

REGISTERED NUMBER: 05150579 (England and Wales)

Strategic Report, Directors' Report and

Audited Financial Statements

for the Year Ended 31 March 2018

for

Arbor Networks UK Limited

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**Arbor Networks UK Limited**

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**for the Year Ended 31 March 2018**

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**Arbor Networks UK Limited**

**Company Information**  
**for the Year Ended 31 March 2018**

**DIRECTORS**

Jean Bua  
Michael Szabados  
Gregory Sloan  
Carolina Jones  
Anthony King

**COMPANY SECRETARY**

Abogado Nominees Limited

**COMPANY NUMBER**

05150579 (England and Wales)

**COUNTRY OF  
INCORPORATION**

United Kingdom

**REGISTERED OFFICE**

100 New Bridge Street  
London  
United Kingdom  
EC4V 6JA

**AUDITOR**

Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

**BANKER**

HSBC Bank plc  
27th Floor  
8 Canada Square  
London  
E14 5HQ

**Arbor Networks UK Limited**  
**Strategic Report**  
**for the Year Ended 31 March 2018**

The directors present their strategic report for the Year ended 31 March 2018.

## **REVIEW OF BUSINESS**

Arbor Networks UK Limited is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1. Arbor Networks UK Limited is fully owned by NetScout Systems Inc., a company incorporated in Delaware in the United States.

The principal activity of the Company is network traffic management and Distributed Denial of Services (DDoS) mitigation solutions for service providers, enterprise and government organisations. Our portfolio offers complete deployment and pricing flexibility through a mix of managed services, in-cloud, on-premise and virtualized solutions. Additionally, Arbor Networks® Advanced Threat Solutions leverage NetFlow and Packet Capture technology for network-wide situational awareness, broad and deep traffic visibility and dynamic security intelligence that converts threat detection and incident response into powerful visualizations, and rapid, real-time and historical insights.

The Company's key financial and other performance indicators were as follows:

	2018	2017	Change
	\$	\$	
Revenue	151,727,265	157,124,222	-3.4%
Gross Profit	141,807,513	145,464,025	-2.5%
Gross Profit %	93%	93%	0.0%
Average no. of employees	79	81	-2
Net Assets	48,323,104	30,617,867	57.8%

Revenue decrease from \$157,124,222 to \$151,727,265 a decrease of 3.4%. Total revenue also includes \$8,261,600 which relates to Intercompany sales.

The decreased was in party to lower intercompany revenue of \$2,723,836 as a result of reduction of marketing activities by hosted employees of other business units of Netscout and lower net product and service revenue of \$2,673,120 in Europe as customer transition from a capex model to a subscription base.

The gross profit has decreased mainly due to different product mix and increase in software sales versus hardware.

Minimum staff changes have been observed during the year mainly due to hosted employees from other Netscout business Units leaving the organisation.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **Competitive Risks**

The Company operates in a competitive market but the directors feel there is minimal risk to the business. The application of NetScout Systems Inc.'s approach ensures that the Company is able to respond quickly to changes in levels of activity or competitive pressures and in this the Company has significant advantages over competitors.

### **Legislative Risks**

Currently we are not aware of any legislation risk regarding the sale and support of our products.

### **Brexit**

The Company performance has not been impacted by current and prior discussions by United Kingdom (UK) Government around Brexit. A review of the existing business model and operations has been performed to make sure that the Company will be able to maintain current performance and operations during and after the United Kingdom transitions to leave the European Union.

The Company denominated currency is US Dollars, as such a negative impact is not expected due to GBP foreign exchange fluctuations in the future.

**Arbor Networks UK Limited**

**Strategic Report (continued)**  
**for the Year Ended 31 March 2018**

**PRINCIPAL RISKS AND UNCERTAINTIES (continue)**

**Brexit (continue)**

The Company main suppliers, manufacturing and services centre are based outside the United Kingdom and European Union therefore having no impact on the existing model due to Brexit.

The Company customer base is located in a number of multiple geographical areas as such, a change due to Brexit is not expected.

After 29 of March 2019, the government will ensure that the UK continues to have a functioning regulatory framework for companies and that, as far as possible, the same laws and rules that are currently in place continue to apply. This will be done by using the powers in the EU Withdrawal Act 2018 to correct deficiencies in UK statute book arising from the exit from the EU.

**Financial, Price, Credit, Liquidity and Cash Flow Risks**

The Company's operations have little exposure to financial risk including credit, currency fluctuation and liquidity risks.

Currency risk is limited as purchases are primarily in US Dollars, yet salary and related expenses are transacted in many foreign currencies. These obligations are settled within 30 days and exposure is limited. In regards to third party sales, the business is involved in many geographical areas, invoicing occurs primarily in USD and exposure to undue currency risks is limited.

The directors believe that the Company has sufficient funds available to withstand any difficulties which may arise in the next 12 months.

**ENVIROMENTAL MATTERS**

There are not significant environmental matters affecting the company during the period under review.

Approved by the Board of Directors on 5 FEBRUARY 2019 and signed on its behalf by:

  
Carolina Jones - Director

**Arbor Networks UK Limited**

**Directors' Report**  
**for the Year Ended 31 March 2018**

The directors present their Directors' Report with the audited financial statements of the Company for the year ended 31 March 2018.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is network traffic management and Distributed Denial of Services mitigation solutions for service providers, enterprise and government organisations as well as deep traffic visibility and dynamic security intelligence that transforms threat detection and incident response into powerful visualisation tools with real time historical insight.

**RESULTS AND DIVIDENDS**

The directors do not recommend an interim or final dividend to be paid in respect of the financial year under review. The results of the year and state of affairs of the company are set out in the profit and loss accounts and balance sheet on pages 9 and 10 respectively.

**DIRECTORS**

Directors that have held the office for the entire year and to the date of this report were as follows:

Jean Bua  
Michael Szabados  
Gregory Sloan  
Carolina Jones  
Anthony King

**THIRD PARTY INDEMNITIES**

NetScout Systems Inc., has provided limited indemnities to all directors in respect of the cost of defending claims against them and third-party liabilities. These are all third-party indemnity provisions for the purpose of the Companies Act 2006 and are all currently in force.

**HEALTH, SAFETY AND THE ENVIRONMENT**

The Company is committed to the maintenance of high standards of practice concerning the health and safety of its employees. The Company recognises its legal obligations in this respect and compliance with such obligations and a number of policies on such matters are monitored through a health and safety committee. The Company is sensitive to the needs of the environment.

**GOING CONCERN**

The Company has a strong customer base and its liquidity is very good. The Company has been trading profitably throughout the year such that it had cash at bank and in hand in excess of \$79m as at 31 March 2018. The directors therefore have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, including 12 months from the date of signing the Financial Statements. Accordingly, a going concern basis has been adopted in preparing the Strategic Report, Directors' Report and Audited Financial Statements.

**EMPLOYMENT POLICIES**

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical with that of other employees.

**Arbor Networks UK Limited**

**Directors' Report (Continued)**  
**for the Year Ended 31 March 2018**

**DISCLOSURE OF INFORMATION TO AUDITOR**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each director has taken all the steps that he/ she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**AUDITOR**

The auditor, Deloitte LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

**REDUCED DISCLOSURES**

Arbor Networks UK Limited, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. The Company's shareholders have been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

The Company also intend to take advantage of these exemptions in the financial statements to be issued in the following year.

**FUTURE DEVELOPMENTS**

Arbor Networks UK Limited expects continued growth in the European and international markets as the Company continues to expand its sales efforts within these regions. The Company has maintained its position as the world leader in Distributed Denial of Services (DDoS) protection by diversifying into the enterprise sector and continuing to introduce cloud-based DDoS protection against DDoS attacks for the world's leading organisations.

The Company's Advanced Threat Solutions continue to be increasingly popular across European and International markets for its new and faster approach to find and resolve advanced threats and reducing the risk on organisations network.

Approved by the Board of Directors on 5 FEBRUARY 2019 and signed on its behalf by:

  
Carolina Jones - Director

**Arbor Networks UK Limited**

**Directors' Responsibilities Statement**  
**for the Year Ended 31 March 2018**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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 state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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



**Independent Auditor's Report to the Members of**  
**Arbor Networks UK Limited**  
**for the Year Ended 31 March 2018**

**Report on the Audit of the Financial Statements**

**Opinion**

In our opinion the financial statements of Arbor Networks UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of company which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

**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 Financial Reporting Councils' (the FRCs') 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.

**Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

**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 respect of these matters.

**Independent Auditor's Report to the Members of**  
**Arbor Networks UK Limited (Continued)**  
**for the Year Ended 31 March 2018**

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, 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 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 further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

**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.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

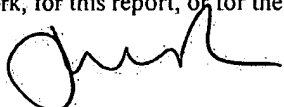
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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 in respect of these matters.

**Use of our 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.



**Julian Rae (Senior statutory auditor)**

**For and on behalf of Deloitte LLP**

Statutory Auditor

Cambridge, United Kingdom

Date: 5 February 2019

**Arbor Networks UK Limited**

**Profit and Loss Account**  
**for the Year Ended 31 March 2018**

		Year Ended 31 March 2018	Year Ended 31 March 2017
	Note	\$	\$
<b>REVENUE</b>	2	151,727,265	157,124,222
Cost of Sales		<u>(9,919,752)</u>	<u>(11,660,197)</u>
<b>GROSS PROFIT</b>		141,807,513	145,464,025
Operating Expenses		<u>(120,145,151)</u>	<u>(116,173,054)</u>
<b>OPERATING PROFIT</b>	4	21,662,362	29,290,971
Interest Receivable and similar income	5	767,516	462,953
Interest Payable and similar expenses	6	<u>(21,957)</u>	<u>(27,777)</u>
<b>PROFIT BEFORE TAXATION</b>		22,407,921	29,726,147
Tax on profit	7	<u>(4,894,973)</u>	<u>(6,190,796)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>17,512,948</u>	<u>23,535,351</u>

**CONTINUING OPERATIONS**

None of the Company's activities were acquired or discontinued during the current year or previous year. The profit for the financial year is wholly attributable to the equity shareholders of the company.

**TOTAL COMPREHENSIVE INCOME**

The Company has no comprehensive income or expenses other than the profit for the current year and on this basis, no statement of Comprehensive Income has been included.

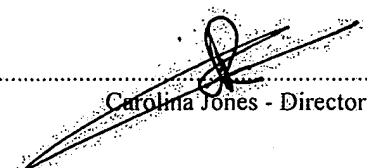
**Arbor Networks UK Limited**

**Balance Sheet  
As at 31 March 2018**

ASSETS	Notes	31 March 2018 \$	31 March 2017 \$
<b>NON-CURRENT ASSETS</b>			
Property, Plant, Equipment	8	679,141	352,555
Debtors: due after one year	11	32,680,423	32,050,153
		<u>33,359,564</u>	<u>32,402,708</u>
<b>CURRENT ASSETS</b>			
Stocks	9	1,829,139	2,897,879
Debtors: due within one year	10	34,961,805	42,163,539
Cash at bank and in hand		79,078,398	40,816,720
		<u>115,869,342</u>	<u>85,878,138</u>
<b>TOTAL ASSETS</b>		<u>149,228,905</u>	<u>118,280,846</u>
<b>CURRENT LIABILITIES</b>			
Creditors: amounts falling due within one year	12	79,163,002	71,356,367
		<u>79,163,002</u>	<u>71,356,367</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>70,065,903</u>	<u>46,924,479</u>
<b>NON-CURRENT LIABILITIES</b>			
Creditors: amounts falling due after more than one year	13	21,742,800	16,306,612
		<u>21,742,800</u>	<u>16,306,612</u>
<b>NET ASSETS</b>		<u>48,323,104</u>	<u>30,617,867</u>
<b>CAPITAL AND RESERVES</b>			
Called up share Capital	15	4	4
Profit and Loss Account	15	47,270,310	29,757,362
Capital contribution	15	1,052,790	860,501
		<u>48,323,104</u>	<u>30,617,867</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>48,323,104</u>	<u>30,617,867</u>

The financial statements were approved by the Board of Directors on its behalf by:

5 February 2019 and were signed

.....  
  
 Carolina Jones - Director

**Arbor Networks UK Limited**

**Statement of changes in Equity**  
**for the Year Ended 31 March 2018**

	Called up Share Capital	Profit and loss account	Capital contribution	Total shareholders' funds
	\$	\$	\$	\$
01 April 2016	4	6,222,011	427,320	6,649,335
Profit and total comprehensive income for the financial period	-	23,535,351	-	23,535,351
Capital contribution - Share based payment	-	-	433,181	433,181
31 March 2017	<u>4</u>	<u>29,757,362</u>	<u>860,501</u>	<u>30,617,867</u>
01 April 2017	4	29,757,362	860,501	30,617,867
Profit and total comprehensive income for the financial period	-	17,512,948	-	17,512,948
Capital contribution - Share based payment	-	-	192,289	192,289
31 March 2018	<u>4</u>	<u>47,270,310</u>	<u>1,052,790</u>	<u>48,323,104</u>

## **Arbor Networks UK Limited**

### **Notes to the Financial Statements** **for the Year Ended 31 March 2018**

#### **I. ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the reporting period and the preceding year.

##### **General information and basis of accounting**

Arbor Networks UK Limited is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the directors' report on pages 4 to 5.

The individual Financial Statements of Arbor Networks UK Limited have been prepared in compliance with applicable United Kingdom Accounting standards, including Financial Reporting Standard (FRS 102) and the Companies Act 2006.

Arbor Networks UK Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its parent, NetScout Systems Inc., which can be obtained from 310 Littleton Road, Westford, MA, 01886, USA. Exemptions have been taken in these separate Company financial statements in relation to presentation of a cash flow statement, financial instruments and remuneration of key management personnel.

##### **Accounting convention**

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards and FRS 102, issued by the Financial Reporting Council.

##### **Functional and presentation currency**

The Company's functional and presentation currency is US Dollars because that is the currency of the primary economic environment in which the Company operates.

##### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

##### **Going concern**

The directors have considered the financial position of the Company at the year end and the financial statements have been prepared using the going concern basis of accounting. The Company has sufficient funds required to meet liabilities as they fall due for a period of at least 12 months from the date of signing of these financial statements.

The directors taking into account all available information about the future, have a reasonable expectation that the company has adequate resources to continue in operational existence for a period of at least, but not limited to, 12 months from the date which financial statements are authorised for issue. Thus, they continue to adopt the going concern basis of accounting in the preparation of the financial statements.

##### **Share based payments**

Share based payments: The company's parent company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of nonmarket-based vesting conditions. The fair value of the employees' services received in exchange for the grant of options is recognised as an expense and additionally as a contribution to equity from the parent company.

##### **Interest receivable**

Interest income is attributable to intercompany loans, which are recognised using the effective market interest rates. The interest rates are reviewed periodically for its reasonableness.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**1. ACCOUNTING POLICIES (continued)**

**Revenue**

Revenue represents net invoiced sales of goods, excluding value added tax and discounts.

The products sold by the Company maintain stand-alone value as they generally do not require significant production, modification or customization of software. In addition, installation of the products is typically routine, requires minimal effort and is completed by company customers or resellers. The Company is required to estimate a standalone selling price for products and staging or implementation service, and then revalue the elements of the arrangement accordingly. The associated product revenue is then generally recognized upon shipment, the associated maintenance revenue is recognized ratably over the maintenance term and the staging or implementation service is deferred until completion of the service (usually within 90-180 days).

Arbor uses a hierarchy to determine the selling price for its products and services:

- Vendor-specific objective evidence of fair value ("VSOE") - VSOE only exists when Arbor sells the deliverable separately and represents the price charged by Arbor for that deliverable. However, majority of company's hardware and software products are sold in bundled arrangements and the Company is unable to establish VSOE for those products.
- Third-party evidence of selling price ("TPE") - Arbor sells its products in bundled arrangements; almost every product is sold with maintenance. Although competition exists but the Company's array of product offerings makes it difficult to compare its products with those of the competition. Therefore, it makes it very difficult to obtain TPE of its products.
- Best estimate of the selling price ("BESP") - BESP reflects Arbor's estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. The Company is required to use BESP for the deliverables in the arrangement when VSOE or TPE of the selling price is not available.

Intercompany revenue represents the costs cross charged out in relation to hosted employees with a 5% mark up as per the intercompany agreements.

**Financial instruments**

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares contain such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Dividends and distributions relating to equity instruments are debited directly to reserves.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**I. ACCOUNTING POLICIES (continued)**

**Tangible fixed assets**

Tangible fixed assets are stated at historic cost less accumulated depreciation and any provision for impairment. Cost includes original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment – 3 years

Fixtures and fittings – 5 years

Leasehold improvements – 6 years and 3 months (over the life of lease)

Demo & Evaluation – 1 year and 6 months

**Stock**

Stock are stated at the lower of cost and net realisable value. Cost includes direct materials, direct labour and an attributable proportion of manufacturing overheads based on a normal level of activity. Cost is calculated using the average cost method.

Net realisable value is based on estimated selling price, less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

**Tax**

Current Tax, including UK corporation tax and foreign tax is provided at amounts expected to be paid and recorded using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

**Pension costs and other post-retirement benefits**

The Company operates a defined contribution pension scheme. Contributions payable to the Company's pension scheme are charged to the profit and loss account in the period to which they relate.

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

- **Revenue recognition**

The Company is required to estimate a stand-alone selling price for products and staging or implementation service, and then revalue the elements of the arrangement accordingly. Arbor sells its products in bundled arrangements to its customers using the best estimate of the selling price (BESP) as it is unable to establish third-party evidence of selling price (TPE). Although competition exists the lack of direct comparison of products and unavailability of net pricing would make it difficult to determine a competitor's fair value.



**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**2. TURNOVER**

The revenue and profit before taxation for the year ended 31 March 2018 and prior year ended 31 March 2017 are attributable to the principal activity of the Company and Intercompany related party revenue of \$8,261,600 (2017: \$10,985,437).

An analysis of revenue by geographical market is given below:

	Year Ended 31 March 2018 \$	Year Ended 31 March 2017 \$
United Kingdom	32,193,752	35,432,568
Rest of Europe	33,324,739	46,528,710
United States of America	1,590,417	199,308
South America	23,824,547	23,588,561
Asia	25,679,120	26,720,207
Rest of the world	35,114,690	24,654,868
	<u>151,727,265</u>	<u>157,124,222</u>

An analysis of revenue by category is given below:

	Year Ended 31 March 2018 \$	Year Ended 31 March 2017 \$
Sale of goods (Hardware and software)	85,568,996	94,172,805
Rendering of services	57,896,669	51,965,980
Intercompany revenue	8,261,600	10,985,437
	<u>151,727,265</u>	<u>157,124,222</u>

The principal activity of the Company is network traffic management, Advanced Threat and DDoS mitigation solutions for service providers as well as internal network visibility and on-premises DDoS mitigation tools for enterprises and government organisations.

**3. STAFF COSTS**

	Year Ended 31 March 2018 \$	Year Ended 31 March 2017 \$
Wages and Salaries	5,436,544	11,113,958
Social Security Costs	417,892	1,463,909
Other Pension Costs (see note 16)	652,062	633,618
	<u>6,506,498</u>	<u>13,211,485</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**3. STAFF COSTS (continued)**

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

	Year Ended 31 March 2018	Year Ended 31 March 2017
Sales and pre-sales	43	40
Customer support & services	25	26
Finance, Human Resources and IT	7	9
Marketing	4	6
	<u>79</u>	<u>81</u>

**Directors' remuneration:**

	Year Ended 31 March 2018 \$	Year Ended 31 March 2017 \$
Aggregate emoluments	878,824	1,143,216
Company contributions to defined benefit contribution scheme	<u>12,607</u>	<u>81,931</u>
	<u>891,431</u>	<u>1,225,147</u>

For the year ended 31 March 2018 and prior year ended 31 March 2017 three of the five directors provide services to other group undertakings and it is not practicable to allocate their remuneration across all the group undertakings, therefore no amounts in respect of these directors have been included in the amounts shown above. The amount above only includes remuneration for the directors resident in the United Kingdom and provided services to the Company.

**Remuneration of the highest paid director:**

	Year Ended 31 March 2018 \$	Year Ended 31 March 2017 \$
Aggregate emoluments	740,750	1,008,157
Company contributions to defined benefit contribution scheme	<u>1,495</u>	<u>71,062</u>
	<u>742,245</u>	<u>1,079,219</u>

The highest paid director provides services to other group undertakings, consequently the amounts shown above represents the proportion of the remuneration attributable to the services provided to Arbor Networks UK Limited.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for the Year Ended 31 March 2018**

**4. OPERATING PROFIT**

The profit on ordinary activities (2014 - loss) is stated after charging/(crediting):

	Year Ended 31 March 2018	Year Ended 31 March 2017
	\$	\$
Depreciation of tangible fixed assets (see note 8)	823,311	13,195
Cost of stock recognised as an expense	9,619,230	10,528,856
Impairment of stock recognised as an expense	300,523	1,131,341
Foreign exchange differences including translation adjustments	935,703	(182,043)
Operating lease expenses	323,023	349,040
Selling and Distribution costs	35,206,196	33,000,797
Administration expenses	<u>72,838,367</u>	<u>71,133,572</u>

Fees payable to the company auditors and their associates for the audit of the company's annual accounts

	Year Ended 31 March 2018	Year Ended 31 March 2017
	\$	\$
Auditors remuneration	<u>94,214</u>	<u>171,308</u>
Total audit fees	<u>94,214</u>	<u>171,308</u>
Taxation Compliance services	<u>14,111</u>	<u>26,988</u>
Total non-audit fees	<u>14,111</u>	<u>26,988</u>

The company acquired a number of tangible assets during the year, the accumulated depreciation of \$823,311 has been reflected in note 8, from which \$717,580 relates to Demo & Eval units, \$38,738 relates to Arbor Networks UK Limited, and the remaining \$66,993 relates to other group business units. Impairments of stocks are included in cost of sales.

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year Ended 31 March 2018	Year Ended 31 March 2017
	\$	\$
Bank interest	137,246	-
Interest on intercompany loan	<u>630,270</u>	<u>462,953</u>
	<u>767,516</u>	<u>462,953</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for the Year Ended 31 March 2018**

**6. INTEREST PAYABLE AND SIMILAR EXPENSES**

	Year Ended 31 March 2018 \$	Year Ended 31 March 2017 \$
Bank interest	-	4,588
Interest on intercompany loan	21,957	23,189
	<u>21,957</u>	<u>27,777</u>

**7. TAX ON PROFIT**

The tax charge comprises:

	Year ended 31 March 2018 \$	Year ended 31 March 2017 \$
<b>Current tax</b>		
Corporation tax at the standard rate of 19.25% (2017:20%)	5,189,834	6,081,841
Prior year adjustment to corporation tax	(69,838)	41,445
Credit for overseas tax suffered	-	(307,073)
	<u>5,119,996</u>	<u>5,816,213</u>
<b>Foreign tax</b>		
Overseas tax suffered	-	307,073
<b>Deferred tax</b>		
Origination and reversal of timing differences	(159,573)	63,957
Adjustment in respect of previous periods	(95,511)	-
Effect of changes in tax rates	30,061	3,553
	<u>(225,023)</u>	<u>67,510</u>
<b>Taxation charge for the year</b>	<u>4,894,973</u>	<u>6,190,796</u>

The differences between the total tax shown above and the amount calculated by applying the rate of UK corporation tax to the profit before tax are as follows:

	Year ended 31 March 2018 \$	Year ended 31 March 2017 \$
Profit before tax	<u>22,407,921</u>	<u>29,726,147</u>
Corporation tax at the standard rate of 19% (2017: 20%)	4,257,505	5,945,229
Effects of:		
Expenses not deductible	772,757	207,675
Tax rate changes	30,061	(3,553)
Prior year adjustment to corporation tax	(165,349)	41,445
Current taxation charge for the year	<u>4,894,973</u>	<u>6,190,796</u>

**CORPORATION TAX**

	31 March 2017 \$	31 March 2017 \$
Corporation tax creditor at the end of the year	<u>(2,560,446)</u>	<u>(2,961,835)</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for the Year Ended 31 March 2018**

**7. TAX ON PROFIT (continued)**

**DEFERRED TAX**

	Year ended 31 March 2018 \$	Year ended 31 March 2017 \$
Decreased tax assets at 1 April	(30,503)	(98,013)
Adjustment in respect of prior years	(95,511)	-
Deferred tax (credit) charge to profit and loss account for the year	(129,511)	67,510
Deferred tax (asset)/liability at 31 March	<u>(255,525)</u>	<u>(30,503)</u>

**Factors that may affect change in tax rates**

The Finance (No.2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19%, effective from 1 April 2017, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

During the year commencing 1 April 2018, the net reversal of deferred tax liabilities is expected to be immaterial.

There is no expiry date on timing differences, unused tax losses or tax credits.

**8. TANGIBLE ASSETS**

	Computer equipment \$	Fixtures & fittings \$	Leasehold improvements \$	Demo & Evaluation units \$	Total \$
<b>COST</b>					
At 1 April 2017	111,689	17,959	277,885	-	407,533
Additions	148,214	9,629	-	994,371	1,152,214
Disposals	(2,317)	-	-	-	(2,317)
At 31 March 2018	<u>257,586</u>	<u>27,588</u>	<u>277,885</u>	<u>994,371</u>	<u>1,557,430</u>
<b>DEPRECIATION</b>					
At 1 April 2017	22,942	2,395	29,641	-	54,978
Depreciation for the year	54,736	6,534	44,461	717,580	823,311
At 31 March 2018	<u>77,678</u>	<u>8,929</u>	<u>74,102</u>	<u>717,580</u>	<u>878,289</u>
<b>NET BOOK VALUE</b>					
At 31 March 2018	<u>179,908</u>	<u>18,659</u>	<u>203,783</u>	<u>276,791</u>	<u>679,141</u>
At 31 March 2017	<u>88,747</u>	<u>15,564</u>	<u>248,244</u>	-	<u>352,555</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**9. STOCKS**

	31 March 2018	31 March 2017
	\$	\$
Stocks	<u>1,829,139</u>	<u>2,897,879</u>

There is no material difference between the carrying value of stocks and their replacement cost.

**10. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 March 2018	31 March 2017
	\$	\$
Trade Debtors	32,463,294	39,510,986
Amount owed by group undertakings	1,998,566	2,035,100
Other Debtors	244,420	586,950
Deferred tax asset (note 7)	<u>255,525</u>	<u>30,503</u>
	<u>34,961,805</u>	<u>42,163,539</u>

The amount owed by group undertakings relates to quarterly cross charges for administration of hosted employees and expenditure for other supplies. It is due and settled within 30 days from the invoice date.

**11. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	31 March 2018	31 March 2017
	\$	\$
Amount owed by group undertakings	<u>32,680,423</u>	<u>32,050,153</u>

The company loaned \$31m to NSRS Holdings BV, the remaining \$1,680,423 is the accumulated interest on the loan (2017: \$1,050,153). The interest is calculated based on 3 months' USD LIBOR plus 272 basis points. The reasonableness of the interest is set to be reviewed on 07 January 2018. The loan was given in two instalments; \$28m on 30 June 2015 and \$3m on 10 July 2015. At present, a repayment for the capital and interest is not expected within the next 12 months of signing the financial statements and a repayment date has to be arranged between transacting parties.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 March 2018 \$	31 March 2017 \$
Trade Creditors	2,608,172	3,804,707
Amount owed to group undertakings	15,444,436	7,198,499
VAT	190,883	1,170,656
Deferred revenue	50,826,301	44,174,115
Holiday and pension accrual	188,855	176,366
Other Creditors	156,137	41,089
Other Taxes and Social security	575,245	638,276
Accrued expenses	6,612,527	11,190,824
Corporation Tax	2,560,446	2,961,835
	<u>79,163,002</u>	<u>71,356,367</u>

The amount owed to group undertakings includes an intercompany loan and accrued interest with Cragen Limited.

The interest on the loan is calculated at 1.5% (1% above the base rate set by Bank of England). The loan is repayable by Arbor Networks UK Limited upon written demand of Cragen Limited. The remainder of the balance relates to quarterly cross charges for administration of Arbor employees hosted by other group companies. It is due and settled within 30 days from the date of invoice.

**13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	31 March 2018 \$	31 March 2017 \$
Deferred Revenue	21,641,568	16,306,612
Other liabilities	101,232	-
	<u>21,742,800</u>	<u>16,306,612</u>

Below is a detailed summary showing the recognition of deferred revenue over forthcoming periods:

	31 March 2018 \$	31 March 2017 \$
Due between one and two years	13,951,428	10,968,369
Due between two to five years	7,686,832	5,298,998
Due more than five years	3,308	39,245
	<u>21,641,568</u>	<u>16,306,612</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**14. OPERATING LEASE COMMITMENTS**

Total future minimum lease payments under operating leases are as follows:

	31 March 2018		31 March 2017	
	Car Leases	Buildings	Car Leases	Buildings
	\$	\$	\$	\$
Lease expiring				
Within one year	34,240	298,667	39,292	263,526
One to five years	94,502	1,076,859	60,477	1,213,682
	<u>128,742</u>	<u>1,375,526</u>	<u>99,769</u>	<u>1,477,208</u>

The buildings lease is between Arbor Networks UK Limited and Novell UK limited, commencing 24 March 2016 and expiring on 8 March 2022. The rent is settled quarterly starting from 24 December 2016 offering thirteen months rent free period split into two period of nine months at the start of the lease and another four months from 24 May 2020 to 23 September 2020. The overall lease payments are spread over the life of the lease including any rent free periods.

**15. CALLED UP SHARE CAPITAL AND RESERVES**

Allotted, issued and fully paid:

		31 March	
		2018	2017
Allotted	Nominal	\$	\$
Number: Class:	Value:		
2 Ordinary	£1	<u>4</u>	<u>4</u>

The Company has one class of ordinary shares which carries no right to fixed income. The nominal value of the two shares is in Great British Pounds, which were translated into the functional currency, US Dollars at the exchange rate of 1.945 as of 22 April 2014.

The Company's other reserves are as follow:

The profit and loss reserve represent cumulative profits.

The capital contribution represents the Share based payment reserve earned at 31 March 2018 by certain employees as part of the Parent Company restricted stock units (RSUs) program.

**16. PENSION COMMITMENTS**

The Company operates a group defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to \$1,026,006 (2017: \$1,133,076) from which, \$652,062 (2017: \$633,618) related to the employees of Arbor Networks UK Limited and the remaining £373,944 (2017: \$499,458) relates to hosted employees from other group business units. These costs are recharged to these other business units as part of the intercompany revenue recharge agreement. Outstanding pension contributions at the end of year amounted to \$101,809 (2017: \$100,163).



**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Year Ended 31 March 2018**

**17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The Company's immediate parent undertaking is TF Holdings BV, a company incorporated in the Netherlands. At present and at the balance sheet date, the ultimate parent undertaking, controlling party and the smallest and largest group to consolidate these financial statements is NetScout Systems Inc., a company incorporated in Delaware in the United States, trading on NASDAQ under NTCT. The consolidated financial statements of this group are available to the public and can be obtained from 310 Littleton Road, Westford, MA, 01886, USA.

**17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY (continued)**

**Related party transactions**

As per section 33.1A of FRS 102 Related party disclosures, disclosures need not be given of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member. The Company transacts with various other entities within its Group at arm's length, however, the particulars of these transactions need not be disclosed. The only other related party transactions are with two of the Directors of the entity, who are paid via the Company's UK payroll.

**18. SHARE-BASED PAYMENTS**

**Equity-settled share-based payments:**

The Company grants certain employees' rights to restricted stock units (RSUs) of NetScout Systems Inc., its ultimate parent company. The fair value of share based awards granted to employees is measured at the grant date and recognised as an expense over the vesting period, generally four years, subject to the company estimate of the number of awards which will lapse. The only performance condition is that the individual is an employee of the company at the vesting date.

RSUs are granted to selected employees with a fixed release date. One fourth of the RSUs granted are released annually on the anniversary of the grant date. Options are valued using an accepted pricing model. The fair value per RSU granted and additional information used in the calculation are as follows:

	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
	No	WAEP \$	No	WAEP \$
Outstanding at 1 April 2017	103,103	30.44	69,873	36.69
Granted during the year	64,545	34.56	62,439	25.21
Issued during the year	(30,798)	31.56	(16,433)	37.07
Forfeited during the year	<u>(4,532)</u>	<u>31.25</u>	<u>(12,776)</u>	<u>30.59</u>
Outstanding at the end of the year	132,318		103,103	
Exercisable at the end of the year	<u>132,318</u>	<u>32.16</u>	<u>103,103</u>	<u>30.44</u>

The weighted average fair value of RSUs granted in the year was \$2,230,731 (2017: 1,574,037) with \$1,304,515 (2017: 1,293,682) being charged to the profit and loss account during the year.

**19. CONTINGENT LIABILITIES**

The bank has provided the group class guarantee facility of GBP 2,222,222 which will be reviewed in February 2019. There is also a Guarantee dated 01 October 2013 in favour of HM Revenue and Customs for GBP 500,000. Securities are held with Composite Company Limited. There have been no changes to the group guarantee facilities at the time of signing the financial statements.