

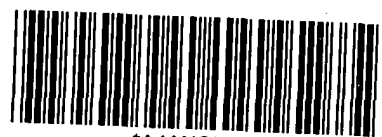
Sophos Limited

Annual report and financial statements

Registered number 2096520

March 31, 2015

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Strategic Report

The directors of Sophos Limited have prepared this Strategic report for the year-ended March 31, 2015 solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

Review of the Business

Overview

Sophos Limited is a leading provider in IT security.

Sophos products scale to the largest companies and our security suites are extremely well suited for the mid-market. The Company offers organizations complete protection and control by helping to defend against known and unknown malware, spyware, intrusions, unwanted applications, spam, policy abuse and data leakage whilst providing comprehensive network access control ("NAC").

Key performance indicators and overview of financial performance for the year-ended 31 March 2015:

Turnover

The turnover relating to a significant amount of the billings booked during the year is deferred and recognized in future periods.

Turnover recognized during the year was £139M (2014: £128M) representing growth of 9% year on year.

Operating Profit

The reduction in operating profit in 2015 is predominantly due to the following:

- Foreign exchange charges have increased by £3.7M to £1.5M in 2015 (2014: £2.2M credit).
- Profit bonus and associated tax accruals have increased by £1.9M to £3.2M (2014: £1.3M)
- Service charges from subsidiaries to Sophos Ltd have increased year on year by £14M to £59M (2014: £45M) due predominantly on marketing across the Group.

Average staff numbers have remained stable at 441 from 450 in 2014.

Sophos Limited is a wholly owned subsidiary of Sophos Holdings Limited.

Principal risks and uncertainties:

The main risks and uncertainties that management believe could have a material impact on the Company's long-term performance are set out below:

- Sophos Limited owns substantial intellectual property rights. Any infringement of these rights could cause loss of revenue and adversely affect business operations.
- The credit risk of Sophos Limited relates to trade receivables and is mitigated by the use of third party credit checks and regular review of the outstanding balances by credit control and the management team.
- Sophos Ltd products and services are complex, and as such they have contained and may in the future contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by end-customers. As a result, actual, possible, or perceived defects or vulnerabilities in the Company's products or services, the failure of the Company's products or services to prevent a virus or security breach or the false identification of malware or threats, could harm the Company's reputation and divert the Company's resources.

- The Company's end-customers operate in markets characterised by rapidly changing technologies and business plans, which require them to adapt to increasingly complex IT infrastructures that incorporate a variety of hardware, software applications, operating systems and networking protocols. Further, the IT security market in which the company operates is characterised by intense competition, constant innovation and evolving security threats. As a result, the Company's future success depends on its ability to respond to the rapidly changing needs of end-customers and competitor product offerings by developing or introducing new products and services and by continually upgrading its products and services on a timely basis. Further, if the Company does not effectively assist end-customers to deploy the Company's products; quickly resolve post-deployment issues, or provide effective on-going support, the Company's ability to sell additional products and services to existing end-customers would be harmed.
- Sophos Ltd is heavily reliant on its technology and infrastructure to provide its products and services to end-customers. As a provider of IT security products, the Company is a high profile target and the Company's networks and products may have vulnerabilities that have from time to time been, and may in the future be, targeted by hackers and could be targeted by attacks specifically designed to disrupt the Company's business and harm the Company's reputation. A disruption or failure of these systems or operations because of a disaster or other event could cause data to be lost or otherwise delay the Company's ability to complete sales and provide the highest level of service to end customers.

Going concern basis

The Directors expect that the Company will continue to transact business as a world leader in IT security in the coming year. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements. Further details regarding the adoption of the going concern basis can be found in the statement of significant accounting policies in Note 1 of the Company financial statements.

Approval

By order of the board



Jennifer Margaret Onslow
Vice President, Financial Control
19 June 2015

Director's report

The directors of Sophos Limited present their annual report with the audited, financial statements of Sophos Limited for the financial year-ended March 31, 2015.

Board of Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

Nicholas Paul Seaton Bray
Jennifer Margaret Onslow
Stuart Barry David Fillingham (appointed 29 July 2014)
Kristof Peter Hagerman (resigned 25 July 2014)

The directors benefit from an indemnity provision in the form of professional indemnity insurance.

Proposed Dividends

Proposed and paid interim dividends for the year-ended 31 March 2015 are £Nil (2014: £57,360k).

Dividends of £2k were received in the year from the Company's subsidiaries (2014: £62,615k).

Disclosure of relevant information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he or she ought to have taken as a director to make them aware of any relevant audit information.

Auditors

In accordance with Section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed to the shareholders.

On behalf of the Board



Jennifer Margaret Onslow
Vice President, Financial Control
19 June 2015

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements for the year ended March 31, 2015

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD

Independent Auditor's Report to the Members of Sophos Limited

We have audited the financial statements of Sophos Limited for the year-ended 31 March 2015 set out on pages 8 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 set out on page 5, 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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

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

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;



Tudor Aw (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Arlington Business Park
Theale
Reading
RG7 4SD

[19] June 2015

Profit and loss account

For the year-ended March 31, 2015

	Note	2015 £'000	2014 £'000
Turnover	3	139,328	128,194
Cost of sales		(27,071)	(18,007)
Gross profit		112,257	110,187
Administrative Expenses		(122,390)	(100,303)
Operating (loss)/profit	2	(10,133)	9,884
Income from shares in Group undertakings	20	2	62,615
Finance income	7	60	220
Finance expense	7	(110)	-
(Loss)/profit on ordinary activities before taxation		(10,181)	72,719
Tax credit on profit on ordinary activities	8	2,596	1,115
(Loss)/profit for the financial year		(7,585)	73,834

There are no recognized gains or losses for the year other than as stated above.

All results relate to continuing operations.

Notes on pages 10 to 23 form part of these financial statements.

Balance sheet

At March 31, 2015

Registered number: 2096520

	Note	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	9	6,116	-
Tangible assets	10	29,095	30,391
Investments	12	281,080	285,186
		316,291	315,577
Current assets			
Stocks of inventory	13	75	32
Debtors (includes £25,596k due after 1 year)	14	106,705	104,463
Cash at bank and in hand		18,834	11,040
		125,614	115,536
Creditors: amounts falling due within one year	15	(196,805)	(187,089)
Net current liabilities		(71,191)	(71,553)
Total assets less current liabilities		245,100	244,024
Creditors: amounts falling due after more than one year	15	(95,777)	(89,914)
Provisions for liabilities	16	(449)	(1,147)
Net assets		148,874	152,962
Capital and reserves			
Called-up share capital	18	1,069	1,069
Share premium	19	69,994	69,994
Other reserves	19	(91,400)	(91,693)
Profit and loss account	19	169,211	173,592
Shareholder's funds		148,874	152,962

These financial statements were approved by the board of directors on 19 June 2015 and were signed on its behalf by:



Jennifer Margaret Onslow
Vice President, Financial Control

Notes to the Company financial statements (*continued*)

Notes to the Company financial statements

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The Company has considerable financial resources together with contracts with a large number of customers and across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

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 in preparing the annual financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on page 2. Further information regarding the financial position of the Company are described in the Directors' Report and the notes to the financial statements

The financial statements have been prepared in accordance with applicable accounting standards under UK Generally Acceptable Accounting Policies (UK GAAP) and under the historical cost accounting rules.

Under the exemption within Financial Reporting Standard 8 (amended) transactions with wholly owned Group companies are not disclosed. All transactions with non-wholly owned Group companies are made in the ordinary course of business and are arms length transactions. Group accounts can be obtained by writing to the Head Office: Sophos Limited, The Pentagon, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YP.

The Company is exempt from the requirements to prepare a cash flow statement under Financial Reporting Standard 1 "Cash flow statements (revised 1996)" on the grounds that the Group prepares consolidated financial statements which are publicly available.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirements to prepare Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Fixed-term contracts

Customers who receive software products at the start of the contract under a fixed-term license, are entitled to receive regular updates and upgrades for the duration of the license term which runs for periods ranging from 1 to 5 years.

Turnover for these fixed-rate contracts is recognised rateably over the period that the contractual obligation exists.

Deferred revenue arising on long-term contracts is included in creditors as deferred revenue.

Where the Group contracts with an original equipment manufacturer (OEM) or a service provider, rather than an end-user, it mirrors the above policy and recognises the turnover in line with the contractual terms granted to the end-user.

Notes to the Company financial statements (continued)

1 Principal accounting policies (continued)

Perpetual licenses

Turnover is recognised immediately where customers purchase software products under a perpetual license. Turnover in respect of support and maintenance contracts associated with perpetual licenses is recognised rateably over the life of the support / maintenance contract.

Sale of goods

Where software licenses and hardware are sold together, if the software is not essential to the functionality of the tangible product, then the turnover from the sale of goods is recognised immediately. However, where the software is essential to the functionality of the tangible product and the hardware cannot function without the software, revenue from the sale of goods is recognised rateably over the period of the associated software license contract.

Investments

Investments in subsidiary undertakings are stated at cost, less any provision for impairment.

Intangible fixed assets and amortization

Purchased intangible fixed assets are capitalized at their cost and amortized by equal annual installments over their estimated economic lives as follows:

Goodwill and intellectual property - Between 20% and 40% per annum

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal installments over their estimated useful economic lives as follows:

Freehold buildings	-	4% per annum
Leasehold improvements	-	over the life of the lease
Computer equipment	-	33% per annum
Other plant and equipment		20% per annum
Motor vehicles	-	25% per annum
Fixtures and fittings	-	15% per annum

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the profit and loss account. Non-monetary assets and liabilities denominated in foreign currencies are stated at historical foreign exchange rates.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Long-term intercompany loans

The balance outstanding on loans made to subsidiary undertakings for the specific purpose of funding an acquisition have been designated as long-term loans

Notes to the Company financial statements (continued)

1 Principal accounting policies (continued)

Research and development expenditure

Expenditure on research and development is expensed in the year in which it is incurred.

Stocks of inventory

Stocks of inventory are stated at the lower of cost and net realizable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used.

Financial instruments

Where a financial instrument includes both equity and financial liability components, these components are separated and recognized separately.

Taxation

Current tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Share based payment transactions

Following the acquisition of the Sophos Group on June 15, 2010, Pentagon Holdings SARL offered a number of shareholder approved stock option plans to employees of the Company.

Where the Company receives services or goods in return for a share based payment transaction, the fair value of the equity instrument is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the company receives the service.

The fair value of options granted is measured using an option pricing model. The fair value recognized as an expense is adjusted to reflect the actual number of share options that vest depending on performance or service conditions. Where share options contain a market condition the fair value is adjusted for the probability of achieving the market condition and recognized regardless of whether the market condition is achieved or not.

Dividends

Dividends are presented within shareholders funds and recognized as a liability only where they have been declared prior to the year-end date.

Pension Scheme

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents contributions payable in the period.

Notes to the Company financial statements (continued)

2 Operating profit

Operating profit is stated after charging:	2015 £'000	2014 (restated) £'000
Operating lease rentals	140	65
Depreciation	5,667	5,156
Amortisation	868	-
Research and development	16,423	15,609
Pension scheme contributions	787	692
Net foreign currency differences	1,530	(2,207)
Auditors remuneration	5	5
Share options charge	369	991

Research and development charges have been reclassified for 2014. No changes have been required in the profit and loss account.

3 Analysis of turnover

	2015 £'000	2014 £'000
By activity		
Sale of goods	2,264	3,981
Rendering of services	137,064	124,213
	<u>139,328</u>	<u>128,194</u>
By geography		
UK	29,225	13,495
North America	31,639	9,299
Rest of Europe	63,124	80,621
Rest of the World	15,340	24,779
	<u>139,328</u>	<u>128,194</u>

4 Staff costs

	2015 £'000	2014 £'000
Wages and salaries	26,293	24,193
Social security costs	2,933	2,553
Pension costs	787	692
Other costs	1,734	1,940
Share based payments charge	369	991
	<u>32,116</u>	<u>30,369</u>

5 Directors' emoluments

	2015 £'000	2014 £'000
Directors emoluments	978	907
Aggregate contributions to pensions schemes	26	15
	<u>1,004</u>	<u>922</u>

Total emoluments paid to the highest paid director during the year were £636k (2014: £509k)

Notes to the Company financial statements (continued)

6 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2015	2014
Technical	165	164
Sales and Marketing	103	98
Administration	173	188
	<u>441</u>	<u>450</u>

7 Interest Income/(expense)

	2015 £'000	2014 £'000
Interest income on loans to related parties	<u>60</u>	<u>220</u>
Interest expense on loans to related parties	<u>(110)</u>	<u>-</u>

8 Tax on profit on ordinary activities

	2015 £'000	2014 £'000
Current tax:		
Current year tax charge @ 21% (FY14: 23%)	-	158
Total current tax charge		158
Double taxation relief	-	(158)
Total current tax charge	<u>-</u>	<u>-</u>

	2015 £'000	2014 £'000
Deferred tax:		
Origination and reversal of timing differences	(2,880)	(1,411)
Adjustments in respect of prior years	29	296
Deferred tax credit on ordinary activities	<u>(2,851)</u>	<u>(1,115)</u>
Withholding tax not utilised	255	-
Total tax credit on ordinary activities	<u>(2,596)</u>	<u>(1,115)</u>

Notes to the Company financial statements (continued)

Reconciliation to total current tax charge:

The tax assessed for the period is lower than the standard effective rate of corporation tax in the UK for the year-ended 31 March 2015 of 21% (2014: 23%). The differences are explained below:

	2015	2014
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(10,181)	72,719
(Loss)/profit on ordinary activities multiplied by standard rate in the UK of 21% (2014: 23%)	(2,138)	16,725
Effects of:		
Expenses not deductible for tax purposes	224	1,013
Dividend received (exempt under section 931)	-	(14,401)
R&D tax credits	(1,262)	(1,018)
Other timing differences	97	565
Capital allowances in excess of depreciation	1,063	1,003
FRS20 Share Options charge	77	228
Group Relief surrendered	-	(3,957)
Double taxation relief	-	(158)
Losses carried forward	1,939	-
Current tax charge for the year	-	-

	2015	2014
	£'000	£'000
Deferred tax		
Deferred tax asset	(4,360)	(1,509)

The deferred tax figures above comprise:

	2015	2014
	Provided	Provided
Capital allowances in excess of depreciation	(1,838)	(931)
Short term timing differences	(676)	(578)
Losses	(1,846)	-
	(4,360)	(1,509)

There are no unprovided deferred income tax assets.

Notes to the Company financial statements (continued)

9 Intangible assets

	Data Protection Intellectual Property £'000	Mojave Intellectual Property £'000	ActiveState Intellectual Property £'000	Endforce Intellectual Property £'000	Total £'000
Cost					
At April 1, 2014	-	-	7,166	4,036	11,202
Additions	593	6,391	-	-	6,984
At March 31, 2015	593	6,391	7,166	4,036	18,186
Amortization					
At April 1, 2014	-	-	7,166	4,036	11,202
Charge for the year	238	630	-	-	868
At March 31, 2015	238	630	7,166	4,036	12,070
Net book value					
At April 1, 2014	-	-	-	-	-
At March 31, 2015	355	5,761	-	-	6,116

10 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Motor Vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost					
At April 1, 2014	37,727	17,878	73	572	56,250
Additions	-	5,757	-	293	6,050
Disposals	(4,671)	-	-	-	(4,671)
At March 31, 2015	33,056	23,635	73	865	57,629
Depreciation					
At April 1, 2014	16,961	8,739	73	86	25,859
Charge for the year	1,277	4,286	-	104	5,667
Disposals	(2,992)	-	-	-	(2,992)
At March 31, 2015	15,246	13,025	73	190	28,534
Net book value					
At April 1, 2014	20,766	9,139	-	486	30,391
At March 31, 2015	17,810	10,610	-	675	29,095

At 31 March, 2015 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £66k (2014: £377k).

Notes to the Company financial statements (continued)

Within freehold land and buildings the gross cost which is depreciable is £31,862k (2014: £36,288k).

11 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2015 £'000	2014 £'000
Deferred income tax assets in relation to:		
Adjustment in respect of prior year	-	-
Other temporary differences	676	578
Advanced capital allowances	1,838	931
Losses	1,846	-
Total	4,360	1,509

Deferred income tax liabilities in relation to:

Rate change	-	-
Other temporary differences	-	-
Total	-	-

The deferred tax above comprises:

Capital allowances in excess of depreciation	(1,838)	(931)
Short term timing differences	(676)	(578)
Losses	(1,846)	-
Total	(4,360)	(1,509)

12 Investments

	£'000
At April 1, 2014	285,186
Decrease	(4,106)
At March 31, 2015	281,080

The decrease in investments during the year-ended 31 March 2015 of £4,106,000 relates to the transfer of the value of the Utimaco opening balance sheet in part settlement of a loan.

Notes to the Company financial statements (continued)

13 Stocks of Inventory

	<u>2015</u>	<u>2014</u>
	£'000	£'000
Finished goods and goods for resale	<u>75</u>	<u>32</u>

14 Debtors

	<u>2015</u>	<u>2014</u>
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	14,665	11,790
Amounts owed by Group undertakings	54,112	62,272
Other debtors	570	631
Deferred tax asset	4,360	1,509
Prepayments	7,402	8,856
Corporation tax debtor	-	-
	<u>81,109</u>	<u>85,060</u>
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	25,596	19,403
Total debtors	<u>106,705</u>	<u>104,463</u>

15 Creditors

	<u>2015</u>	<u>2014</u>
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	(2,006)	(2,443)
Amounts due to Group undertakings	(74,158)	(76,775)
Social security and other taxes	(1,846)	(1,042)
Other creditors	(938)	(721)
Accruals	(9,762)	(7,384)
Deferred revenue	(108,095)	(98,724)
	<u>(196,805)</u>	<u>(187,089)</u>
Amounts falling due after more than one year:		
Amounts due to Group undertakings	(16,362)	(13,727)
Liability component of preference shares	-	(3,485)
Deferred revenue	(79,415)	(72,702)
	<u>(95,777)</u>	<u>(89,914)</u>
Total creditors	<u>(292,582)</u>	<u>(277,003)</u>

Notes to the Company financial statements (continued)

16 Provisions

	Restructuring £'000	Other £'000	Total £'000
At April 1, 2014	(339)	(808)	(1,147)
Arising during the year	-	(326)	(326)
Released during the year	21	-	21
Utilized	291	712	1,003
At March 31, 2015	(27)	(422)	(449)

The opening Restructuring provision related to vacant properties which are surplus to the company's requirements and are due to be either disposed of or sublet. This provision has predominantly been utilised (with a small release) during the year.

The opening Other provision relates to the expenditure related to the integration of Cyberoam Technologies Pvt Limited into the Sophos Group. This opening provision has predominantly been utilized during the year with a further provision arising in the year relating to ongoing integration of Cyberoam Technologies Pvt Limited into the Sophos Group.

Both provisions are expected to be fully utilised during the next financial year.

17 Stock based payments

Following the acquisition of the Sophos Group on June 15, 2010, Pentagon Holdings SARL offered a number of shareholder approved stock option plans to employees of the Group. All options have a 10 year term subject to continued employment and have been awarded under the following plans:

The Management Equity Plan

The Management Equity Plan aims to motivate and retain senior executives and management and align their interests with shareholders. Awards under this plan contain a combination of service and market based conditions. Service based awards vest over a 5 year period with 20% vesting on the anniversary of the award and monthly thereafter.

The Staff Option Plan

The Staff Option Plan aims to motivate and retain staff and align their interests with shareholders. Awards under this plan contain a service condition and vest over a 5 year period with 20% vesting on the anniversary of the award and monthly thereafter.

The stock based payment charge was as follows.

	2015 £'000	2014 £'000
Cash-settled transactions	76	207
Equity-settled transactions	293	784
Total stock based payment charge	369	991

The fair value of equity-settled stock options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

Notes to the Company financial statements (continued)

The following table illustrates the weighted average inputs into the Black-Scholes model in the year:

	2015	2014
Weighted average stock price (\$ cents)	79.55	28.00
Weighted average exercise price (\$ cents)	75.81	38.00
Expected volatility	51.47%	60.20%
Expected life of options (years)	0.65	2.25
Risk free rate	0.54%	0.23%
Expected dividends	Nil	Nil

The weighted average fair value of options granted during the year was \$ cents 13.1 (2014: \$ cents 7.1)

Expected volatility was determined by calculating the historical share price volatility of comparable listed companies over the expected life of the options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. An increase in the expected volatility will increase the estimated fair value.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected life used in the model has been adjusted, based on management's best estimate, taking into account the effects of exercise restrictions, non-transferability and behavioural considerations. An increase in the expected life will increase the estimated fair value.

The fair value of awards with a market condition has been discounted to reflect the probability of meeting the market condition attached to the options.

The number and weighted average exercise prices (WAEP) of, and movements in, stock options in the year:

	2015		2014	
	Number options 000's	WAEP \$ cents	Number options 000's	WAEP \$ cents
Outstanding at the start of the year	33,712	30.2	40,090	25.6
Awarded	2,040	78.9	952	38.0
Forfeited	(1,772)	35.1	(6,732)	20.3
Exercised	(5,267)	35.1	(598)	31.8
Outstanding at the end of the year	28,713	39.7	33,712	30.2
Exercisable at the end of the year	7,650	25.2	9,680	27.4

The weighted average share price for options exercised during the year was \$ cents 75.81 (2014: \$ cents 28.00)

Notes to the Company financial statements (continued)

Options outstanding at the end of the year had the following range of exercise prices and weighted average remaining contractual terms (WARCT):

	2015		2014	
	Number options 000's	WARCT Years	Number options 000's	WARCT Years
Exercise price:				
2.5000	1,090	5.2	1,174	6.2
7.5625	8,006	5.2	8,497	6.2
30.2500	6,270	5.2	6,885	6.2
38.0000	11,319	7.7	17,158	8.7
45.0000	385	9.2	-	-
99.0000	1,643	9.9	-	-
Outstanding at the end of the year	28,713	7.3	33,712	7.7

Restricted Stock

The following table illustrates the number and weighted average share price (WASP) on date of award of, and movements in, non-vested restricted stock in the year:

	2015		2014	
	Number shares 000's	WASP \$ cents	Number shares 000's	WASP \$ cents
Outstanding at the start of the year	579	30.25	909	30.25
Awarded	300	99.00	-	-
Forfeited	-	-	-	-
Vested	(331)	30.25	(330)	30.25
Outstanding at the end of the year	548	67.89	579	30.25

18 Called-up share capital

Allotted, called-up and fully paid shares

	Ordinary shares		Convertible preferred ordinary shares		Total	
	Thousands	£'000	Thousands	£'000	Thousands	£'000
At April 1, 2014	2,628,209	1,051	47,624	18	2,675,833	1,069
Conversion of preferred shares to ordinary shares	47,624	18	(47,624)	(18)	-	-
At March 31, 2015	2,675,833	1,069	-	-	2,675,833	1,069

During the year, Sophos Ltd undertook the conversion of all preferred shares to ordinary shares, releasing the historic fair value of £3,485k back to profit and loss reserves (refer to Note 20)

Notes to the Company financial statements (continued)

19 Reserves	Share premium	Other reserves	Profit and loss account	Total reserves
	£'000	£'000	£'000	£'000
At April 1, 2014	69,994	(91,693)	173,592	151,893
(Loss)/profit for the year	-	-	(7,585)	(7,585)
Share based payment expense (equity settled)	-	293	-	293
Foreign exchange	-	-	(281)	(281)
Conversion of preferred shares to ordinary shares	-	-	3,485	3,485
At March 31, 2015	69,994	(91,400)	169,211	147,805

20 Reconciliation of movements in shareholder's funds

	2015	2014
	£'000	£'000
(Loss)/profit for the year before dividends	(7,732)	11,219
Intragroup dividends paid	-	(57,360)
Income from shares in Group undertakings	2	62,615
Conversion of preferred shares to ordinary shares	3,485	-
Share based payment expense (equity settled)	293	784
Fair value of surrendered options	-	(546)
Loss on foreign exchange	(281)	(2,346)
(Reduction)/increase in shareholder's funds	(4,233)	14,366
Opening shareholder's funds	151,893	137,527
Closing shareholder's funds	147,660	151,893

In 2015, the Company received £2k of Intragroup receivables (from subsidiary Companies) (2014: £62,615k)

21 Operating Leases

	2015	2014
	£'000	£'000
Within one year	88	62
In the second to fifth years inclusive	52	32
Net rent expense for the period	140	94

The operating leases relate to rental commitments for several business properties.

Notes to the Company financial statements *(continued)*

22 Related Party Transactions

The Company has taken advantage of the exemption in FRS8 not to disclose transactions with wholly owned subsidiaries.

Ownership

The Company's immediate parent company is Sophos Holdings Limited, a company registered in England and Wales. The ultimate parent undertaking is Pentagon Holdings Sarll (Incorporated in Luxembourg) and the ultimate controlling parties are the fund holders of Apax.

23 Post Balance Sheet Events

In June 2015, the Sophos Group announced its intention to list on the London Stock Exchange.