Registered number: 04570027

FORTINET UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

FORTINET UK LIMITED

COMPANY INFORMATION

Directors	L M Cayanan B Pollard (appointed 10 November 2021)
Registered number	04570027
Registered office	Gainsborough House 2 Manor Park Manor Farm Road Reading Berkshire RG2 0NA
Independent auditors	Mazars LLP Chartered Accountants & Statutory Auditor The Pinnacle 160 Midsummer Boulevard Milton Keynes MK9 1FF

FORTINET UK LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The Directors present their Strategic Report for Fortinet UK Limited ("the Company") for the year ended 31 December 2020.

Business review

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

As reported in the Company's Statement of Comprehensive Income, the Company's revenue has increased to £93.82m (2020) from £79.95m (2019), showing 17.3% growth year over year. The entire revenue for Fortinet UK Limited is derived from services provided to Fortinet Inc., the ultimate parent company. The increase in revenue is due to the increase in services provided by the Company to Fortinet Inc., as the Group as a whole continues to expand its operations.

Results after tax reported a loss of £3.37m which compares with a loss of £4.75m in 2019.

The Statement of Financial Position shows that the Company's net assets at the year end of 31 December 2020 have increased to £24.4m (2020) from £20m (2019).

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 Group's products and services less competitive;
- The entire revenue for Fortinet UK Limited is derived from services provided to Fortinet Inc., the ultimate parent company. The Directors are aware of this arrangement and consider it to be the most appropriate business model.

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

Financial key performance indicators

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

- Working capital - The Company defines working capital as current assets less current liabilities. This financial metric represents operating liquidity available to the business.

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

Section 172 Statement

We understand that, as a business, we affect the lives of people both within and outside the business and have an impact on society and our local communities. We try to understand and contribute positively to these and to take their interests into account in our business decisions.

In this section we describe who our key stakeholders are and how the business has engaged with them.

Employees

Our employees are our key resource and at Fortinet, we are focused on ensuring a culture of ethical business practices, and we expect all employees to do their part to continue to build an extremely ethical, highly reputable business.

In keeping with our commitment to the communities in which we do business, Fortinet is an equal employment opportunity employer. We comply with laws regarding the employment of persons on the basis of merit and business needs, and we do not make employment decisions on the basis of factors that are protected by applicable laws.

To support our employees we are building a diverse, inclusive and fair workplace, a true meritocracy which empowers individuals to reach their full potential.

We also seek to provide a safe and supportive working environment. In particular, as the COVID-19 situation has evolved, we have taken a number of actions to protect our employees, including restricting travel and encouraging our employees to work from home. We have followed government guidance around working from home to ensure we provide our employees the flexibility they require and to prioritse their mental health. Where onsite work is permitted, we have implemented measures such as rotational work patterns, social distancing, health safety awareness training and frequent disinfection of shared spaces. We have implemented our readiness plans, which include steps to maintain critical internet infrastructure with some employees working remotely. We have neither used the furlough scheme nor laid off any employees as a direct result of the COVID-19 pandemic, and we do not anticipate any COVID-19 related layoffs for the foreseeable future.

We engage with employees on an ongoing basis through our annual appraisal system, regular team meetings, and company communications. Every quarter-end there is a worldwide company meeting. Through our company intranet we deliver leadership communications, employees' resources and sales and training tools. During 2020 we have also rolled out training on health and safety measures and on-line safety precautions during COVID.

Section 172 Statement (continued)

Partners

Fortinet Inc. operates a two tier distribution model. The company supports its distribution partners to assist them in promoting their own sales to end customers. Our partners are the resellers and distributors who sell Fortinet Group's products to end customers. Fortinet Group's products are highly technical and our support is vital to the sales process. We regularly engage with our partners throughout the end to end sales process. We continually engage with our partners and their comments and feedback are taken into account in the development and evolution of our service and the Group's products.

Communities

Fortinet supports its local communities through our philanthropic contributions, matching of employee contributions to charities, and offering employees the opportunity to volunteer during working time. During 2020, in response to COVID, we have expanded our charitable gift matching scheme substantially, matching contributions by employees to organisations dealing with the effects of COVID. We have also provided free information technology security training to the public, aimed at helping students and professionals augment their security skill sets to open career opportunities and to help narrow the security skills gap. As of October 14, 2021, there have been over 1,400,000 registrations globally for our free online trainings since we launched the program.

Environment

The company's direct environmental impact is limited, comprising mainly energy use in the office and travel. Nevertheless the company seeks to minimise energy use where this is possible and to minimise waste and energy use and to maximise recycling. We extend our stringent requirements in regard to packaging and recycling to our supply chain partners.

Shareholder

Engagement with the company's shareholder is continuous. When acting as directors of Fortinet UK Ltd however, the board's principal considerations are for their duties to the company, taking regard of the factors noted in s172.

The company provides a return to its shareholder through its marketing support activities which are financed on a cost recovery basis and does not expect to pay dividends.

Decisions

During 2020 as the severity of the impact of Coronavirus became apparent, the company considered the application of the UK's furlough scheme, however the directors decided against this having taken into account the interests of the company's employees and the strength of the company's business.

This report was approved by the board and signed on its behalf.

DocuSigned by:
Lindsey Cayanan
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L M Cayanan
Director

Date: 17 December 2021

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

Directors' responsibilities statement

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

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

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

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

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

Branches outside the UK

The Company operated during the year through payroll offices in Poland, Ireland and branches in Saudi Arabia, Italy, Sweden and Switzerland. The Italian Branch has not been active during the year and it was liquidated in 2021.

Results and dividends

Results after tax reported a loss of £3.37m which compares with a loss of £4.75m in 2019.

Directors

The directors who served during the year were:

B Pollard (appointed 10 November 2021)
J L Whittle (resigned 10 November 2021)
K F Jensen (resigned 10 November 2021)
L M Cayanan

Environmental matters

SECR 2020 UK Global GHG Emissions and Energy Use Data for year ended 31 December 2020

	UK and Offshore
Emissions from Activities for which the Company owned or controlled the combustion of fuel & operation of facilities, tCO2e	62.0
Emissions from purchase of electricity, heat, steam, and cooling purchased for own use, tCO2e (Scope 2, location based)	239.5
Total Scope 1 and Scope 2 emissions, tCO2e	**301.5**
Energy Consumption used to calculate the emissions, kWh (electricity and natural gas)	654,635.5
Intensity Ratio: tCO2e (gross Scope 1 + 2)/GBP revenue	301.5/ 93,818,057.88 = 0.00127

Methodology

UK and Offshore
The methodology utilizes the WRI GHG Protocol and the carbon emission factors from the WRI for the world (other than the USA) and the EPA for US Based activities.

Future developments

The Directors consider that the forthcoming financial year will be another year of increased operational growth. The aim is to expand brand awareness and sales capacity. Overall, the Directors believe that the Company will be able to support business growth of Fortinet Inc., the ultimate parent company.

Disclosure in the strategic report

As permitted by paragraph 1A of Schedule 7 to the Large and Medium sized companies and groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on page 1-3. These matters relate to the principal activity, business review, principal risks and uncertainties and financial key performance indicators.

Employee involvement

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

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

Disabled employees

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company, its cashflow and liquidity position are outlined in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity on pages 12-15.

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.

Impact of Covid-19

The global community is facing unprecedented challenges posed by the COVID-19 pandemic. In response to the pandemic, the top management has taken a number of actions to protect the employees. Where onsite work is permitted, we have implemented measures such as staggered work shifts, social distancing, the use of face coverings, health and safety awareness training and frequent disinfection of shared spaces. We have implemented our readiness plans, which include steps to maintain critical internet infrastructure with many employees working remotely.

The continued future impacts of COVID 19, on our business, are currently unknown and will be dictated by both the health situation across our markets and government policies. We are monitoring the situation and will take precautionary and pre-emptive actions that we determine are in the best interests of our business. We cannot predict the effects of such actions may have on our business and on our financial results.

Impact of Brexit

We do not believe Brexit will have a material impact on the business for the foreseeable future.

This report was approved by the board and signed on its behalf.

DocuSigned by:
Lindsey Cayanan
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L M Cayanan
Director

Date: 17 December 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Opinion

We have audited the financial statements of Fortinet UK Limited (the 'Company') for the year ended 31 December 2020 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Other information

The other information comprises the information included in the Strategic and Directors' Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless either the Directors intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the group and the parent company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements.

We evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to revenue cut off, and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with the directors and management their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- proof in total analytical review for revenue in line with transfer pricing agreement; and
- considering the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

Our audit procedures in relation to fraud through revenue recognition specific to cut-off included, but were not limited to:

- Creating an expectation of revenue based on the transfer pricing agreement in place;
- Reviewing transactions one month either side of the year end to ensure any such transactions are posted to the correct period.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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

Stephen Brown

Stephen Brown (Dec 21, 2021 08:54 GMT)

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: Dec 21, 2021

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Turnover	4	93,818	79,950
Gross profit		93,818	79,950
Administrative expenses		(96,173)	(84,060)
Operating loss	5	(2,355)	(4,110)
Interest receivable and similar income	9	9	1
Interest payable and expenses	10	-	(9)
Loss before tax		(2,346)	(4,118)
Tax on loss	11	(1,154)	(628)
Loss for the financial year		(3,500)	(4,746)
Other comprehensive income for the year			
Exchange difference on reserves		130	(173)
Other comprehensive income for the year		130	(173)
Total comprehensive income for the year		(3,370)	(4,919)

The notes on pages 15 to 33 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note		2020 £000		2019 £000
Fixed assets					
Tangible assets	12		1,360		1,868
Investments	13		807		807
			2,167		2,675
Current assets					
Debtors: amounts falling due after more than one year	14	351		-	
Debtors: amounts falling due within one year	14	25,836		11,057	
Cash at bank and in hand	15	7,674		16,145	
		33,861		27,202	
Creditors: amounts falling due within one year	16	(11,584)		(9,902)	
Net current assets			22,277		17,300
Total assets less current liabilities			24,444		19,975
Net assets			24,444		19,975
Capital and reserves					
Called up share capital	17		100		100
Other reserves	19		39,470		43,306
Profit and loss account	19		(15,126)		(23,431)
			24,444		19,975

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 17 December 2021.

DocuSigned by:
Lindsey Cayanan
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L M Cayanan
Director

The notes on pages 15 to 33 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Called up share capital	Share based compensation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2020	100	43,306	(23,431)	19,975
Comprehensive income for the year				
Loss for the year	-	-	(3,500)	(3,500)
Exchange difference on reserves	-	-	130	130
Total comprehensive income for the year	-	-	(3,370)	(3,370)
Transfer between reserves - vested options	-	(11,675)	11,675	-
Movement in share option reserve	-	7,839	-	7,839
Total transactions with owners	-	(3,836)	11,675	7,839
At 31 December 2020	100	39,470	(15,126)	24,444

The notes on pages 15 to 33 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Share based compensation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2019	100	33,052	(18,512)	14,640
Comprehensive income for the year				
Loss for the year	-	-	(4,746)	(4,746)
Exchange difference on reserves	-	-	(173)	(173)
Total comprehensive income for the year	-	-	(4,919)	(4,919)
Movement in share option reserve	-	10,254	-	10,254
Total transactions with owners	-	10,254	-	10,254
At 31 December 2019	100	43,306	(23,431)	19,975

The notes on pages 15 to 33 form part of these financial statements.

1. General information

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

Fortinet UK does not perform any sales directly to the end users but provides sales and marketing support services as well as technical support services to Fortinet Inc. The Company has branches in Sweden, Saudi Arabia, Italy and Switzerland.

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

Monetary amounts included in these financial statements are rounded to the nearest thousand (£'000).

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.

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 judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2. Accounting policies (continued)

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 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 11.42, 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 2020 and these financial statements may be obtained from 899 Kifer Road, Sunnyvale, CA 94086, USA. This is the smallest and largest group the Company is consolidated in.

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 preparation of the financial statements on a going concern basis.

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

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

The Directors have considered the impact of the continuation of the Covid-19 pandemic on the business based on their understanding of its likely effect and duration at this point of time and consider it appropriate to prepare these accounts on a going concern basis.

2. Accounting policies (continued)

2.4 Revenue

The Company provides sales and marketing support services as well as technical support services to Fortinet Inc. The Company does not perform any sales to the end users.

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

The Company continued its principal activities throughout the current year as a sales representative and technical support provider on behalf of Fortinet Inc. The Company does not perform any sales to the end users, distributors or partners. The entire revenue for the Company is derived from services provided to Fortinet Inc. The Company is an indirect subsidiary of Fortinet Inc. (listed company based in the USA).

From the start, the Fortinet Group's vision has been to deliver broad, truly integrated, high-performance security across the IT infrastructure. Fortinet provides top-rated network and content security, as well as secure access products that share intelligence and work together to form a cooperative fabric. Fortinet's unique security fabric combines purpose-built ASICs, an intuitive operating system, and applied threat intelligence to give proven security, exceptional performance, and better visibility and control-while providing easier administration.

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.

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

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

2.6 Operating leases: the Company as lessee

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

2. Accounting policies (continued)

2.7 Valuation of investments

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

2.8 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.

2.9 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. Accounting policies (continued)

2.10 Financial instruments

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

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

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.

2.11 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)

2.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is Pounds Sterling (£).

Transactions and balances

Foreign currency transactions are translated into the functional currency using daily average 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'.

2.13 Finance costs

Finance costs are charged to profit or loss 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. Accounting policies (continued)

2.14 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.

2.15 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.16 Taxation

Tax is recognised in profit or loss 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.

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

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

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

Key sources of estimation uncertainty

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

(ii) 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.

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

Judgement is applied by management when determining the residual values for plant, machinery and equipment. When determining the residual value management aim to assess the amount that the Company would currently obtain for the disposal of the asset, if it were already of the condition expected at the end of its useful economic life. Where possible this is done with reference to external market prices. More details of these assumptions are disclosed in Note 11.

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

(v) Transfer pricing
The Group adopts a cost plus transfer pricing strategy which identifies the related party transactions and includes benchmarking analysis to determine the basis of pricing for the intercompany transactions. The Group makes use of expert advice when preparing their transfer pricing adjustments.

4. Turnover

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

Analysis of turnover by country of destination:

	2020 £000	2019 £000
United States of America with Fortinet Inc	93,818	79,950

5. Operating loss

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

	2020 £000	2019 £000
Depreciation of tangible fixed assets	691	483
Operating lease rentals	1,696	1,718
Share based payments	7,839	10,254
Exchange differences	593	(1,396)

6. Auditors' remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	25	18
Fees payable to the Company's auditor in respect of:		
Non-audit fees	75	29

7. Employees

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

	2020 No.	2019 No.
Administration and sales support and account management	484	433

8. Staff costs

	2020 £000	2019 £000
Wages and salaries	63,859	50,387
Social security costs	7,566	6,366
Pension costs	2,601	2,711
	74,026	59,464

No Director received any emoluments from the Company (2019 - £Nil). The emoluments of the Directors are disclosed in the financial statements of the parent company, Fortinet Inc.

9. Interest receivable

	2020 £000	2019 £000
Other interest receivable	9	1

10. *Interest payable and similar expenses*

	2020 £000	2019 £000
Bank interest payable	-	9

11. Taxation

	2020 £000	2019 £000
Corporation tax		
Current tax on loss for the year	739	628
	739	628
Double taxation relief	(43)	(69)
	696	559
Foreign tax		
Foreign tax on income for the year	458	69
	458	69
Total current tax	1,154	628
Deferred tax		
Total deferred tax	-	-
Taxation on profit on ordinary activities	1,154	628

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	2019 £000
Profit on ordinary activities before tax	(2,346)	(4,118)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	(446)	(778)
Effects of:		
Fixed asset difference	116	-
Expenses not deductible for tax purposes	176	(884)
Capital allowances for year in excess of depreciation	-	(27)
Income not taxable for tax purposes	(121)	-
Foreign tax credits	415	(69)
Remeasurement of deferred tax for changes in tax rates	141	-
Deferred tax not recognised	(1,226)	(4)
Double taxation relief	-	69
Transfer Pricing adjustments	2,099	2,321
Total tax charge for the year	1,154	628

The Finance Bill 2021 had its third reading on 24 May 2021 and is now considered substantively enacted. This means that the 25% main rate of corporation tax and marginal relief will be relevant for any asset sales or timing differences expected to reverse on or after 1 April 2023.

12. Tangible fixed assets

	Leasehold improvements £000	Computer equipment £000	Total £000
Cost or valuation			
At 1 January 2020	3,656	282	3,938
Additions	163	26	189
Disposals	(70)	(26)	(96)
Exchange adjustments	23	5	28
At 31 December 2020	3,772	287	4,059
Depreciation			
At 1 January 2020	1,804	266	2,070
Charge for the year on owned assets	668	23	691
Disposals	(5)	(26)	(31)
Exchange adjustments	(26)	(5)	(31)
At 31 December 2020	2,441	258	2,699
Net book value			
At 31 December 2020	1,331	29	1,360
At 31 December 2019	1,852	16	1,868

13. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2020	807
At 31 December 2020	807

13. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

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

The aggregate of the share capital and reserves as at 31 December 2020 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £000	Profit/(Loss) £000
Fortinet Sarl	12,435	2,572
Fortinet GmbH	4,676	1,098
Fortinet Security Italy SRL	2,186	610
Fortinet Security Spain S.L.	30	2,265
Fortinet Security Israel Ltd	1,258	2
Fortinet Security Korea Ltd	583	187
Fortinet Security LLC (Qatar)	96	84

14. Debtors

	2020 £000	2019 £000
Due after more than one year		
Other debtors	351	-

	2020 £000	2019 £000
Due within one year		
Amounts owed by group undertakings	22,480	9,175
Other debtors	488	1,240
Prepayments and accrued income	2,868	642
	25,836	11,057

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

15. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	7,674	16,145

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

- Guarantee dated 11 December 2014 in favour of Giambelli Spa for EUR 50k
- Guarantee dated 02 April 2015 in favour of Propco Citygate S.A.R.L for EUR 37k

The Company had the following securities held at year end:

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

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

- Class guarantee facility of £87k

16. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	580	274
Corporation tax	573	-
Taxation and social security	1,191	995
Other creditors	133	67
Accruals and deferred income	9,107	8,566
	11,584	9,902

17. Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
100,000 (2019 - 100,000) Ordinary shares shares of £1.00 each	100	100

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

18. Share based payments

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

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

Non-qualified stock options

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

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

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

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

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

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

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

Restricted stock units

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

The restricted stock units held in the Saudi Arabia branch are cash settled rather than equity settled, and the fair value of these is the market price of the parent company's stock as at the balance sheet date.

19. Reserves

Other reserves

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

Profit & loss account

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

20. Contingent liabilities

On 21 November 2018, HMRC opened an initial investigation regarding their concerns about the intra group transactions on a global basis and it is near conclusion subject to the resolution of a separate tax case dealing with share based payments which is unlikely to be heard until 2022. The Directors, and their external advisors, believe that the investigation should be settled satisfactorily but are awaiting the settlement of the tax case to finally resolve the position. As the case is currently in the favour of the Company, the Directors have not recognised any provision for any potential liability in the financial statements. A conclusion is expected to be reached during 2022.

21. Pension commitments

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund, during the year these amount to £2,601k (2019 - £2,711k). At 31 December 2020, there were outstanding contributions of £362k (2019 - £569k).

22. Commitments under operating lease

At 31 December 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £000	2019 £000
Not later than 1 year	1,950	1,603
Later than 1 year and not later than 5 years	3,605	3,676
Later than 5 years	-	3,266
Total	5,555	8,545

Lease expenses during the year totalled £2,123k (2019 - £1,718k).

23. Related party transactions

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

24. Controlling party

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