

REGISTERED NUMBER: 05150579 (England and Wales)

Strategic Report, Directors' Report and

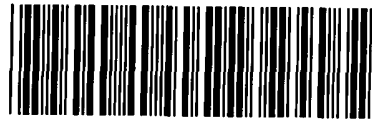
Audited Financial Statements

for Year Ended 31 March 2017

for

Arbor Networks UK Limited

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**Arbor Networks UK Limited**

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**for Year Ended 31 March 2017**

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**Arbor Networks UK Limited**

**Company Information**  
**for Year Ended 31 March 2017**

**DIRECTORS**

Jean Bua  
Michael Szabados  
Gregory Sloan  
Carolina Jones  
Anthony King

**COMPANY SECRETARY**

Abogado Nominees Limited

**COMPANY NUMBER**

05150579 (England and Wales)

**COUNTRY OF  
INCORPORATION**

United Kingdom

**REGISTERED OFFICE**

100 New Bridge Street  
London  
United Kingdom  
EC4V 6JA

**AUDITOR**

Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

**BANKER**

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

**Arbor Networks UK Limited**  
**Strategic Report**  
**for Year Ended 31 March 2017**

The directors present their strategic report for year ended 31 March 2017.

## **REVIEW OF BUSINESS**

Arbor Networks UK Limited is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1.

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

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

In order to align the Company's year end with its new group, the prior year accounting period was of 15 month period to 31 March 2016. This is the subsequent year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. There are no changes to the accounting policies following the adoption of FRS 102.

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

	2017	2016	Change
	\$	\$	
Revenue	157,124,222	123,987,920	27%
Gross Profit	145,464,025	112,214,900	30%
Gross Profit %	93%	91%	2%
Average no. of employees	81	61	20
Net Assets	30,617,867	6,649,335	360%

Revenue increased from \$123,987,920 to \$157,124,222 an increase of 27%. The increase was due to continuity of the direct sales approach and all non-US business flowing through Arbor Networks UK Limited. Total revenue also includes \$10,985,437 which relates to Intercompany sales. The revenue results for 2017 are for a 12 month period however, the results for 2016 are for a 15 month period. Therefore, the results for the financial year are not easily comparable with prior period comparatives.

The gross profit has increased due to different product mix and increase in software sales versus hardware. The continuing increase in the number of employees is due to the organic growth of the company. Consequently, the average number of employees employed during the period increased by 20.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **Competitive Risks**

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

### **Legislative Risks**

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

**Arbor Networks UK Limited**

**Strategic Report (continued)**  
**for Year Ended 31 March 2017**

**Financial Risks**

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

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

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

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

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

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

**ON BEHALF OF THE BOARD:**

  
.....  
Carolina Jones - Director

Date: 20 NOVEMBER 2017

## **Arbor Networks UK Limited**

### **Directors' Report** **for Year Ended 31 March 2017**

The directors present their Directors' Report with the audited financial statements of the Company for the year ended 31 March 2017.

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

#### **DIVIDENDS**

No dividends will be distributed for the year ended 31 March 2017. No dividends were distributed in the prior period ended 31 March 2016.

#### **DIRECTORS**

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

Jean Bua  
Michael Szabados  
Gregory Sloan  
Carolina Jones  
Anthony King

#### **THIRD PARTY INDEMNITIES**

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

#### **HEALTH, SAFETY AND THE ENVIRONMENT**

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

#### **GOING CONCERN**

The Company has a strong customer base and its liquidity is very good. The Company has been trading profitably throughout the year such that it had cash at bank and in hand in excess of \$40m as at 31<sup>st</sup> March 2017. The directors therefore have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, including 12 months from the date of signing the Financial Statements. Accordingly, a going concern basis has been adopted in preparing the Strategic Report and financial statements.

#### **FREQUENCY OF REPORTING**

During prior period the Company changed its reporting period from December to March following the acquisition by NetScout Systems Inc., in order to align its reporting period with the parent Company. Consequently, the financial statements for the prior period were produced for a fifteen month period covering 1<sup>st</sup> January 2015 to 31<sup>st</sup> March 2016. The current financial statements cover the full 12 month period from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017.

**Arbor Networks UK Limited**

**Directors' Report (Continued)**  
**for Year Ended 31 March 2017**

**EMPLOYMENT POLICIES**

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

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

**DISCLOSURE OF INFORMATION TO AUDITOR**

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

**AUDITOR**

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

**REDUCED DISCLOSURES**

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

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

**FUTURE DEVELOPMENTS**

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

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

**ON BEHALF OF THE BOARD:**

  
.....  
Carolina Jones - Director

Date: 20 NOVEMBER 2017

**Arbor Networks UK Limited**

**Directors' Responsibilities Statement**  
**for Year Ended 31 March 2017**

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

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

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

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



## **Independent Auditor's Report to the Members of**

### **Arbor Networks UK Limited** **for Year Ended 31 March 2017**

We have audited the financial statements of Arbor Networks UK Limited for the year ended 31 March 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"

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

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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended 31 March 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

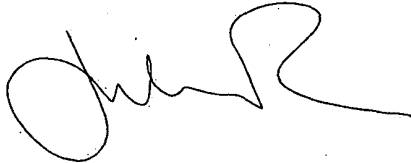
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

**Independent Auditor's Report to the Members of**  
**Arbor Networks UK Limited (Continued)**  
**for Year Ended 31 March 2017**

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

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

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



Julian Rae (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Cambridge

United Kingdom

Date: 20 November 2017

**Arbor Networks UK Limited**

**Profit and Loss Account**  
**for Year Ended 31 March 2017**

		Year Ended 31 March 2017	Period Ended 31 March 2016
	Notes	\$	\$
<b>TURNOVER</b>	2	157,124,222	123,987,920
Cost of sales		<u>(11,660,197)</u>	<u>(11,773,020)</u>
<b>GROSS PROFIT</b>		145,464,025	112,214,900
Operating expenses		<u>(116,173,054)</u>	<u>(105,439,824)</u>
<b>OPERATING PROFIT</b>	4	29,290,971	6,775,076
Interest receivable and similar income	5	462,953	619,808
Interest payable and similar expenses	6	<u>(27,777)</u>	<u>(45,200)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		29,726,147	7,349,684
Tax on profit	7	<u>(6,190,796)</u>	<u>(748,181)</u>
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		<u>23,535,351</u>	<u>6,601,503</u>

**CONTINUING OPERATIONS**

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

**TOTAL COMPREHENSIVE INCOME**

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


**Arbor Networks UK Limited**

**Balance Sheet**  
**As at 31 March 2017**

	Notes	31 March 2017		31 March 2016	
		\$	\$	\$	\$
<b>NON-CURRENT ASSETS</b>					
Tangible Assets	8		352,555		-
<b>CURRENT ASSETS</b>					
Stocks	9	2,897,879		3,785,473	
Debtors: amounts falling due within one year	10	42,163,539		27,495,273	
Cash at bank and in hand		40,816,720		17,004,667	
Debtors: amounts falling due after one year	11	32,050,153		31,587,201	
		117,928,291		79,872,614	
<b>CURRENT LIABILITIES</b>					
Creditors: amounts falling due within one year	12	71,356,367		60,738,605	
<b>NET CURRENT ASSETS</b>					
			46,571,924		19,134,009
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
			46,924,479		19,134,009
<b>NON-CURRENT LIABILITIES</b>					
Creditors: amounts falling due after more than one year	13		16,306,612		12,484,674
<b>NET ASSETS</b>					
			30,617,867		6,649,335
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		4		4
Profit and loss account			29,757,362		6,222,011
Capital contribution			860,501		427,320
<b>SHAREHOLDERS' FUNDS</b>					
			30,617,867		6,649,335

The notes on pages 12 to 22 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 NOVEMBER 2017 and were signed on its behalf by:

  
Carolina Jones - Director

**Arbor Networks UK Limited**

**Statement of changes in Equity**  
**for Year Ended 31 March 2017**

	Called up Share Capital	Profit and loss account	Capital contribution	Total shareholders' funds
	\$	\$	\$	\$
<b>01 January 2015</b>	4	864,520	-	864,524
Profit and total comprehensive income for the financial period	-	6,601,503	-	6,601,503
Loss due to acquisition for the financial period	-	(1,244,012)	-	(1,244,012)
Capital contribution - Share based payment	-	-	427,320	427,320
<b>31 March 2016</b>	<u>4</u>	<u>6,222,011</u>	<u>427,320</u>	<u>6,649,335</u>
<b>01 April 2016</b>	4	6,222,011	427,320	6,649,335
Profit and total comprehensive income for the financial period	-	23,535,351	-	23,535,351
Capital contribution - Share based payment	-	-	433,181	433,181
<b>31 March 2017</b>	<u>4</u>	<u>29,757,362</u>	<u>860,501</u>	<u>30,617,867</u>

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

## **Arbor Networks UK Limited**

### **Notes to the Financial Statements** **for Year Ended 31 March 2017**

#### **1. ACCOUNTING POLICIES**

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

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

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

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

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

##### **Accounting convention**

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

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

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

##### **Foreign currencies**

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

##### **Going concern**

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

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

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

The Company issues equity-settled share awards to certain employees of the Company. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect on non-market-based vesting conditions.

Fair value is measured as the market value of the award on the grant date which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, vesting restrictions, and behavioural considerations.

##### **Interest receivable**

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

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

**1. ACCOUNTING POLICIES (continued)**

**Revenue**

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

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

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

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

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

**Tangible fixed assets**

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

Computer equipment – 3 years

Fixtures and fittings – 5 years

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

**Inventory**

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

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

**Deferred tax**

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

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

**1. ACCOUNTING POLICIES (continued)**

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

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

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

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

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

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

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

- **Revenue recognition**

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

- **Key source of estimation uncertainty – impairment of intangible assets**

Determining whether intangible assets are impaired requires an estimation of their value in use to the Company. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the intangible asset and a suitable discount rate in order to calculate present value. During prior period the impairment of intangible assets, including goodwill and intellectual property arose as a result of products being discontinued due to changes in market and technology requirements.

**2. TURNOVER**

The revenue and profit before taxation for the period ended 31 March 2017 and prior period ended 31 March 2016 are attributable to the principal activity of the Company and Intercompany related party revenue of \$10,985,437 (2016: \$8,446,627).

An analysis of revenue by geographical market is given below:

	Year Ended 31 March 2017 \$	Period Ended 31 March 2016 \$
United Kingdom	35,432,568	21,790,363
Europe	46,528,710	40,578,641
United States of America	199,308	220,521
South America	23,588,561	19,222,342
Asia	26,720,207	22,503,891
Rest of the world	24,654,868	19,672,162
	<u>157,124,222</u>	<u>123,987,920</u>



**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

**2. TURNOVER (continued)**

An analysis of revenue by category is given below:

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Sale of goods (Hardware and software)	94,172,805	66,622,774
Rendering of services	51,965,980	48,918,519
Intercompany revenue	10,985,437	8,446,627
	<u>157,124,222</u>	<u>123,987,920</u>

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

**3. STAFF COSTS**

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Wages and Salaries	11,113,958	12,386,758
Social Security Costs	1,463,909	1,062,346
Other Pension Costs (see note 16)	633,618	499,065
	<u>13,211,485</u>	<u>13,948,169</u>

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

	Year Ended 31 March 2017	Period Ended 31 March 2016
Sales and pre-sales	40	32
Customer support & services	26	18
Finance, Human Resources and IT	9	6
Marketing	6	5
	<u>81</u>	<u>61</u>

The increase in the average number of employees is due to the organic growth of the company. Consequently, the average number of employees employed during the period increased by 20.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

**3. STAFF COSTS (continued)**

**Directors' remuneration:**

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Aggregate emoluments	1,143,216	501,887
Amounts receivable (other than shares and share options) under long-term incentive schemes	-	-
Company contributions to defined benefit contribution scheme	81,931	29,558
Compensation for loss of office	-	-
Sums paid to third parties in respect of directors' services	-	-
Excess retirement benefits of directors and past directors	-	-
	<u>1,225,147</u>	<u>531,445</u>

For the period ended 31 March 2017 and prior period ended 31 March 2016 three of the five directors provide services to other group undertakings and it is not practicable to allocate their remuneration across all the group undertakings, therefore no amounts in respect of these directors have been included in the amounts shown above. The amount above only includes remuneration for the directors resident in the United Kingdom and provided services to the Company.

**Remuneration of the highest paid director:**

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Aggregate emoluments	1,008,157	340,038
Company contributions to defined benefit contribution scheme	71,062	17,185
	<u>1,079,219</u>	<u>357,223</u>

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

**4. OPERATING PROFIT**

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

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Patents Licences amortisation	-	765,873
Goodwill impairment	-	1,491,661
Patents Licences impairment	-	4,425,919
Depreciation of tangible assets (see note 8)	13,195	-
Cost of stock recognised as an expense	10,528,856	10,487,968
Impairment of stock recognised as an expense	1,131,341	1,285,052
Auditing of the financial statements	171,308	98,400
Foreign exchange differences including translation adjustments	(182,043)	122,564
Operating lease expenses	349,040	44,503
Selling and Distribution costs	33,000,797	23,914,389
Administration expenses	<u>71,160,560</u>	<u>62,803,495</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for Year Ended 31 March 2017**

**4. OPERATING PROFIT (continued)**

The company acquired a number of tangible assets during the year, the accumulated depreciation of \$54,978 has been reflected in note 8, from which \$13,195 relates to Arbor Networks UK Limited and the remaining \$41,783 relates to other business units.

During prior period the impairment of intangible assets, including goodwill and intellectual property arose as a result of products being discontinued due to changes in market and technology requirements. Goodwill was impaired to \$nil at 1 January 2015 and intellectual property was impaired to \$nil at 31 December 2015. Therefore, impairment has been reflected above in prior year comparatives.

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

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year Ended 31 March 2017 \$	Period Ended 31 March 2016 \$
Bank interest	-	32,607
Interest on intercompany loan	462,953	587,201
	<u>462,953</u>	<u>619,808</u>

**6. INTEREST PAYABLE AND SIMILAR EXPENSES**

	Year Ended 31 March 2017 \$	Period Ended 31 March 2016 \$
Bank interest	4,588	11,571
Interest on intercompany loan	23,189	33,629
	<u>27,777</u>	<u>45,200</u>

**7. TAX ON PROFIT**

The tax charge/(credit) comprises:

	Year ended 31 March 2017 \$	Period ended 31 March 2016 \$
<b>Current tax</b>		
Corporation tax at the standard rate of 20% (2016: 20.2%)	6,081,841	827,818
Prior year adjustment to corporation tax	41,445	-
Credit for overseas tax suffered	<u>(307,073)</u>	<u>(122,038)</u>
	5,816,213	705,780
<b>Foreign tax</b>		
Overseas tax suffered	307,073	122,038
<b>Deferred tax</b>		
Charge/(credit) for current year	63,957	(73,640)
Adjustment in respect of change in tax rates	<u>3,553</u>	<u>(5,997)</u>
	67,510	(79,637)
<b>Taxation charge for the year</b>	<u>6,190,796</u>	<u>748,181</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for Year Ended 31 March 2017**

**7. TAXATION (continued)**

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

	Year ended 31 March 2017 \$	Period ended 31 March 2016 \$
Profit before tax	29,726,147	7,349,684
Corporation tax at the standard rate of 20% (2016: 20.2%)	5,945,229	1,484,475
Effects of:		
Expenses/(Income) not deductible/(taxable)	207,675	(190,413)
Group relief (claimed)/surrendered for nil consideration	-	(551,878)
Impact of change in tax rates	(3,553)	5,997
Prior year adjustment to corporation tax	41,445	-
Current taxation charge for the year	6,190,796	748,181

**CORPORATION TAX**

	Year ended 31 March 2017 \$	Period ended 31 March 2016 \$
Corporation tax (creditor) at the end of the period	(2,961,835)	(705,780)

**DEFERRED TAX**

	Year ended 31 March 2017 \$	Period ended 31 March 2016 \$
Deferred tax asset as at the beginning of the period	(98,013)	(18,376)
Current period movement	67,510	(79,637)
Deferred tax asset as at the end of the period	(30,503)	(98,013)

The amounts provided for deferred taxation are set out below:

	Year ended 31 March 2017 \$	Period ended 31 March 2016 \$
Fixed assets	11,216	(10,491)
Other short term timing differences	(41,719)	(87,522)
Deferred tax asset	(30,503)	(98,013)

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

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)  
for Year Ended 31 March 2017**

**8. TANGIBLE ASSETS**

	Computer equipment \$	Fixtures & fittings \$	Leasehold improvements \$	Total \$
<b>COST</b>				
At 1 April 2016	-	-	-	-
Additions	111,689	17,959	277,885	407,533
At 31 March 2017	<u>111,689</u>	<u>17,959</u>	<u>277,885</u>	<u>407,533</u>
<b>DEPRECIATION</b>				
At 1 April 2016	-	-	-	-
Depreciation for the year	22,942	2,395	29,641	54,978
At 31 March 2017	<u>22,942</u>	<u>2,395</u>	<u>29,641</u>	<u>54,978</u>
<b>NET BOOK VALUE</b>				
At 31 March 2017	<u>88,747</u>	<u>15,564</u>	<u>248,244</u>	<u>352,555</u>
At 31 March 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

On 15<sup>th</sup> August 2016, the Company set up a new office on a long-term lease, which resulted in leasehold improvements and purchasing of new office equipment which are considered to meet the definition of tangible fixed assets. The cost at 15<sup>th</sup> August 2016 was \$407,532 depreciated on a straight-line basis over the life of assets resulting in depreciation charge of \$54,978 from which \$13,195 relates to Arbor Networks UK Limited and the remaining \$41,783 relates to other business units.

**9. STOCKS**

	Year Ended 31 March 2017 \$	Period Ended 31 March 2016 \$
Stocks	<u>2,897,879</u>	<u>3,785,473</u>

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

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

	Year Ended 31 March 2017 \$	Period Ended 31 March 2016 \$
Trade Debtors	39,510,986	23,377,660
Amount owed by group undertakings	2,035,100	3,641,993
Other Debtors	586,950	377,607
Deferred tax asset	<u>30,503</u>	<u>98,013</u>
	<u>42,163,539</u>	<u>27,495,273</u>

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

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

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

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Amount owed by group undertakings	<u>32,050,153</u>	<u>31,587,201</u>

The company loaned \$31m to NSRS Holdings BV, the remaining \$1,050,153 is the accumulated interest on the loan (2016: \$587,201). The interest is calculated based on 3 months USD LIBOR plus 272 basis points. The reasonableness of the interest is set to be reviewed on 07 January 2018. The loan was given in two instalments; \$28m on 30 June 2015 and \$3m on 10 July 2015. At present, a repayment for the capital and interest is not expected within the next 12 months of signing the financial statements and a repayment date has to be arranged between transacting parties.

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

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Trade Creditors	3,804,707	2,838,343
Amount owed to group undertakings	7,198,499	12,001,327
VAT	1,170,656	522,571
Deferred revenue	44,174,115	37,602,568
Holiday and pension accrual	176,366	300,411
Other Creditors	41,089	219,280
Other Taxes and Social security	638,276	519,786
Accrued expenses	11,190,824	6,028,539
Corporation Tax	2,961,835	705,780
	<u>71,356,367</u>	<u>60,738,605</u>

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

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

	Year Ended 31 March 2017	Period Ended 31 March 2016
	\$	\$
Deferred Revenue	<u>16,306,612</u>	<u>12,484,674</u>

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

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

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

	\$
Due between one and two years (1 April 2018 - 31 March 2019)	10,968,369
Due between two to five years (1 April 2019 - 31 March 2022)	5,298,998
Due more than five years	39,245
	<u>16,306,612</u>

**14. OPERATING LEASE COMMITMENTS**

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

	Year Ended 31 March 2017		Period Ended 31 March 2016	
	Car Leases	Buildings	Car Leases	Buildings
	\$	\$	\$	\$
Lease expiring within one year	39,292	263,526	68,656	-
One to five years	60,477	1,213,682	121,049	-
	<u>99,769</u>	<u>1,477,208</u>	<u>189,705</u>	<u>-</u>

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

**15. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:

		Year Ended 31 March 2017	Period Ended 31 March 2016
Allotted	Nominal		
Number: Class:	Value:	\$	\$
2 Ordinary	£1	<u>4</u>	<u>4</u>

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

**16. PENSION COMMITMENTS**

The Company operates a group defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to \$1,133,076 from which, \$633,618 (2016: \$499,065) related to the employees of Arbor Networks UK Limited and the remaining \$499,458 (2016: \$572,391) relates to hosted employees from other group business units. These costs are recharged to these other business units as part of the intercompany revenue recharge agreement. Outstanding pension contributions at the end of period amounted to \$100,163 (2016: \$114,984).

**Arbor Networks UK Limited**

**Notes to the Financial Statements (continued)**  
**for Year Ended 31 March 2017**

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

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

**Related party transactions**

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

**18. SHARE-BASED PAYMENTS**

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

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

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

	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	No	WAEP \$	No	WAEP \$
Outstanding at 1st April 2016	69,873	36.69	-	-
Granted during the year	62,439	25.21	69,873	36.69
Issued during the year	(16,433)	37.07	-	-
Forfeited during the year	<u>(12,776)</u>	<u>30.59</u>	<u>-</u>	<u>-</u>
Outstanding at the end of the year	103,103		69,873	
Exercisable at the end of the year	<u>103,103</u>	<u>30.44</u>	<u>69,873</u>	<u>36.69</u>

The weighted average fair value of RSUs granted in the year was \$1,574,037 (2016: 2,563,920) with \$1,293,682 (2016: 427,320) being charged to the profit and loss account during the year.

**19. CONTINGENT LIABILITIES**

The bank has provided the group class guarantee facility of GBP 2,400,000 which will be reviewed in February 2018. There is also a Guarantee dated 01 October 2013 in favour of HM Revenue and Customs for GBP 500,000. Securities are held with Composite Company Limited. There have been no changes to the group guarantee facilities at the time of signing the financial statements.