

Registered number: 04570027

FORTINET UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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FORTINET UK LIMITED

COMPANY INFORMATION

Directors Lindsey Marie Cayanan
Brian Pollard

Registered number 04570027

Registered office 2 Gainsborough House
Manor Park
Manor Farm Road
Reading
Berkshire
RG20NA

Independent auditors MHA
Building 4
Foundation Park
Roxborough Way
Maidenhead
SL6 3UD

FORTINET UK LIMITED

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FORTINET UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Introduction

The Directors present their Strategic Report for Fortinet UK Limited ("the Company") for the year ended 31 December 2022.

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 £173.5m (2022) from £129.1m (2021), showing 34.4% 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 primarily 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 profit of £6.6m which compares with a profit of £6.7m in 2021.

The Statement of Financial Position shows that the Company's net assets at the year end of 31 December 2022 have increased to £76.9m (2022) from £58.0m (2021).

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, 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 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.

The management has continued to monitor the potential impact of the COVID-19 developments on the Company's operations and financial position. In order to ensure business continuity and service maintenance, the company has continued to implement a set of measures, in relation to actions taken and recommended by the government.

Management also continues to monitor other risks which may affect our operating results such as the war in Ukraine, reduction of operations in Russia, rising interest rates and other factors. The Company has also put in place contingency measures, which include but are not limited to enhancing and testing business continuity plans including its liquidity requirements. At the end of the financial year, there are no uncertainties over the continuity of the company's operations despite the current financial crisis.

FORTINET UK LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

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.

Directors' statement S172

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 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.

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.

FORTINET UK LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

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. 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 August 1, 2022, there have been over 900,000 certifications issued globally for our free online trainings since we launched the program.

Environment

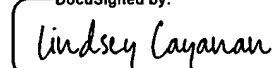
The company's direct environmental impact is limited, comprising mainly energy use in the office and travel. Nevertheless the company seeks to minimise energy use where this is possible and to minimise waste and energy use and to maximise recycling. We extend our stringent requirements in regard to packaging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

Shareholder

Engagement with the company's shareholder is therefore 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.

This report was approved by the board on 15 December 2023 and signed on its behalf.

DocuSigned by:

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Lindsey Marie Cayan
Director

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FORTINET UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The directors present their report and the financial statements for the year ended 31 December 2022.

Directors' responsibilities statement

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

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

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

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

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

Results and dividends

The profit for the year, after taxation, amounted to £6,635,000 (2021 - profit £6,657,000).

Directors

The directors who served during the year were:

Lindsey Marie Cayanan
Brian Pollard

FORTINET UK LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

SECR 2022 UK Global GHG Emissions and Energy Use Data for year ended 31 December 2022

UK and Offshore	2022	2021
Emissions from Activities for which the Company owned or controlled the combustion of fuel and operation of facilities, tCO ₂ e	0	61.0
Emissions from purchase of electricity, heat, steam, and cooling purchased for own use, tCO ₂ e (Scope, location based)	139.0	174.0
Total Scope 1 and Scope 2 emissions, tCO ₂ e	139.0	235.0
Energy Consumption used to calculate the mission, kWh (electricity and natural gas)	342,781.0	509,495.0
Intensity Ratio:	139/173,451,032.0 = 0.0000008013	235/129,097,026.0 = 0.0000018177

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.

FORTINET UK LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

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 12-14.

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

Disclosure of information to auditors

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

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

Post balance sheet events

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

Auditors

Following a rebranding exercise on 15 May 2023 the trading name of the Company's independent auditor changed from MHA Macintyre Hudson to MHA. A resolution to reappoint the auditors, MHA, will be proposed in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 15 December 2023 and signed on its behalf.

DocuSigned by:


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Lindsey Marie Cayan
Director



FORTINET UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED

Opinion

We have audited the financial statements of Fortinet UK Limited (the 'Company') for the year ended 31 December 2022, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, 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 Financial Reporting Standard 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 2022 and of its profit 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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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.

FORTINET UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED (CONTINUED)

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' 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. 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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

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

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

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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

FORTINET UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTINET UK LIMITED (CONTINUED)

Auditors' 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 Auditors' 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Enquiry of management and those charged with governance around actual and potential litigation and claims;

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 Auditors' Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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.



Jason Mitchell MBA BSc FCA (Senior Statutory Auditor)

for and on behalf of
MHA

Chartered Accountants
Statutory Auditors
Maidenhead

Date:

19 December 2023

MHA is the trading name of Macintyre Hudson LLP, a limited liability partnership in England and Wales (registered number 0C312313).

FORTINET UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £000	As restated 2021 £000
Turnover	4	173,451	129,097
Gross profit		<u>173,451</u>	<u>129,097</u>
Administrative expenses		(162,426)	(121,190)
Operating profit	5	<u>11,025</u>	<u>7,907</u>
Interest receivable and similar income	9	6	11
Interest payable and similar expenses	10	(17)	(10)
Profit before tax		<u>11,014</u>	<u>7,908</u>
Tax on profit	11	(4,379)	(1,251)
Profit for the financial year		<u><u>6,635</u></u>	<u><u>6,657</u></u>
Other comprehensive income for the year			
Exchange differences on reserves		105	81
Other comprehensive income for the year		<u>105</u>	<u>81</u>
Total comprehensive income for the year		<u><u>6,740</u></u>	<u><u>6,738</u></u>

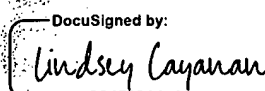
The notes on pages 14 to 32 form part of these financial statements.

FORTINET UK LIMITED
REGISTERED NUMBER: 04570027

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 £000	As restated 2021 £000
Fixed assets			
Intangible assets	12	38	29
Tangible assets	13	1,729	1,311
Investments		807	807
		<u>2,574</u>	<u>2,147</u>
Current assets			
Debtors: amounts falling due within one year	16	66,180	63,810
Cash at bank and in hand	17	29,710	9,533
		<u>95,890</u>	<u>73,343</u>
Creditors: amounts falling due within one year	18	(21,575)	(17,484)
Net current assets		<u>74,315</u>	<u>55,859</u>
Total assets less current liabilities		<u>76,889</u>	<u>58,006</u>
Net assets		<u><u>76,889</u></u>	<u><u>58,006</u></u>
Capital and reserves			
Called up share capital	19	100	100
Profit and loss account	21	76,789	57,906
		<u>76,889</u>	<u>58,006</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 December 2023.

DocuSigned by:

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Lindsey Marie Cayan
 Director

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FORTINET UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2022 (as restated)	100	57,906	58,006
Comprehensive income for the year			
Profit for the year	-	6,635	6,635
Exchange difference on reserves	-	(105)	(105)
Other comprehensive income for the year	-	(105)	(105)
Capital contribution in respect of share based payments	-	12,353	12,353
Total transactions with owners	-	12,353	12,353
At 31 December 2022	100	76,789	76,889

The notes on pages 14 to 32 form part of these financial statements.

FORTINET UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2021 (as previously stated)	100	24,344	24,444
*Prior year adjustment (note 27)	-	16,052	16,052
At 1 January 2021 (as restated)	100	40,396	40,496
Comprehensive income for the year			
Profit for the year (as restated)	-	6,657	6,657
Exchange difference on reserves	-	(81)	(81)
Other comprehensive income for the year	-	(81)	(81)
Capital contribution in respect of share based payments	-	10,934	10,934
Total transactions with owners	-	10,934	10,934
At 31 December 2021 (as restated)	100	57,906	58,006

The notes on pages 14 to 32 form part of these financial statements.

*In preparing these financial statements, an incorrect cost base was used in the calculation of the SBC expenses for FY2019 - 2021 and the CIT payment for the Italian branch in FY2019. The prior year adjustments have been made in accordance with FRS 102 with the financial statements restated accordingly. See note 27.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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 serves as a sales representative and technical support provider on behalf of 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.

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:

2.2 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 2022 and these financial statements may be obtained from 898 Kifer Road.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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 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.

2.4 Revenue

The Company acts as a sales representative and technical support provider on behalf of 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 USA).

From the start, the Fortinet Group vision has been to deliver broad, truly integrated, high-performance security across the IT infrastructure. Fortinet Group 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 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.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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 .

Leasehold property	- 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 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.7 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.9 Debtors

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

2.10 Cash and cash equivalents

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

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)**2.11 Financial instruments**

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

2.12 Creditors

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

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using 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 profit or loss 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 profit or loss within 'other operating income'.

2.14 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.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)**2.15 Share based payments**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting 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 profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

The Company has changed policy for the recognition of share based payments with the charge now going straight to the profit and loss reserve. On this basis, the comparative statement of changes in equity has also been restated.

2.16 Interest income

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

2.17 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.

2.18 Pensions**Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. Turnover

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

Analysis of turnover by country of destination:

	2022 £000	2021 £000
Fortinet Inc. USA	173,451	129,097

5. Operating profit

The operating profit is stated after charging:

	2022 £000	2021 £000
Depreciation of tangible fixed assets	516	512
Amorisation of intangible assets	22	7
Operating lease rentals	(2,120)	(1,190)
Exchange differences	11	(2,535)
Share based payment	12,434	10,934

6. Auditors' remuneration

During the year, the Company obtained the following services from the Company's auditors and their associates:

	2022 £000	2021 £000
Fees payable to the Company's auditors and their associates for the audit of the Company's financial statements	21	20

7. Employees

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

	2022 £000	2021 £000
Average number of employees	774	533
	774	533

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

8. Staff Costs

	2022	2021
	£000	£000
Wages and salaries	114,551	91,846
Social security costs	15,780	12,411
Cost of defined contribution scheme	8,287	5,884
	<u>138,618</u>	<u>110,141</u>

No Director received any emoluments from the Company (2021-£Nil). The emoluments of the Directors are disclosed in the financial statements of the parent company, Fortinet Inc.

9. Interest receivable

	2022	2021
	£000	£000
Other interest receivable	6	11
	<u>6</u>	<u>11</u>

10. Interest payable and similar expenses

	2022	2021
	£000	£000
Bank interest payable	17	10
	<u>17</u>	<u>10</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. Taxation

	2022	2021
	£000	£000
Corporation tax		
Current tax on profits for the year	1,529	784
Adjustments in respect of previous periods	1,524	(22)
	<u>3,053</u>	<u>762</u>
Double taxation relief	-	(358)
	<u>3,053</u>	<u>404</u>
Foreign tax		
Foreign tax on income for the year	1,326	847
	<u>1,326</u>	<u>847</u>
Total current tax	<u><u>4,379</u></u>	<u><u>1,251</u></u>
Deferred tax		
Origination and reversal of timing differences	(2,289)	-
Adjustments in respect of prior periods	2,289	-
Total deferred tax	<u><u>-</u></u>	<u><u>-</u></u>
Taxation on profit on ordinary activities	<u><u>4,379</u></u>	<u><u>1,251</u></u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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

The tax assessed for the year is lower than (2021 - *higher than*) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £000	2021 £000
Profit on ordinary activities before tax	<u>11,014</u>	<u>7,908</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	2,093	(700)
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	40	65
Expenses not deductible for tax purposes	429	86
Income not taxable for tax purposes	(1)	-
Foreign tax credits	1,326	489
Prior year charge	-	(22)
Adjustments to tax charge in respect of previous periods - deferred tax	2,289	-
Adjustments to tax charge in respect of previous periods	1,524	-
Remeasurement of deferred tax for changes in tax rates	243	1,258
Foreign PE exemption	(260)	-
Deferred tax not recognised	(3,304)	(2,295)
Transfer pricing adjustments	-	2,370
Total tax charge for the year	<u><u>4,379</u></u>	<u><u>1,251</u></u>

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.

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

12. Intangible assets

	Computer software £000
Cost	
At 1 January 2022	36
Additions	31
At 31 December 2022	67
Amortisation	
At 1 January 2022	7
Charge for the year on owned assets	22
At 31 December 2022	29
Net book value	
At 31 December 2022	38
At 31 December 2021	29

FORTINET UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**13. Tangible fixed assets**

	Leasehold improvement £000	Computer equipment £000	Total £000
Cost or valuation			
At 1 January 2022	4,037	368	4,405
Additions	797	185	982
Disposals	(49)	-	(49)
At 31 December 2022	<u>4,785</u>	<u>553</u>	<u>5,338</u>
Depreciation			
At 1 January 2022	2,908	185	3,093
Charge for the year on owned assets	351	165	516
At 31 December 2022	<u>3,259</u>	<u>350</u>	<u>3,609</u>
Net book value			
At 31 December 2022	<u>1,526</u>	<u>203</u>	<u>1,729</u>
At 31 December 2021	<u>1,129</u>	<u>182</u>	<u>1,311</u>

14. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2022	807
At 31 December 2022	<u>807</u>
Net book value	
At 31 December 2022	<u>807</u>
At 31 December 2021	<u>807</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. 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	1st Floor Via Torri Bianche 24 20871 – Vimercate (MB) Italy	Ordinary	100 %
Fortinet Security Spain S.L.	Avenida Europe, 24- Edif.B,Pt.2-B,28108Alcobendas, Madrid, Spain.	Ordinary	100 %
Fortinet Security Israel Ltd	10 Abba Eban Avenue, Ackerstein Towers Bldg. C, Herzliya 4672528	Ordinary	100 %
Fortinet Security Korea Ltd	Gangnam Gu, Seoul, Korea 135-280.	Ordinary	100 %
Fortinet Security LLC (Qatar)	Level 21, Burj Doha, West Bay, Doha, Qatar, P.O. Box 27110	Ordinary	100 %

The aggregate of the share capital and reserves as at 31 December 2022 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	19,499	4,525
Fortinet GmbH	8,258	2,071
Fortinet Security Italy SRL	4,063	1,105
Fortinet Security Spain S.L.	3,072	703
Fortinet Security Israel Ltd	2,673	536
Fortinet Security Korea Ltd	999	112
Fortinet Security LLC (Qatar)	323	140

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

16. Debtors

	2022	<i>2021</i>
	£000	<i>£000</i>
Amounts owed by group undertakings	63,253	<i>60,092</i>
Other debtors	1,083	<i>2,951</i>
Prepayments and accrued income	1,844	<i>767</i>
	<u>66,180</u>	<u><i>63,810</i></u>

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

17. Cash and cash equivalents

	2022	<i>2021</i>
	£000	<i>£000</i>
Cash at bank and in hand	29,710	<i>9,533</i>
	<u>29,710</u>	<u><i>9,533</i></u>

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 £87,000

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. Creditors: Amounts falling due within one year

	2022	2021
	£000	£000
Trade creditors	712	402
Corporation tax	1,241	-
Other taxation and social security	5,152	5,279
Other creditors	331	205
Accruals and deferred income	14,139	11,598
	<u>21,575</u>	<u>17,484</u>

19. Share capital

	2022	2021
	£000	£000
Allotted, called up and fully paid		
100,000 (2021 - 100,000) Ordinary shares allotted, called up and fully paid shares of £1 each	<u>100</u>	<u>100</u>

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

20. 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.

21. Reserves**Profit and loss account**

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

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

22. Contingent liabilities

On 21 November 2018, HMRC opened an initial investigation regarding their concerns about the intra group transactions on a global basis and HMRC enquiries in respect of accounting periods ending between 2015 and 2018 were partially closed pending the outcome of a separate tax case dealing with share based payments which was heard in 2022.

During 2023, HMRC have not issued their acceptance of the findings in favour of the taxpayer from 2022. Instead, in September 2023 they issued their interpretation and internal guidance relating to S1038A(7) Corporation Taxes Act 2009. Consequently, the directors have taken a prudent viewpoint in the accounts to only claim a deduction under general principles for the accounting charge on withheld shares and RSUs that have vested in each period. As the periods 2015-2020 are open under this enquiry, they have revised the tax debtor for each period which has resulted in a reduction in the tax debtor brought forward of GBP 1.5m. The company's tax advisors will continue to discuss the case with HMRC and hope to resolve a favourable position during 2024.

23. 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 £4,717k (2021 - £3,469k). At 31 December 2022, there were outstanding contributions of £ 360k (2021 - £216k).

24. Commitments under operating leases

At 31 December 2022 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2022	2021
	£000	£000
Not later than 1 year	2,860	5,931
Later than 1 year and not later than 5 years	4,211	3,619
	<u>7,071</u>	<u>9,550</u>

Lease expenses during the year totalled £2,120k (2021 - £1,837k).

25. Related party transactions

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

FORTINET UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

26. 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.

27. Prior year restatement

On 1st January 2019 Fortinet UK Ltd ("UK") ceased to provide services to Fortinet Singapore and commenced providing services to Fortinet Inc. (USA) (the ultimate parent company). On this date the entered a new contract for the provision of three services: sales support and marketing services, research and development services and technical assistance. The remuneration for the services provided was to be based on a cost-plus model. The cost base for the service fee mark-up was to be for all costs, as determined under Generally Accepted Accounting Principles ("GAAP"), directly and indirectly incurred by UK. A review of the cost base in December 2022 found that, despite the intentions of both parties, was incorrect.

1. the costs were calculated under US GAAP, and
2. the indirect share-based compensation (SBC) expenses incurred by UK in providing the services to Fortinet Inc., were not included in the cost base when calculating the mark up.

The review found that materially the costs under UK GAAP and US GAAP were broadly the same, apart from the recognition of the SBC expenses incurred by UK under UK GAAP for 2019-2021 totalling £30,769,000. This adjustment seeks to rectify and compensate UK for mark-up on these costs for the financial year 2019 - 2021. This adjustment is reflected as a £19,179,000 increase in retained earnings at 1 Jan 2021 followed by an increase in profit in FY21 from a loss of £4,933,000 to a profit of £6,657,000.

In November 2019, Fortinet UK Ltd Italy branch ("Branch") received a Transfer Pricing Enquiry notice into years 2013-2017 from the Italian Tax Authorities ("ITA"). Settlement notices agreeing transfer pricing adjustments were issued to the branch in December 2019, issuing that an additional £3,127,000 of tax/penalties/interest was due. The branch made tax payments to the Italian tax authorities ("ITA") for £3m which were initially recorded in the branch's accounting software but later transferred in error to the accounting ledger for Fortinet Italy SRL (Italy Company). They were transferred as it was believed they should be recorded in the Italian Company accounting books because the Italian branch's trade & assets were transferred to the Italian Company in 2017.

However, many months later the accounting and tax advisors to the Fortinet group confirmed that this transfer should not have happened, as it was not legal from an Italian Law perspective and so these expenses should have stayed in the branch, even if it has no trade.

As this advice was provided much later, it meant that when the Financial Statements for Fortinet UK Ltd were drawn up for 31 December 2019, they did not show the £3m payment as foreign tax paid for the branch, as it had been transferred out to the Italian Company. This £3m CIT payment is currently shown as a permanent difference between the Accounting Books and Financial Statements of the Company. The correction brings this expense back into the branch and has been reflected as a reduction in the opening retained earnings in this financial statement at 1 Jan 2021 of £3,127,000.

These two adjustments aggregate to £16,052,000 as presented in the Statement of Changes in Equity.