the acquisition of property and equipment, can be used for strategic opportunities, including investing in business, making strategic acquisitions, repurchasing outstanding common stock, and strengthening the financial position of the Company.

Impact of Brexit

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020.

VAT

The company operates mainly with UK VAT registered suppliers of services, so there is no foreseen impact of additional VAT burden or supply chain. Its EU operations in Austria and Finland will no longer be part of the company in 2020 (as the operations are being transferred to their own legal entities). The other EU operations in Poland and Ireland will remain. EU VAT reclaims for these entities will continue to be made in paper format, if material.

Import and Exports of goods with the EU is mainly operated through the French group company with only a small amount flowing through the UK. The company has EORI registrations and uses import specialists. There may be an additional burden of Import Duty but these would not have a material impact to the company.


WHT

No interest, royalties or dividends are paid to or received from EU group companies, therefore no material impact is foreseen.

CIT

No information has been released on any potential increase or decrease in CIT rates post Brexit.

This report was approved by the board on 27th February 2020 and signed on its behalf.


L M Cayan
Director

FORTINET UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Branches outside the UK

The company operated branches during the year in Italy, Poland, Austria, Saudi Arabia, Sweden and Switzerland.

Results and dividends

The loss for the year, after taxation, amounted to £6,264,860 (2017 - loss £5,929,112).

Directors

The Directors who served during the year were:

J L Whittle
K F Jensen

Future developments

The Directors consider that the forthcoming financial year will be another year of increased operational growth. The aim is to expand brand awareness and sales capacity. Overall, the Directors believe that the Company will be able to support business growth of Fortinet Singapore, a fellow subsidiary of Fortinet BV.

FORTINET UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Disclosure in the strategic report

As permitted by paragraph 1A of Schedule 7 to the Large and Medium sized companies and groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on page 1-2. These matters relate to the principal activity, business review, principal risks and uncertainties and financial key performance indicators.

Employee involvement

The Company is an equal opportunities employer and its policies for recruitment, training, career development and promotion of employees are based on the relevant merits and abilities of the individuals concerned.

Details of the number of employees and related costs can be found in notes 6 and 7 to the financial statements.

Disabled employees

Disabled employees are given full and fair consideration for all types of vacancy. Should an existing employee become disabled, such steps as are practical and reasonable are taken to retain him or her in employment. Where appropriate, assistance with rehabilitation and suitable training are given. Disabled persons have equal opportunities for training, career development and promotion, except insofar as those may be constrained by the practical limitations of their disability

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company, its cashflow and liquidity position are outlined in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity on pages 10-12.

The Company has sufficient financial resources for its operations given the ongoing parental support and, as a consequence, the Directors believe that the Company is well placed to manage the business risks despite the current uncertain economic climate. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.


FORTINET UK LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Auditors

The auditors, Mazars LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *27th Feb* *February* *2020* and signed on its behalf.


L M Cayan
Director

FORTINET UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Opinion

We have audited the financial statements of Fortinet UK Limited (the 'Company') for the year ended 31 December 2018 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been 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 the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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.

The impact of uncertainties due to the United Kingdom exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 2.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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.

FORTINET UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

FORTINET UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Responsibilities of Directors

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 and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 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 further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This 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.



Stephen Brown (Senior statutory auditor)

for and on behalf of

Mazars LLP
Chartered Accountants and Statutory Auditor

The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

Date: 27 February 2020

FORTINET UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Turnover	3	69,165,346	68,905,874
Gross profit		69,165,346	68,905,874
Administrative expenses		(74,937,246)	(73,370,746)
Operating loss	4	(5,771,900)	(4,464,872)
Interest receivable and similar income	8	3,090	741
Interest payable and expenses	9	-	(400)
Loss before tax		(5,768,810)	(4,464,531)
Tax on loss	10	(496,050)	(1,464,581)
Loss for the financial year		(6,264,860)	(5,929,112)
Other comprehensive income for the year			
Exchange difference on reserves		29,559	372,503
Other comprehensive income for the year		29,559	372,503
Total comprehensive income for the year		(6,235,301)	(5,556,609)

The notes on pages 12 to 30 form part of these financial statements.

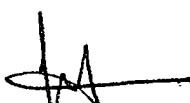
FORTINET UK LIMITED
REGISTERED NUMBER: 04570027

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Tangible assets	11	820,073	1,288,546
Investments	12	41,740	41,740
		<u>861,813</u>	<u>1,330,286</u>
Current assets			
Debtors: amounts falling due within one year	13	9,587,459	10,655,973
Cash at bank and in hand	14	13,862,624	10,214,644
		<u>23,450,083</u>	<u>20,870,617</u>
Creditors: amounts falling due within one year	15	(9,671,854)	(10,627,743)
Net current assets		<u>13,778,229</u>	<u>10,242,874</u>
Total assets less current liabilities		<u>14,640,042</u>	<u>11,573,160</u>
Provisions for liabilities			
Deferred tax	16	-	(32,303)
Net assets		<u><u>14,640,042</u></u>	<u><u>11,540,857</u></u>
Capital and reserves			
Called up share capital	17	100,000	100,000
Other reserves	19	33,051,920	23,717,434
Profit and loss account	19	(18,511,878)	(12,276,577)
		<u>14,640,042</u>	<u>11,540,857</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

27th February 2020.


L M Cayan
 Director

The notes on pages 12 to 30 form part of these financial statements.

FORTINET UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2018	100,000	23,717,434	(12,276,577)	11,540,857
Comprehensive income for the year				
Loss for the year	-	-	(6,264,860)	(6,264,860)
Exchange difference on reserves	-	-	29,559	29,559
Total comprehensive income for the year	-	-	(6,235,301)	(6,235,301)
Movement in share option reserve	-	9,334,486	-	9,334,486
Total transactions with owners	-	9,334,486	-	9,334,486
At 31 December 2018	100,000	33,051,920	(18,511,878)	14,640,042

The notes on pages 12 to 30 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2017	1	15,254,132	(6,719,968)	8,534,165
Comprehensive income for the year				
Loss for the year	-	-	(5,929,112)	(5,929,112)
Exchange difference on reserves	-	-	372,503	372,503
Total comprehensive income for the year	-	-	(5,556,609)	(5,556,609)
Shares issued during the year	99,999	-	-	99,999
Movement in share option reserve	-	8,463,302	-	8,463,302
Total transactions with owners	99,999	8,463,302	-	8,563,301
At 31 December 2017	100,000	23,717,434	(12,276,577)	11,540,857

The notes on pages 12 to 30 form part of these financial statements.

FORTINET UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies

1.1 General Information

Fortinet UK Limited is a private Company, limited by shares and incorporated in England and Wales. The address of its registered office and principal place of business is Gainsborough House 2 Manor Park, Manor Farm Road, Reading, Berkshire, RG2 0NA. The Company's registered number is 04570027.

The principal activity of the Company is being a UK provider of network security and appliances.

These financial statements have been presented in Sterling, as this is the currency of the primary economic environment in which the Company operates.

Fortinet UK Limited is included in the consolidated financial statements of Fortinet Inc. Fortinet UK Limited has taken advantage of the exemption available under section 401 of Companies Act 2006 not to prepare consolidated financial statements.

1.2 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.3 Financial reporting standard 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Fortinet Inc. as at 31 December 2017 and these financial statements may be obtained from 899 Kifer Road, Sunnyvale, CA 94086, USA. This is the smallest and largest group the Company is consolidated in.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.4 Going concern

These financial statements have been prepared on a going concern basis.

The directors have carefully considered the risks they are exposed to, including an assessment of uncertainty on future trading projection for a period of at least twelve months from the date of signing the financial statements, and the extent to which they might affect the preparation of the financial statements on a going concern basis.

Based on this assessment, the directors consider that the Company maintains an appropriate level of liquidity, sufficient to meet the demands of the business.

The Company's assets are assessed for recoverability on a regular basis, and the directors consider that the Company is not exposed to losses on these assets which would affect their decision to adopt the going concern basis.

1.5 Revenue

The Company acts as a sales representative and technical support provider on behalf of Fortinet Singapore Private Limited. The Company does not perform any sales to the end users.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

1.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on the following bases:

Leasehold improvements	- Shorter of useful life or term of the lease
Computer equipment	- 50% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

Depreciation is charged to administrative expenses in the Statement of Comprehensive Income.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)**1.7 Operating leases: the Company as lessee**

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

1.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

1.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)**1.11 Financial instruments**

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

1.14 Finance costs

Finance costs are charged to the Statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1. Accounting policies (continued)

1.15 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

1.16 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity, is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

1.19 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Judgements in applying accounting policies and key sources of estimation uncertainty

The critical judgements that the Directors have made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

(i) Assessing indicators of impairment

In assessing whether there have been any indicators of impairment assets, the Directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimating value in use

Where an indication of impairment exists the Directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less cost to sell and value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the asset or the cash generating unit and a suitable discount rate in order to calculate present value.

(ii) Recoverability of receivables

The Company establishes a provision for receivables that are estimated not to be recoverable. When assessing recoverability the directors consider factors such as the aging of the receivables, past experience of recoverability, and the credit profile of customers.

(iii) Determining residual values and useful economic lives of property, plant and equipment

The Company depreciates tangible assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

Judgement is applied by management when determining the residual values for plant, machinery and equipment. When determining the residual value management aim to assess the amount that the Company would currently obtain for the disposal of the asset, if it were already of the condition expected at the end of its useful economic life. Where possible this is done with reference to external market prices.

(iv) Determining fair value of the stock options

The Company uses the Black-Scholes option pricing model, on Non-qualified stock options, which employs assumptions based on expected dividend, expected volatility, risk-free interest rate and expected term. More details of these assumption are disclosed in Note 18.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. Turnover

The whole of the turnover is attributable to the principal activity of the business.

Analysis of turnover by country of destination:

	2018 £	2017 £
Singapore with Fortinet Singapore	69,165,346	68,905,874

4. Operating loss

The operating profit/(loss) is stated after charging/(crediting):

	2018 £	2017 £
Depreciation of tangible fixed assets	501,211	524,707
Operating lease rentals	1,629,116	1,659,724
Share based payments	9,334,486	8,463,302
Exchange differences	462,587	381,656

5. Auditors' remuneration

	2018 £	2017 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	15,200	14,400
Fees payable to the Company's auditor and its associates in respect of:		
Non-audit fees	8,700	8,600

6. Employees

The average monthly number of employees, including the Directors, during the year was as follows:

	2018 No.	2017 No.
Administration and sales support and account management	368	336

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Staff costs

	2018 £	2017 £
Wages and Salaries	43,358,667	41,008,089
Social security costs	5,727,632	6,105,776
Pension costs	2,342,464	1,452,275
	<u>51,428,763</u>	<u>48,566,140</u>

No Director received any emoluments from the company (2017: £nil). The emoluments of the Directors are disclosed in the financial statements of the parent company, Fortinet Inc.

8. Interest receivable

	2018 £	2017 £
Other interest receivable	<u>3,090</u>	<u>741</u>

9. Interest payable and similar expenses

	2018 £	2017 £
Bank interest payable	<u>-</u>	<u>400</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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10. Taxation

	2018 £	2017 £
Corporation tax		
Current tax on loss for the year	295,034	992,049
Adjustments in respect of previous periods	-	82,626
	<u>295,034</u>	<u>1,074,675</u>
Double taxation relief	(295,034)	(316,137)
	<u>-</u>	<u>758,538</u>
Foreign tax		
Foreign tax on income for the year	528,353	757,266
	<u>528,353</u>	<u>757,266</u>
Total current tax	<u>528,353</u>	<u>1,515,804</u>
Deferred tax		
Origination and reversal of timing differences	(32,303)	(51,223)
Total deferred tax	<u>(32,303)</u>	<u>(51,223)</u>
Taxation on profit on ordinary activities	<u>496,050</u>	<u>1,464,581</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. Taxation (continued)**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2017 - higher than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	(5,768,810)	(4,464,531)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	(1,096,074)	(859,422)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	1,321,286	1,786,558
Capital allowances for year in excess of depreciation	65,469	132,345
Foreign tax credits	233,319	172,408
Adjustments to tax charge in respect of prior periods	-	82,626
Income not taxable for tax purposes	-	(10,780)
Adjust deferred tax to average rate	458	(6,613)
Deferred tax not recognised	(28,408)	(101,262)
Foreign taxation in respect of prior periods	-	268,721
Total tax charge for the year	496,050	1,464,581

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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11. Tangible fixed assets

	Leasehold improvements £	Computer equipment £	Total £
Cost or valuation			
At 1 January 2018	2,123,637	236,592	2,360,229
Additions	9,339	23,399	32,738
At 31 December 2018	<u>2,132,976</u>	<u>259,991</u>	<u>2,392,967</u>
Depreciation			
At 1 January 2018	871,854	199,829	1,071,683
Charge for the year on owned assets	467,150	34,061	501,211
At 31 December 2018	<u>1,339,004</u>	<u>233,890</u>	<u>1,572,894</u>
Net book value			
At 31 December 2018	<u>793,972</u>	<u>26,101</u>	<u>820,073</u>
At 31 December 2017	<u>1,251,783</u>	<u>36,763</u>	<u>1,288,546</u>

12. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2018	41,740
At 31 December 2018	<u>41,740</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. Fixed asset investments (continued)**Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Fortinet Sarl	905 rue Albert Einstein, 06560, Valbonne, France	Ordinary	100%
Fortinet GmbH	Furstenrieder Str. 273, 81377 Munchen, Germany	Ordinary	100%
Fortinet Security Italy SRL	Via del Casale Solaro, 119, 00143, Roma, Italy	Ordinary	100%
Fortinet Security Spain S.L.	Avenida Europe, 24- Edif.B,Pt.2-B,28108 Alcobendas, Madrid, Spain	Ordinary	100%
Fortinet Security Israel Ltd	25 E'fal Street, Petah Tikva, 46722, Israel	Ordinary	100%
Fortinet Korea	15th Fl. Haeam Bldg., 983-1, Daechi-dong, Gangnam Gu, Seoul, Korea 135-280	Ordinary	100%
Fortinet Security LLC (Qatar)	Office 924, 9th Floor, Al Fardan Office Tower, Al Funduq 61, West Bay	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the year ended on that date for the subsidiary undertakings was as follows:

13. Debtors

	2018 £	2017 £
Amounts owed by group undertakings	8,493,797	9,186,224
Other debtors	583,899	716,885
Prepayments and accrued income	509,763	752,864
	<u>9,587,459</u>	<u>10,655,973</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

14. Cash and cash equivalents

	2018 £	2017 £
Cash at bank and in hand	13,862,624	10,214,644
	<u>13,862,624</u>	<u>10,214,644</u>

The Company had the following guarantees in effect at year end:

- Guarantee dated 11 December 2014 in favour of Giambelli Spa for EUR50,000
- Guarantee dated 02 April 2015 in favour of Propco Citygate S.A.R.L for EUR37,092

The company had the following securities held at year end:

- Agreement regarding specific Credit Balance(s) dated 26 November 2014
- Letter of set-off dated 26 April 2004
- Composite Company Limited Multilateral Guarantee dated 11 May 2017 given by Fortinet Inc.

The company had the following loans, overdrafts and limits at year end:

- Class Guarantee Facility of £76,404.
- Facilities due for review June 2019.

15. Creditors: Amounts falling due within one year

	2018 £	2017 £
Trade creditors	103,299	713,375
Taxation and social security	2,115,832	2,585,576
Other creditors	7,949	4,615
Accruals and deferred income	7,444,774	7,324,177
	<u>9,671,854</u>	<u>10,627,743</u>

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

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

16. Deferred taxation

	2018 £	2017 £
At beginning of year	(32,303)	(83,526)
Charged to profit or loss	32,303	51,223
At end of year	-	(32,303)

The deferred taxation balance is made up as follows:

	2018 £	2017 £
Fixed asset timing differences	-	(32,303)
	-	(32,303)

17. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
100,000 (2017 - 100,000) Ordinary shares shares of £1.00 each	100,000	100,000

The Company has one class of ordinary shares which carry voting rights but no right to fixed income.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

18. Share based payments

The parent Company, Fortinet Inc, operates an Employee non-qualified share option scheme which is open to group employees. For the employee share option scheme the options are exercisable at a price equal to the Company's share price at the date of grant.

There are also restricted stock unit award schemes in place for employees.

Non-qualified stock options

The fair value of the share options has been determined by applying a Black-Scholes model which has no vesting restrictions and is fully transferable. For all share options the Company recognises an expense over the requisite service period using the straight line method.

Share options are cancelled if the employee leaves the Company before the options vest. To allow for the effects of early exercise, the expected life has been adjusted based on management's best estimate for exercise restrictions and behavioural considerations.

In determining the fair value of the stock options, the Black-Scholes option pricing model, which employs the following assumptions:

Expected Dividend — The expected dividend weighted-average assumption is zero.

Expected Volatility — The computation of expected volatility for the periods presented includes the historical and implied stock volatility of comparable companies from a representative peer group. The group is selected based on industry and market capitalization data and weighted historical volatility following the initial public offering in November 2009.

Risk-Free Interest Rate — This is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Expected Term — The expected term represents the period that the stock-based awards are expected to be outstanding. As there is not sufficient historical experience for determining the expected term of the stock option awards granted, therefore it is based on the expected term on the simplified method, which is calculated as the average weighted vesting period and contractual life.

Restricted stock units

The fair value of each restricted stock unit is the market price of the parent Company's stock on the date of grant.

Employee Share Purchase Plan

The Employee Share Purchase Plan (the "ESPP") enables eligible employees to purchase the ultimate parent Company's common stock through periodic payroll deductions at a price per share equal to 85% of the lower of the fair market value of the common stock at the beginning or end of each offering period. Each offering period of the ESPP lasts 6 months.

The ESPP scheme was closed in 2018.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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19. Reserves**Other reserves**

This reserve represents the share based payment reserve in accordance with FRS 102.

Profit & loss account

This reserves represents cumulative profits and losses, after deductions of dividends paid.

20. Contingent liabilities

On 21 November 2018, HMRC opened an initial investigation regarding their concerns about the intra group transactions on a global basis. The Directors, and their external advisors, believe that the investigation will be settled satisfactorily but discussions are ongoing. Therefore, the Directors have not recognised any provision for any potential liability in the financial statements.

21. Pension commitments

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund, during the year these amount to £2,342,464 (2017: £1,452,275). At 31 December 2018, there were outstanding contributions of £610,166 (2017: £573,847).

22. Commitments under operating lease

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	969,473	1,658,964
Later than 1 year and not later than 5 years	609,329	1,555,094
Later than 5 years	32,358	61,375
Total	1,611,160	3,275,433

Lease expenses during the year totalled £1,629,116 (2017: £1,659,724).

23. Related party transactions

The Company is a wholly owned member of Fortinet Inc. and as such has taken advantage of the exemption permitted by Section 33 of FRS 102, Related Party Disclosures, not to provide disclosures of transactions entered into with other wholly owned members of the Group.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

24. Controlling party

The immediate parent Company is Fortinet B.V., a Company registered in the Netherlands and the ultimate parent Company is Fortinet Inc., a Company registered in the United States of America. Copies of the consolidated financial statements of Fortinet Inc. are available from 899 Kifer Road, Sunnyvale, CA 94086, USA. This is the smallest and largest group the Company is consolidated in.