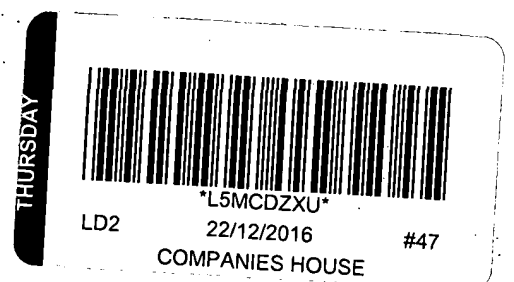


REGISTERED NUMBER: 05150579 (England and Wales)

**Strategic Report, Directors' Report and**  
**Audited Financial Statements**  
**for the 15-month Period Ended 31 March 2016**  
**for**  
**Arbor Networks UK Limited**



**Arbor Networks UK Limited**

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**for the Period Ended 31 March 2016**

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**Arbor Networks UK Limited**

**Company Information**  
**for the Period Ended 31 March 2016**

**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  
Chartered Accountants and 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 Period Ended 31 March 2016**

The directors present their strategic report for the period ended 31 March 2016.

## 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.

On the 14 July 2015 Arbor Networks UK Limited was acquired by NetScout Systems Inc., previously the ultimate parent undertaking and controlling party was Danaher Corporation, a company incorporated in the USA.

In order to align the Company's year end with its new group, the current accounting period is the 15 month period to 31 March 2016. Going forward, the Company's year end date will be 31st March each calendar year. This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. There are no changes to the accounting policies following the adoption of FRS 102 and it was not necessary to restate prior year's financial statements as there were no adjustments required.

Intangibles are impaired to \$nil as products being discontinued due to changes in market and technology requirements.

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

	2016	2014	Change
	\$	\$	
Revenue	123,987,920	60,670,367	104%
Gross Profit	112,214,900	50,711,555	121%
Gross Profit %	91%	84%	7%
Average no. of employees	61	25	36
Net Assets	6,649,335	864,524	669%

Revenue increased from \$60,670,367 to \$123,987,920 an increase of 104%. The increase was due to continuity of the direct sales approach and all non-US business flowing through Arbor Networks UK Limited. Total revenue also includes \$8,446,627 which relates to Intercompany sales. The revenue results for period ended 31 March 2016 are for a fifteen month period and the comparatives for the period ending 31<sup>st</sup> December 2014 are only for a 12 month period. Therefore, the results for the 15 month period ending March 2016 are not easily comparable with 2014.

The gross profit has increased due to different product mix and increase in software sales versus hardware. The drastic change in the number of employees is due to the acquisition by NetScout Systems Inc., on 14<sup>th</sup> July 2015, additional 54 employees were transferred in from related business units, consequently the average number of employees employed during the period increased by 36.

## 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.

### Financial Risks

The business has completed the transition of the majority of the non-US third party customers' contracts to the UK. Regardless of the transition, the Company is still able to meet its obligations as they become due.

Due to the nature of our support and maintenance agreements it has taken over a year to cycle non-US customer maintenance renewals to the UK. Typically, these agreements are executed in advance for twelve months or more. As support revenue is a significant portion of our revenue, we experienced a small loss in the prior year of operation. The current financial period is profitable as our maintenance and support revenue increased with the addition of new customers and existing customers being renewed in the UK.

**Arbor Networks UK Limited**

**Strategic Report (continued)**  
**for the Period Ended 31 March 2016**

**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.

**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 introducing cloud-based DDoS protection against DDoS attacks for the world's leading organisations.

The Company's Advanced Threat Solutions is becoming 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.

**ON BEHALF OF THE BOARD:**

  
.....  
Carolina Jones - Director

Date: 22<sup>nd</sup> of DECEMBER 2016

## Arbor Networks UK Limited

### Directors' Report for the Period Ended 31 March 2016

The directors present their Directors' Report with the audited financial statements of the Company for the period ended 31 March 2016.

The principal activity of the Company is network traffic management and Distributed Denial of Services (DDoS) mitigation solutions for service providers as well as internal network visibility and on-premises DDoS mitigation tools for enterprises and government organisations.

#### **DIVIDENDS**

No dividends will be distributed for the period ended 31 March 2016. No dividends were distributed in prior year ended 31 December 2014.

#### **DIRECTORS**

Directors that have held the office for the entire period and to the date of this report, unless otherwise stated, were as follows:

Keith Graham Ward - resigned 15 October 2015  
Daniel Brosnan - resigned 15 October 2015  
Grant MacPherson - Appointed 9 January 2015, Resigned 15 October 2015  
Megan Donovan - Appointed 3 June 2015, Resigned 15 October 2015  
Jean Bua - Appointed 15 October 2015  
Michael Szabados - Appointed 15 October 2015  
Gregory Sloan - Appointed 15 October 2015  
Carolina Jones - Appointed 23 November 2015  
Anthony King - Appointed 23 November 2015

#### **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 reporting period such that it had cash at bank and in hand in excess of \$17m as at 31<sup>st</sup> March 2016. 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 and financial statements.

#### **FREQUENCY OF REPORTING**

The Company has changed its reporting period from December to March following the acquisition by NetScout Systems Inc., in order to align its reporting period with the parent Company. Consequently, the financial statements for the current period are produced for a fifteen month period covering 1<sup>st</sup> January 2015 to 31<sup>st</sup> March 2016.

**Arbor Networks UK Limited**

**Directors' Report (Continued)**  
**for the Period Ended 31 March 2016**

**EMPLOYMENT POLICIES**

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.

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.

**DISCLOSURE OF INFORMATION TO AUDITORS**

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 auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**AUDITORS**

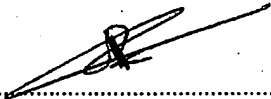
Due to the acquisition of Arbor Networks UK Limited by NetScout Systems Inc., Deloitte LLP were appointed during the period and will be proposed for appointment at the forthcoming Annual General Meeting.

**APPROVAL OF 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.

**ON BEHALF OF THE BOARD:**



.....  
Carolina Jones - Director

Date: 22<sup>nd</sup> of DECEMBER 2016

**Arbor Networks UK Limited**

**Directors' Responsibilities Statement**  
**for the Period Ended 31 March 2016**

**DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Strategic Report, Directors 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 United Kingdom 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 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 Period Ended 31 March 2016**

We have audited the financial statements of Arbor Networks UK Limited for the period ended 31 March 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"

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.

#### **Respective responsibilities of directors and auditor**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the period then ended 31 March 2016;
- 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.

#### **Opinion on other matter prescribed by the Companies Act 2006**

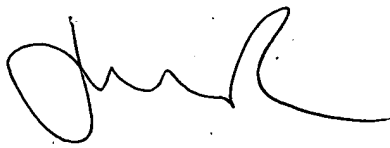
In our opinion the information given in the Directors' Report and Strategic Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

**Independent Auditor's Report to the Members of**  
**Arbor Networks UK Limited (Continued)**  
**for the Period Ended 31 March 2016**

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

We have nothing to report in respect of the following matters where 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.



Julian Rae (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Cambridge

United Kingdom

Date: 22 December 2016

**Arbor Networks UK Limited**

**Profit and Loss Account**  
**for the Period Ended 31 March 2016**

		Period Ended 31 March 2016	Year Ended 31 December 2014
	Notes	\$	\$
<b>REVENUE</b>	2	123,987,920	60,670,367
Cost of sales		<u>(11,773,020)</u>	<u>(9,958,812)</u>
<b>GROSS PROFIT</b>		112,214,900	50,711,555
Operating expenses		<u>(105,439,824)</u>	<u>(52,066,588)</u>
<b>OPERATING PROFIT/(LOSS)</b>	4	6,775,076	(1,355,033)
Interest receivable and similar income	5	619,808	-
Interest payable and similar expenses	6	<u>(45,200)</u>	<u>(29,728)</u>
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		7,349,684	(1,384,761)
Tax on profit/(loss) on ordinary activities	7	<u>(748,181)</u>	<u>4,849</u>
<b>PROFIT/(LOSS) FOR THE FINANCIAL PERIOD</b>		<u><u>6,601,503</u></u>	<u><u>(1,379,912)</u></u>

**CONTINUING OPERATIONS**

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

**TOTAL COMPREHENSIVE INCOME**

The Company has no recognised gains or losses other than the profit for the current period and on this basis, no statement of Comprehensive Income has been included.


**Arbor Networks UK Limited**

**Balance Sheet  
As at 31 March 2016**

	Notes	31 March 2016		31 December 2014	
		\$	\$	\$	\$
<b>NON-CURRENT ASSETS</b>					
Intangible Assets	8	-	-	6,683,453	
<b>CURRENT ASSETS</b>					
Stocks	9	3,785,473		2,055,919	
Debtors: due within one year	10	27,495,273		35,058,306	
Cash at bank and in hand		17,004,667		9,611,886	
Debtors: due after one year	11	31,587,201		-	
		<u>79,872,614</u>		<u>46,726,111</u>	
<b>CURRENT LIABILITIES</b>					
Creditors: amounts falling due within one year	12	60,738,605		41,149,417	
<b>NET CURRENT ASSETS</b>			<u>19,134,009</u>	<u>5,576,694</u>	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			19,134,009	12,260,147	
<b>NON-CURRENT LIABILITIES</b>					
Creditors: amounts falling due after more than one year	13		<u>12,484,674</u>	<u>11,395,623</u>	
<b>NET ASSETS</b>			<u>6,649,335</u>	<u>864,524</u>	
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16		4	4	
Profit and loss account			6,211,011	864,520	
Capital contribution			427,320	-	
<b>SHAREHOLDERS' FUNDS</b>			<u>6,649,335</u>	<u>864,524</u>	

The notes on pages 12 to 21 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on ~~22<sup>nd</sup> of DECEMBER 2016~~ and were signed on its behalf by:

  
.....  
Carolina Jones - Director

**Arbor Networks UK Limited**

**Statement of changes in Equity**  
**for the Period Ended 31 March 2016**

	Called up Share Capital	Profit and loss account	Capital contribution	Total shareholders' funds
	\$	\$	\$	\$
<b>01 January 2014</b>	4	2,244,432	-	2,244,436
Profit and total comprehensive income for the financial period	-	(1,379,912)	-	(1,379,912)
<b>31 December 2014</b>	<u>4</u>	<u>864,520</u>	<u>-</u>	<u>864,524</u>
<b>01 January 2015</b>	4	864,520	-	864,524
Profit and total comprehensive income for the financial period	-	6,601,503	-	6,601,503
Loss due to acquisition for the financial period	-	(1,244,012)	-	(1,244,012)
Capital Contribution – Share based payment	-	-	427,320	427,320
<b>31 March 2016</b>	<u>4</u>	<u>6,222,011</u>	<u>427,320</u>	<u>6,649,335</u>

During the period Arbor Networks UK Limited purchased the communications business and related assets / liabilities from Danaher corporation group for GBP 2.00. The company acquired net liabilities of \$1,244,012 as a result of this acquisition; therefore, the Company distributed a dividend in specie in the form of liabilities instead of cash.

## Arbor Networks UK Limited

### Notes to the Financial Statements for the Period Ended 31 March 2016

#### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the reporting period and to 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 strategic report on pages 2 to 3.

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 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.

##### **Revenue**

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

The products sold by the Company maintain standalone 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.

## **Arbor Networks UK Limited**

### **Notes to the Financial Statements (continued)** **for the Period Ended 31 March 2016**

#### **1. ACCOUNTING POLICIES - continued**

##### **Goodwill**

Due to the acquisition by NetScout Systems Inc., and changes in technological requirements goodwill was written down to \$nil at 01 January 2015. No other goodwill was recognised to the period ended 31 March 2016.

For prior period comparatives, goodwill being the amount paid in connection with the acquisition of the Packetloop business in September 2013, as an addition the Company entered into a non-exclusive licence with Arbor Network Inc., to enable to sell products into the non-US markets. Goodwill was being amortised over its useful economic life of 7 years.

##### **Intellectual property**

Due to the changes in market and technological requirements, Intellectual property was written down to \$nil as at 31 December 2015. No other intellectual property was recorded for the period ended 31 March 2016.

For prior period comparatives, Intangible assets acquired separately from a business were capitalised at cost. Intangible assets acquired as part of an acquisition of a business were capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which it incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives of 7 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicated the carrying value may not be recoverable.

##### **Inventory**

Inventory is 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.

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.

##### **Deferred tax**

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.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Period Ended 31 March 2016**

**1. ACCOUNTING POLICIES – continued**

- Revenue recognition

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. 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 but the lack of direct comparison of products and unavailability of net pricing would make it difficult to determine a competitor's fair value.

- Key source of estimation uncertainty – impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of their value in use to the Company. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the intangible asset and a suitable discount rate in order to calculate present value.

**2. REVENUE**

The revenue and profit before taxation for the period ended 31 March 2016 are attributable to the principal activity of the Company and Intercompany related party revenue of \$8,446,627. The revenue and loss before taxation for period ended 31 December 2014 are attributable to the principal activity of the Company.

An analysis of revenue by geographical market is given below:

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
United Kingdom	21,790,363	6,020,532
Europe	40,578,641	23,523,531
United States of America	220,521	1,376,728
South America	19,222,342	11,781,218
Asia	22,503,891	10,203,625
Rest of the world	19,672,162	7,764,733
	<u>123,987,920</u>	<u>60,670,367</u>

An analysis of revenue by category is given below:

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Sale of goods (Hardware and software)	66,622,774	44,491,939
Rendering of services	48,918,519	16,178,428
Intercompany revenue	8,446,627	-
	<u>123,987,920</u>	<u>60,670,367</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**

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Wages and Salaries	12,386,758	6,406,078
Social Security Costs	1,062,346	652,454
Other Pension Costs (see note 17)	499,065	129,999
	<u>13,948,169</u>	<u>7,188,531</u>



**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Period Ended 31 March 2016**

**3. STAFF COSTS (Continued)**

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

	Period Ended 31 March 2016	Year Ended 31 December 2014
Sales and pre-sales	32	22
Customer support & services	18	-
Finance, Human Resources and IT	6	2
Marketing	5	1
	<u>61</u>	<u>25</u>

Since July 2015 as a result of the acquisition, The Company employed on average additional 36 employees from related business units. Therefore, the staff costs and numbers increased retrospectively.

**Directors' remuneration:**

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Aggregate emoluments	501,887	-
Amounts receivable (other than shares and share options) under long-term incentive schemes	-	-
Company contributions to defined benefit contribution scheme	29,558	-
Compensation for loss of office	-	-
Sums paid to third parties in respect of directors' services	-	-
Excess retirement benefits of directors and past directors	-	-
	<u>531,445</u>	<u>-</u>

For the period ended 31 March 2016 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.

For the year ended 31 December 2014, the directors' services and their emoluments were deemed to be wholly attributable to Danaher Corporation Group, accordingly preceding year comparative financial statements did not include any directors' emoluments.

**Remuneration of the highest paid director:**

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Aggregate emoluments	340,038	-
Company contributions to defined benefit contribution scheme	17,185	-
	<u>357,223</u>	<u>-</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.

The highest paid director is a member of the Company's defined benefit pension scheme and had accrued entitlements of \$2,830 under the scheme at the end of the period. There is no accrued lump sum.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for the Period Ended 31 March 2016**

**4. OPERATING PROFIT/(LOSS)**

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

	Period Ended 31 March 2016	Year Ended 31 December 2014
	\$	\$
Goodwill amortisation (see note 8)	-	283,120
Patents Licences amortisation (see note 8)	765,873	765,873
Goodwill impairment (see note 8)	1,491,661	-
Patents Licences impairment (see note 8)	4,425,919	-
Cost of stock recognised as an expense	10,487,968	9,271,811
Impairment of stock recognised as an expense	1,285,052	687,000
Auditors remuneration	98,400	60,039
Foreign exchange differences including translation adjustments	122,564	(486,705)
Operating lease expenses	44,503	-
Selling and Distribution costs	23,914,389	11,626,673
Administration expenses	<u>62,803,495</u>	<u>29,858,778</u>

The impairment of intangible assets, including goodwill and intellectual property arose as a result of products being discontinued due to changes in market and technology requirements. Goodwill was impaired to \$nil at 1 January 2015 and intellectual property was impaired to \$nil at 31 December 2015. Therefore, the amortisation has been reflected accordingly in note 8.

Impairments of stocks are included in cost of sales. Impairments of intangible assets are included in operating expenses.

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	Period Ended 31 March 2016	Year Ended 31 December 2014
	\$	\$
Bank interest	32,607	-
Interest on intercompany loan	<u>587,201</u>	<u>-</u>
	<u>619,808</u>	<u>-</u>

**6. INTEREST PAYABLE AND SIMILAR EXPENSES**

	Period Ended 31 March 2016	Year Ended 31 December 2014
	\$	\$
Bank interest	11,571	29,728
Interest on intercompany loan	<u>33,629</u>	<u>-</u>
	<u>45,200</u>	<u>29,728</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Period Ended 31 March 2016**

7. **TAXATION**

The tax charge/(credit) comprises:

	Period ended 31 March 2016 \$	Year ended 31 December 2014 \$
<b>Current tax</b>		
Corporation tax at the standard rate of 20.2% (2014: 21.49%)	827,818	-
Credit for overseas tax suffered	<u>(122,038)</u>	<u>-</u>
	705,780	-
<b>Foreign tax</b>		
Overseas tax suffered	122,038	-
<b>Deferred tax</b>		
Charge/(credit) for current year	(73,640)	(568)
Adjustment in respect of prior periods	-	(4,281)
Adjustment in respect of change in tax rates	<u>(5,997)</u>	<u>-</u>
	(79,637)	(4,849)
<b>Taxation charge/(credit) for the year</b>	<u><u>748,181</u></u>	<u><u>(4,849)</u></u>

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

	Period ended 31 March 2016 \$	Year ended 31 December 2014 \$
Profit/(loss) before tax	<u>7,349,684</u>	<u>(1,384,761)</u>
Corporation tax at the standard rate of 20.2% (31 December 2014: 21.49%)	1,484,475	(297,629)
Effects of:		
(Income)/Expenses not (taxable)/deductible	(190,413)	(38,462)
Group relief (claimed)/surrendered for nil consideration	(551,878)	335,480
Impact of change in tax rates	5,997	(4,238)
Current taxation charge/(credit) for the year	<u><u>748,181</u></u>	<u><u>(4,849)</u></u>

**CORPORATION TAX**

	Period ended 31 March 2016 \$	Year ended 31 December 2014 \$
Corporation tax (creditor)/debtor at the beginning of the period	-	-
Current period movement	(705,780)	-
Prior year adjustment to corporation tax	-	-
Corporation tax paid in the period	-	-
Corporation tax (creditor)/debtor at the end of the period	<u><u>(705,780)</u></u>	<u><u>-</u></u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for the Period Ended 31 March 2016**

**7. TAXATION (continued)**

**DEFERRED TAX**

	Period ended 31 March 2016 \$	Year ended 31 December 2014 \$
Deferred tax asset as at the beginning of the period	(18,376)	(13,527)
Current period movement	<u>(79,637)</u>	<u>(4,849)</u>
Deferred tax asset as at the end of the period	<u><u>(98,013)</u></u>	<u><u>(18,376)</u></u>

The amounts provided for deferred taxation are set out below:

	Period ended 31 March 2016 \$	Year ended 31 December 2014 \$
Fixed assets	(10,491)	(13,467)
Other short term timing differences	(87,522)	(4,909)
Deferred tax asset	<u><u>(98,013)</u></u>	<u><u>(18,376)</u></u>

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

Finance Act (No.2) 2015 was substantively enacted on 26 October 2015, confirming the future reduction of the corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The 19% rate has been applied to the deferred tax liability recognised on the balance sheet. Any difference between reversal at this rate and future corporation tax rates is not considered to be material.

**8. INTANGIBLE FIXED ASSETS**

	Goodwill \$	Patents and licences \$	Totals \$
<b>COST</b>			
At 1 January 2015	1,774,781	6,212,957	7,987,738
Impairment	<u>(1,774,781)</u>	<u>(6,212,957)</u>	<u>(7,987,738)</u>
At 31 March 2016	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>AMORTISATION</b>			
At 1 January 2015	283,120	1,021,165	1,304,285
Amortisation for the year	-	765,873	765,873
Impairment	<u>(283,120)</u>	<u>(1,787,038)</u>	<u>(2,070,158)</u>
At 31 March 2016	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>NET BOOK VALUE</b>			
At 31 March 2016	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
At 31 December 2014	<u><u>1,491,661</u></u>	<u><u>5,191,792</u></u>	<u><u>6,683,453</u></u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for the Period Ended 31 March 2016**

**8. INTANGIBLE FIXED ASSETS (continued)**

As at 31 December 2015, all intangible assets were impaired to \$nil as products being discontinued due to changes in market and technology requirements.

**9. STOCKS**

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Stocks	<u>3,785,473</u>	<u>2,055,919</u>

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

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Trade Debtors	23,377,660	30,773,612
Amount owed by group undertakings	3,641,993	4,027,936
Other Debtors	377,607	238,382
Deferred tax asset	<u>98,013</u>	<u>18,376</u>
	<u>27,495,273</u>	<u>35,058,306</u>

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

	Period Ended 31 March 2016 \$	Year Ended 31 December 2014 \$
Amount owed by group undertakings	<u>31,587,201</u>	<u>-</u>

The company loaned \$31m to NSRS Holdings BV, the remaining \$587,201 is the accumulated interest on the loan for the period ended 31 March 2016. 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 2017. 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.

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

	Period Ended 31 March 2016 \$	Year ended 31 December 2014 \$
Bank loans and overdrafts	-	218,355
Trade Creditors	2,838,343	2,625,532
Amount owed to group undertakings	12,001,327	1,922,213
VAT	522,571	259,237
Deferred revenue	37,602,568	26,491,230
Holiday and pension accrual	300,411	231,605
Other Creditors	219,280	271,308
Other Taxes and Social security	519,786	371,165
Accrued expenses	6,028,539	8,758,772
Tax	<u>705,780</u>	<u>-</u>
	<u>60,738,605</u>	<u>41,149,417</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Period Ended 31 March 2016**

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

	Period Ended 31 March 2016	Year Ended 31 December 2014
	\$	\$
Deferred Revenue	<u>12,484,674</u>	<u>11,395,623</u>

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

	\$
Due between one and two years (1 April 2017 - 31 March 2018)	9,233,039
Due between two to three years (1 April 2018 - 31 March 2019)	3,107,713
Due more than three years	143,922
	<u>12,484,674</u>

**14. LOANS**

An analysis of the maturity of loans is given below:

	Period Ended 31 March 2016	Year Ended 31 December 2014
	\$	\$
Amounts falling due between one year or on demand:		
Bank overdrafts	<u>-</u>	<u>218,355</u>

**15. OPERATING LEASE COMMITMENTS**

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

	Period Ended 31 March 2016	Year Ended 31 December 2014
	\$	\$
Lease expiring within one year	68,656	-
Lease expiring within one and five years	121,049	-
	<u>189,705</u>	<u>-</u>

**16. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:

		Period Ended 31 March 2016	Year Ended 31 December 2014
	Nominal Value:	\$	\$
Allotted Number: Class:			
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.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for the Period Ended 31 March 2016**

**17. 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 \$1,071,456 from which, \$499,065 (2014: \$129,999) related to the employees of Arbor Networks UK Limited and the remaining \$572,391 (2014: Nil) 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 period amounted to \$114,984 (2014: \$32,919).

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

The Company's immediate parent undertaking is TF Holdings BV, a company incorporated in the Netherlands. Previously the ultimate parent undertaking and controlling party was Danaher Corporation, a company incorporated in the USA. At present and at 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.

**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.

**19. SHARE-BASED PAYMENTS**

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

The Company grants to its employees' rights to equity instruments of NetScout Systems Inc., its ultimate parent company. The required disclosures are therefore included in NetScout Systems Inc.'s consolidated financial statements. The majority of employees were granted a restricted stock unit (RSU) of NetScout's common stock, effective 4 August 2015 upon acceptance. Shares will vest in increments of 25% per year over a four-year period as long as employees are actively employed with the Company in accordance with the terms of the 2007 Equity Incentive Plan. The first batch of 25% shares will vest on 4 August 2016; shares will be held in a brokerage account until the employee chooses to sell them.

A total of 69,873 RSUs were granted during the period at \$36.69 weighted average earnings per share. The weighted average fair value of granted RSUs was \$2,563,920 with \$427,320 being charged to the profit and loss account during the period. From the total granted shares, 58,945 related to the employees of Arbor Networks UK Limited and the remainder 10,728 related to hosted employees from other group business units.

**20. CONTINGENT LIABILITIES**

The bank has provided the group class guarantee facility of GBP 1,973,684. There is also a Guarantee dated 01 October 2013 in favour of HM Revenue and Customs for GBP 200,000. 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.

**21. TRANSITION TO FRS 102**

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. There are no changes to the accounting policies following the adoption of FRS 102 and it was not necessary to restate prior year's financial statements as there were no adjustments required.