Registered number: 04570027

Fortinet UK Limited

Annual report and financial statements

For the year ended 31 December 2016

Fortinet UK Limited

Company Information

Directors	J L Whittle K F Jensen
Registered number	04570027
Registered office	Gainsborough House 2 Manor Park Manor Farm Road Reading Berkshire RG2 0JH
Independent auditors	Mazars LLP The Pinnacle 160 Midsummer Boulevard Milton Keynes MK9 1FF

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Strategic report
For the year ended 31 December 2016

Introduction

The Directors present their Strategic Report for Fortinet UK Limited ("the Company") for the year ended 31 December 2016.

Business review

The Company continued its principal activities throughout the current year as a UK provider of network security and appliances.

As reported in the Company's Statement of Comprehensive Income, the Company's revenue has increased to £64,410,834 from £43,576,380 (2015), showing 48% growth year over year. The entire revenue for Fortinet UK Limited is derived from services provided to Fortinet Singapore, a fellow subsidiary. The increase in revenue is primarily due to the increase in services provided by the Company to Fortinet Singapore, as the group as a whole continues to expand its operation.

Results after tax reported a loss of £4,198,391 which compares with a loss of £1,934,523 in 2015.

The Statement of Financial Position shows that the Company's net assets at the year end of 31 December 2016 have increased to £8,534,165 (2016) from £5,679,704 (2015).

Principal risks and uncertainties

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

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

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

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

Financial key performance indicators

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

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

Strategic report
For the year ended 31 December 2016

This report was approved by the board on **25 SEP 2017** and signed on its behalf.

K F Jensen
Director

Directors' report
For the year ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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.

Branches outside the UK

The company operates branches in Italy, Saudi Arabia, Sweden and Switzerland.

Results and dividends

The loss for the year, after taxation, amounted to £4,198,391 (2015 - loss £1,934,523).

Directors

The directors who served during the year were:

J L Whittle
K F Jensen

Future developments

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

Employee involvement

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

Post balance sheet events

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

Matters covered in the strategic report

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company, its cashflow and liquidity position are outlined in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity on pages 7 – 9.

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

Disclosure of information to auditors

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

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

Auditors

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

This report was approved by the board on **25 SEP 2017** and signed on its behalf.

K F Jensen
Director

Independent auditor's report to the members of Fortinet UK Limited

We have audited the financial statements of Fortinet UK Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes. 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), FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 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.

Independent auditor's report to the members of Fortinet UK Limited

Matters on which we are required to report by exception

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

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

Stephen Brown

Stephen Brown (Senior statutory auditor)
for and on behalf of
Mazars LLP
Chartered Accountants and Statutory Auditor

The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF
Date: 27 September 2017

Statement of comprehensive income
For the year ended 31 December 2016

	Note	2016 £	2015 £
Turnover	4	64,410,834	43,576,380
Gross profit		64,410,834	43,576,380
Administrative expenses		(67,442,477)	(44,864,207)
Operating loss	5	(3,031,643)	(1,287,827)
Interest receivable and similar income	8	1,146	1,292
Interest payable and expenses	9	(34,602)	-
Loss before tax		(3,065,099)	(1,286,535)
Tax on loss		(1,133,292)	(647,988)
Loss for the year		(4,198,391)	(1,934,523)
Other comprehensive income for the year			
Exchange difference on reserves		248,605	18,249
Other comprehensive income for the year		248,605	18,249
Total comprehensive loss for the year		(3,949,786)	(1,916,274)

The notes on pages 10 to 26 form part of these financial statements.

Fortinet UK Limited
Registered number:04570027

Statement of financial position
As at 31 December 2016

	Note		2016 £		2015 £
Fixed assets					
Tangible assets	11		1,655,256		1,441,021
Investments	12		38,890		24,858
			1,694,146		1,465,879
Current assets					
Debtors: amounts falling due within one year	13	38,400,226		12,888,743	
Cash at bank and in hand	14	10,571,759		2,285,657	
		48,971,985		15,174,400	
Creditors: amounts falling due within one year	15	(42,048,440)		(10,882,144)	
Net current assets			6,923,545		4,292,256
Total assets less current liabilities			8,617,691		5,758,135
Provisions for liabilities					
Deferred tax	16	(83,526)		(78,431)	
			(83,526)		(78,431)
Net assets			8,534,165		5,679,704
Capital and reserves					
Called up share capital	17		1		1
Other reserves	18		15,254,132		8,449,885
Profit and loss account	18		(6,719,968)		(2,770,182)
			8,534,165		5,679,704

The financial statements were approved and authorised for issue by the board and were signed on its behalf on **25 SEP 2017**

K F Jensen
Director

The notes on pages 10 to 26 form part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2016

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2016	1	8,449,885	(2,770,182)	5,679,704
Comprehensive income for the year				
Loss for the year	-	-	(4,198,391)	(4,198,391)
Currency translation differences	-	-	248,605	248,605
Other comprehensive income for the year	-	-	248,605	248,605
Total comprehensive loss for the year	-	-	(3,949,786)	(3,949,786)
Movement in share option reserve	-	6,804,247	-	6,804,247
Total transactions with owners	-	6,804,247	-	6,804,247
At 31 December 2016	1	15,254,132	(6,719,968)	8,534,165

Statement of changes in equity
For the year ended 31 December 2015

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2015	1	4,773,234	(853,908)	3,919,327
Comprehensive income for the year				
Loss for the year	-	-	(1,934,523)	(1,934,523)
Currency translation differences	-	-	18,249	18,249
Other comprehensive income for the year	-	-	18,249	18,249
Total comprehensive loss for the year	-	-	(1,916,274)	(1,916,274)
Movement in share option reserve	-	3,676,651	-	3,676,651
Total transactions with owners	-	3,676,651	-	3,676,651
At 31 December 2015	1	8,449,885	(2,770,182)	5,679,704

The notes on pages 10 to 26 form part of these financial statements.

1. General information

Fortinet UK is a private limited Company incorporated in England and Wales. The address of its registered office and principal place of business are disclosed in the company information.

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

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

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

Copies of the consolidated financial statements of Fortinet Inc. are available from 899 Kifer Road, Sunnyvale, CA 94086, USA. This is the smallest and largest group the Company is consolidated in.

2. Accounting policies

2.1 *Basis of preparation of financial statements*

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

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

This information is included in the consolidated financial statements of Fortinet Inc. as at 31 December 2016 and these financial statements may be obtained from 899 Kifer Road, Sunnyvale, CA 94086, USA.

2. Accounting policies (continued)

2.3 Going concern

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

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

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

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

2.4 Revenue

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

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.5 Tangible fixed assets

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

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

2. Accounting policies (continued)

2.5 Tangible fixed assets (continued)

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

Depreciation is provided on the following basis:

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

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

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

2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Company shares, whose market value can be reliably determined, are remeasured to market value at each Statement of financial position date. Gains and losses on remeasurement are recognised in the Statement of comprehensive income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Statement of financial position date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.7 Debtors

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

2.8 Cash and cash equivalents

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

2.9 Financial instruments

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

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt

2. Accounting policies (continued)

2.9 Financial instruments (continued)

deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Statement of comprehensive income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

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

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

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

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

2.10 Creditors

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

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

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

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

2.12 Finance costs

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

2.13 Share based payments

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

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

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

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

2. Accounting policies (continued)

2.14 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term.

2.15 Interest income

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

2.16 Provisions for liabilities

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

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

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

2.17 Current and deferred taxation

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

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

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

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

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

3. Judgments in applying accounting policies and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

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

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

iii) Determining residual values and useful economic lives of property, plant and equipment
The company depreciate tangible assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

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

Determining fair value of the stock options

iv) The company used the Black-Scholes option pricing model, on Non-qualified stock options, which employs assumptions based on expected dividend, expected volatility, risk-free interest rate and expected term. More details of these assumptions are disclosed in note 19.

4. Turnover

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

Analysis of turnover by country of destination:

	2016	2015
	£	£
Singapore with Fortinet Singapore	64,410,834	43,576,380
	64,410,834	43,576,380

5. Operating loss

The operating loss is stated after charging:

	2016	2015
	£	£
Depreciation of tangible fixed assets	446,008	65,972
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	14,000	13,500
Exchange differences	(384,373)	283,933
Other operating lease rentals	1,573,359	968,882
Share based payment	6,804,247	3,676,651

No directors remuneration was paid during the year (2015 - £nil).

6. Auditors' remuneration

	2016	2015
	£	£
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	14,000	13,500
Fees payable to the Company's auditor and its associates in respect of:		
Taxation compliance services	-	4,750
All other services	-	29,700
	-	34,450

7. Employees

Staff costs were as follows:

	2016 £	2015 £
Wages and salaries	38,336,756	26,636,346
Social security costs	6,750,051	4,247,787
	45,086,807	30,884,133

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

	2016 No.	2015 No.
Administration and sales	341	209

8. Interest receivable

	2016 £	2015 £
Other interest receivable	1,146	1,292
	1,146	1,292

9. Interest payable and similar charges

	2016 £	2015 £
Other loan interest payable	34,602	-
	34,602	-

10. Taxation

	2016 £	2015 £
Corporation tax		
Current tax on profits for the year	973,620	522,518
Adjustments in respect of previous periods	(38,612)	-
	935,008	522,518
Double taxation relief	(307,733)	(134,964)
	627,275	387,554
Foreign tax		
Foreign tax on income for the year	500,922	207,820
	500,922	207,820
Total current tax	1,128,197	595,374
Deferred tax		
Origination and reversal of timing differences	11,120	68,853
Adjustments in respect of prior periods	-	(15,175)
Effect of tax rate change on opening balance	(6,025)	(1,064)
Total deferred tax	5,095	52,614
Taxation on profit on ordinary activities	1,133,292	647,988

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015 -higher than) the standard rate of corporation tax in the UK of 20% (2015 -20.25%). The differences are explained below:

	2016 £	2015 £
Loss on ordinary activities before tax	(3,065,099)	(1,286,535)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 -20.25%)	(613,020)	(260,523)
Effects of:		
Fixed asset difference	-	12,580
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	1,503,990	355,989
Foreign tax credits	193,189	72,856
Adjustments to tax charge in respect of prior periods	(38,612)	(15,175)
Other permanent differences	-	(276,040)
Tax rate changes	(6,025)	-
Adjustment to losses	-	93,832
Adjust closing deferred tax to average rate	-	177,397
Adjust opening deferred tax to average rate	-	(12,204)
Deferred tax not recognised	93,770	499,276
Total tax charge for the year	1,133,292	647,988

Factors that may affect future tax charges

The Finance (No. 2) Act 2015, substantively enacted on 26 October 2015, reduced the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020, whilst the Finance Act 2016, substantively enacted on 6 September 2016, included further reduction of the rate of 18% to 17% from 1 April 2020. This will reduce the company's future tax charges accordingly. The effects of these changes would also affect any deferred tax balances recognised at 31 December 2016.

11. Tangible fixed assets

	Leasehold improvements £	Computer equipment £	Total £
Cost			
At 1 January 2016	1,409,883	132,106	1,541,989
Additions	599,371	60,872	660,243
At 31 December 2016	2,009,254	192,978	2,202,232
Depreciation			
At 1 January 2016	50,295	50,673	100,968
Charge for the period on owned assets	365,600	80,408	446,008
At 31 December 2016	415,895	131,081	546,976
Net book value			
At 31 December 2016	1,593,359	61,897	1,655,256
At 31 December 2015	1,359,588	81,433	1,441,021

12. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2016	24,858
Additions	14,032
At 31 December 2016	38,890
Net book value	
At 31 December 2016	38,890
At 31 December 2015	24,858

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Fortinet Sarl	Ordinary	100 %	Worldwide provider of network security and appliances
Fortinet GmbH	Ordinary	100 %	Worldwide provider of network security and appliances
Fortinet Security Italy SRL	Ordinary	100 %	Worldwide provider of network security and appliances

Name	Registered office
Fortinet Sarl	905 rue Albert Einstein, 06560, Valbonne, France
Fortinet GmbH	Fürstenrieder Str. 273, 81377 München, Germany
Fortinet Security Italy SRL	2 Gainsborough House, Manor Park, Manor Farm Road, Reading, Berks, RG1 0NA, United Kingdom

13. Debtors

	2016 £	2015 £
Amounts owed by group undertakings	37,114,140	11,894,657
Other debtors	735,137	767,305
Prepayments and accrued income	550,949	226,781
	38,400,226	12,888,743

Amounts owed by group undertakings carry no interest rate and are repayable on demand.

14. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	10,571,759	2,285,657
	10,571,759	2,285,657

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

- Guarantee dated 11 December 2014 in favour of Giambelli Spa for EUR50,000
- Guarantee dated 02 April 2015 in favour of Propco Citygate S.A.R.L for EUR37,092.30

The company had the following securities held at year end:

- Agreement regarding specific Credit Balance(s) dated 26 November 2014
- Letter of set-off dated 26 April 2004

15. Creditors: Amounts falling due within one year

	2016 £	2015 £
Trade creditors	322,657	265,281
Amounts owed to group undertakings	29,582,619	2,620,350
Other taxation and social security	3,424,449	2,362,592
Other creditors	29,027	22,417
Accruals and deferred income	8,689,688	5,611,504
	42,048,440	10,882,144

Amounts owed to group undertakings carry no interest rate and are repayable on demand.

16. Deferred taxation

	2016 £	2015 £
At beginning of year	(78,431)	(25,817)
Charged to profit or loss	(5,095)	(52,614)
At end of year	(83,526)	(78,431)

The provision for deferred taxation is made up as follows:

	2016 £	2015 £
Accelerated capital allowances	(83,526)	(78,431)
	(83,526)	(78,431)

There is a potential deferred tax asset in relation to timing differences on share options that has not been recognised by management.

17. Share capital

	2016 £	2015 £
Shares classified as equity		
Allotted, called up and fully paid		
1 Ordinary share of £1	1	1

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

18. Reserves

Other reserves

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

Profit and loss account

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

19. Share based payments

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

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

Non-qualified stock options

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

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

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

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

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

Risk-free interest rate – This is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

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

Restricted stock units

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

Employees share purchase plan

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

20. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £	2015 £
Not later than 1 year	957,521	784,235
Later than 1 year and not later than 5 years	1,945,845	1,934,049
Later than 5 years	233,826	151,590
	3,137,192	2,869,874

Lease expenses during the year totalled £1,573,359 (2015: £968,882).

21. Related party transactions

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

22. Controlling party

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