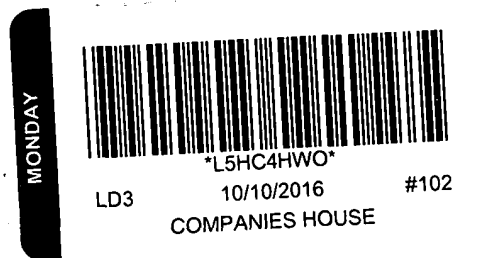


# Sophos Limited

Annual report and financial statements

Registered number 2096520

31 March 2016



## **Contents**

Strategic report	2
Directors' report	6
Statement of Directors' responsibilities	7
Independent auditor's report to the members of Sophos Limited	8
Statement of profit or loss and other comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Notes to the Company financial statements	13

## **Sophos Limited**

### **Strategic report for the year ended 31 March 2016**

#### **Strategic report**

The Directors of Sophos Limited have prepared this Strategic report for the year-ended 31 March 2016 to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

#### **Principal activity**

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

Sophos Limited is a leading provider in IT security.

Sophos products scale to the largest companies and the Company's security suites are extremely well suited for the mid-market. The Company offers organisations 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 2016:**

Turnover:

As the majority of the Company's billings booked during the year relates to subscriptions, a significant amount of this is deferred and recognised as turnover in future periods.

Turnover recognised during the year was £145M (2015: £139M) representing growth of 4.3% year-on-year.

Operating Profit:

The reduction in operating profit in 2016 is predominantly due to the following:

- Foreign exchange charges have increased to £9.9M in 2016 (2015: £1.8M).
- Amortisation on intangible assets has increased to £9.8M in 2016 (2015: £3.9M)
- Share-based payment expense has increased to £7.2M (2015: £0.4M)

Average staff numbers have increased to 483 from 441 in 2015.

## Sophos Limited

### Strategic report for the year ended 31 March 2016 (continued)

#### Principal risks and uncertainties:

The principal risks and uncertainties that the Directors believe could have a material impact on the Company's long-term performance are set out in the following table:

Risk	How it impacts us	What we are doing
<p><b>False Detection of Threats</b></p>	<p>Sophos' products may falsely detect threats or malware that do not actually exist in applications or content based on the Sophos classification of application type, virus, malware, vulnerability exploits, data or URL categories (known as 'false positives'). These false positives, while inherent in the industry, may impair the perceived reliability of Sophos' products and may therefore adversely impact market acceptance of Sophos' products.</p> <p>If Sophos' products restrict important files or applications based on falsely identifying them as malware or some other item that could be restricted, this could adversely affect end customers' systems and cause material system failures. Any such false identification of important files or applications could result in negative publicity, damage to Sophos' reputation, loss of end customer and sale, increased costs to remedy any problem and risk of litigation, any of which could materially adversely affect Sophos' financial condition and operating results.</p>	<p>Sophos is committed to investment in its world class Virus Labs facility with emphasis placed on staff training, testing and quality procedures.</p> <p>Moreover, there is continuous proactive focus on improvement of processes to enable early detection of a false positive event, as well as applying a 'lessons learnt' approach through root cause analysis.</p> <p>Sophos acknowledges the inherent risk associated with a false positive incident within the industry and is committed to ensuring there are mitigating processes in place to manage any incident, large or small, in order to minimize the impact on our customers.</p>
<p><b>Defects or Vulnerabilities in Products or Services</b></p>	<p>Sophos' 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. These defects could cause Sophos' products or services to be vulnerable to security attacks, cause them to fail to help security networks, temporarily interrupt end customers' networking traffic, and fail to prevent or detect viruses or similar threats. Further, due to the evolving nature of threats and the continual emergence of new threats, Sophos may fail to identify and update its threat intelligence or other virus databases in time to protect its end customers' networks and devices.</p> <p>As a result, actual or perceived defects or vulnerabilities in Sophos' products or services, the failure of Sophos' products or services to prevent a security threat could harm the Sophos' reputation and divert Sophos' resources.</p>	<p>Sophos are committed to extensive test cycles and quality procedures, which are subject to continuous improvement.</p> <p>Sophos employs combinations of internal and external quality reviews and testing of products, including source code reviews, public and private 3rd party efficacy testing, and various forms of penetration testing. We encourage a healthy collaboration with the security research community, as described in our Responsible Disclosure Policy: <a href="https://www.sophos.com/security">https://www.sophos.com/security</a></p> <p>Further, we protect the privacy and security of our customers worldwide through our pledge to never engineer backdoors into our products as described here: <a href="https://www.sophos.com/nobackdoors">https://www.sophos.com/nobackdoors</a></p>

## Sophos Limited

### Strategic report for the year ended 31 March 2016 (continued)

#### Principal risks and uncertainties (continued)

<p><b>IT Security and Cyber Risk</b></p>	<p>As a provider of IT security products, Sophos is naturally a “trophy” target and Sophos’ networks and products may have vulnerabilities that have from time to time been, and may in the future be, targeted by attacks specifically designed to disrupt the business and harm Sophos’ reputation.</p> <p>If an actual or perceived breach of security occurs in the Sophos’ internal systems, it could adversely affect the market perception of Sophos’ products. In addition, a security breach could affect Sophos’ ability to operate its business, including Sophos’ ability to provide support services to end customers.</p>	<p>Sophos has a dedicated Cyber Security Team who is focused on investigation and mitigation of risks related to cyber-attack. Sophos is focused on day-to-day active monitoring processes to identify and deal with IT security incidents and also in implementing continual improvements in the IT Security technology, education and awareness, and policies that combine in the overall Security posture of Sophos.</p> <p>Sophos has recently taken out Cyber Insurance to transfer part of the risk of any deliberate attack over to our insurer.</p>
<p><b>Disruption to day-to-day Operations</b></p>	<p>Sophos is at risk of disruption to its day to day operations from a disaster incident which may seriously impact IT systems or access to office space.</p> <p>A failure in the operation of Sophos’ key systems or infrastructure on which Sophos relies could cause a failure of service to our customers and negatively impact the Sophos brand.</p>	<p>Sophos has made significant investments in its technology and infrastructure to ensure it continues to support the growth of the organisation.</p> <p>Additionally, Incident management procedures and escalation processes are in place as well as maintaining security, business continuity and disaster recovery plans. Ongoing updates and testing of these plans is underway.</p>
<p><b>Product Portfolio Management</b></p>	<p>Sophos has an extensive number of products, enhanced further by acquired technologies. The extent of investment in each product needs to be managed and prioritised taking into account the expected future prospects. Additionally, consideration must be given to the ability to be able to adequately support the entire product range.</p> <p>Failure to manage the product portfolio adequately could result in inappropriate investment focus in relation to research and innovation in product development which is essential to meet customer and partner requirements. This could result in products that do not meet the requirements of customers or partners and the risk they will look to alternative solutions, resulting in the potential loss of both new and existing revenue streams.</p> <p>Additionally, insufficient focus on key research and development projects may damage the long-term growth prospects of Sophos.</p>	<p>Sophos continues to focus on, and improve the interaction between Product Management, Product Development, Sales and Marketing and all Support functions in an integrated product development approach.</p> <p>Internal processes are run to identify opportunities for standardization and consistency across products lines. This helps eliminate redundancies, reduce development and support costs, and improve partner and customer experiences through a more predictable and coherent product portfolio.</p> <p>Additionally, Sophos’ customers and the partner community continue to be invaluable resources in guiding portfolio management decisions. They provide immediate and constant feedback on how well Sophos are meeting their requirements, improvements that Sophos can make to its current offerings and opportunities for portfolio consolidation or expansion.</p>

**Sophos Limited**

**Strategic report for the year ended 31 March 2016 (continued)**

**Principal risks and uncertainties (continued)**


<b>Recruitment and Retention of Key Personnel</b>	<p>The ongoing success of Sophos is dependent on attracting and retaining high quality employees at all levels in the business.</p> <p>Failure to attract, retain or develop high quality employees across the business could limit Sophos' ability to deliver its business plan commitments.</p>	<p>Making Sophos a great place to work is central to Sophos' strategy.</p> <p>Sophos are committed to strong recruitment processes supported by robust remuneration programs which are benchmarked appropriately. Additionally, Sophos has a commitment to all levels of training throughout the organisation.</p> <p>Reward schemes are continuously evaluated to drive and reward performance and ensure retention of key talent.</p> <p>Annual employee engagement surveys enable progress of our people actions to be monitored, areas of improvement identified, and necessary actions performed.</p>
---	---	--

**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 3 of the Company financial statements.

Approval

By order of the board



Jenny Onslow  
Director  
27 September 2016

## **Sophos Limited**

### **Director's report for the year ended 31 March 2016**

#### **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, 2016.

#### **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 Bray  
Jenny Onslow  
Stuart Fillingham

On 20 September 2016, after the end of the reporting period, Alison Kennedy was appointed to the Board of Directors.

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

#### **Proposed Dividends**

Proposed and paid dividends for the year-ended 31 March 2016 are £Nil (2015: £Nil).

Dividends of £10,006k were received in the year from the Company's subsidiaries (2015: £2k).

#### **Disclosure of relevant information to auditor**

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 auditor is 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



Jenny Onslow  
Director  
27 September 2016

## **Sophos Limited**

### **Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements for the year-ended 31 March 2016**

#### **Statement of Director's responsibilities**

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102 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 2016 set out on pages 10 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 set out on page 7, 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](http://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 2016 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.

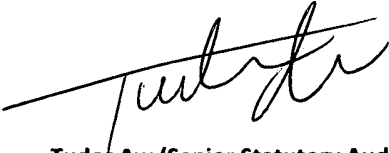
### **Opinion on other matters prescribed by the Companies Act 2006**

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  
27 September 2016

## Sophos Limited

### Statement of profit or loss and other comprehensive income

For the year-ended 31 March 2016

	Note	2016	2015
		£'000	£'000
Turnover	5	144,721	139,328
Cost of sales		(32,827)	(27,071)
<b>Gross profit</b>		<b>111,894</b>	<b>112,257</b>
Administrative Expenses		(154,691)	(122,671)
<b>Operating loss</b>	4	<b>(42,796)</b>	<b>(10,414)</b>
Income from shares in Group undertakings		10,006	2
Interest receivable and similar income	9	62	60
Interest payable and similar charges	9	(121)	(110)
<b>Loss on ordinary activities before taxation</b>		<b>(32,850)</b>	<b>(10,462)</b>
Tax credit on profit on ordinary activities	10	8,948	2,596
<b>Loss for the financial year</b>		<b>(23,901)</b>	<b>(7,866)</b>

#### Other Comprehensive Income for the year ended 31 March 2016

There is no other comprehensive income other than the loss after tax of £23,901k attributable to shareholders for the period ended to 31 March 2016. Total comprehensive income for the period ended 31 March 2016 is therefore £nil.

All results relate to continuing operations.

The notes on pages 13 to 26 form an integral part of these accounts.

## Sophos Limited

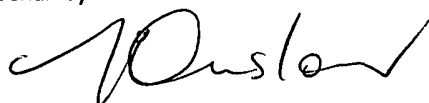
### Statement of financial position

At 31 March 2016

Company registered number: 2096520

	Note	2016	2015
		£'000	£'000
<b>Fixed assets</b>			
Intangible assets	11	12,647	14,360
Property plant and equipment	12	19,774	20,851
Investments	13	285,718	281,080
		<b>318,139</b>	<b>316,291</b>
<b>Current assets</b>			
Inventories	14	8,353	75
Debtors	15	150,933	106,705
Cash at bank and in hand		17,380	18,834
		<b>176,666</b>	<b>125,614</b>
Creditors: amounts falling due within one year	17	(279,576)	(196,805)
Provisions for liabilities	18	(209)	-
Net current liabilities		<b>(103,118)</b>	<b>(71,191)</b>
Total assets less current liabilities		<b>215,021</b>	<b>245,100</b>
Creditors: amounts falling due after more than one year	17	(83,062)	(95,777)
Provisions for liabilities	18	-	(449)
Net assets		<b>131,959</b>	<b>148,874</b>
<b>Capital and reserves</b>			
Called-up share capital	19	1,069	1,069
Share premium		69,994	69,994
Other reserves		(84,414)	(91,400)
Profit and loss account		145,310	169,211
Shareholder's funds		<b>131,959</b>	<b>148,874</b>

These Financial Statements were approved by the Board of Directors on 27 September 2016 and were signed on its behalf by:



Jenny Onslow  
Director

The notes on pages 13 to 26 form an integral part of these accounts.

## Sophos Limited

### Statement of changes in equity

At 31 March 2016

	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Retained Earnings £'000	Total £'000
At 1 April 2014	1,069	69,994	(91,693)	173,592	152,962
Loss for the period:	-	-	-	(7,866)	(7,866)
<b>Total comprehensive loss</b>	-	-	-	<b>(7,866)</b>	<b>(7,866)</b>
Conversion of preference shares to ordinary shares				3,485	3,485
Share-based payments expense	-	-	293	-	293
<b>At 31 March 2015</b>	<b>1,069</b>	<b>69,994</b>	<b>(91,400)</b>	<b>169,211</b>	<b>148,874</b>
Loss for the period:	-	-	-	(23,901)	(23,901)
<b>Total comprehensive loss</b>	-	-	-	<b>(23,901)</b>	<b>(23,901)</b>
Share-based payments expense	-	-	6,751	-	6,751
Deferred tax on share-based payments	-	-	235	-	235
<b>At 31 March 2016</b>	<b>1,069</b>	<b>69,994</b>	<b>(84,414)</b>	<b>145,310</b>	<b>131,959</b>

The notes on pages 13 to 26 form part of these financial statements.

# Sophos Limited

## Notes to the Company financial statements

### 1 General information

The Company is a private company limited by shares and is incorporated and domiciled in England, registration number 2096520. The address of its registered office is Sophos Limited, The Pentagon, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YP.

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.

### 2 Compliance with accounting standards

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. There are no material departures from that standard.

### 3 Significant 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. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 for the first time in these financial statements. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 21.

#### Basis of preparation

These financial statements for the year ended 31 March 2016 are the first financial statements that comply with FRS 102. The date of transition is 1 April 2014.

The financial statements have been prepared under the historical cost convention and the presentation currency is GBP Sterling.

#### Exemptions for qualifying entities

The Company's ultimate parent undertaking, Sophos Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Sophos Group plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from <https://investors.sophos.com/>. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Under the exemption within FRS 102 paragraph 33.1A, 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;
- The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows and related notes; and
- The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(e), from disclosing key management personnel compensation.

As the consolidated financial statements of Sophos Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

Share Based Payments (sections 26.18(b), 26.19 to 26.21 and 26.23).

## Sophos Limited

### Notes to the Company financial statements (continued)

#### Going concern

The Company has considerable financial resources together with contracts with a large number of customers 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. Included within the current liabilities balance is a non-cash liability in the form of deferred revenue of £152,556k (2015: £108,095k), thus the Company continues to adopt the going concern basis in preparing the annual financial statements.

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 is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Turnover is recognised only to the extent that the economic benefits will flow to the Company and revenue can be reliably measured. The following specific recognition criteria must also be met before turnover is recognised.

#### *Revenue from software licences and service contracts*

The Company sells software products under fixed term contracts and perpetual licenses. Where there is a multi-element arrangement, the turnover is allocated to each element on a fair value basis, based on the price at which the respective elements are usually sold separately, regardless of any separate prices stated within the contract. The portion of the turnover allocated to an element is recognised when the recognition criteria for that element has been met.

#### *Fixed-term contracts*

Customers who receive software products at the start of the contract under a fixed-term license, and are entitled to receive regular updates and upgrades for the duration of the license term which typically 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.

Accrued and deferred revenue arising on long-term contracts is included in receivables as accrued income and creditors as deferred revenue as appropriate.

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

#### *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.

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 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, turnover from the sale of goods is recognised rateably over the period of the associated software license contract.

#### Investments held as fixed assets

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:

Intellectual property	-	Between 20% and 40% per annum
Software	-	33.33% per annum

#### Property plant and equipment 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	-	33.33% 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 exchange

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 Statement of Financial Position date and the gains or losses on translation are included in the Income Statement.

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.



## Sophos Limited

### Notes to the Company financial statements (continued)

#### 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

#### Research and development expenditure

Expenditure on research activities is expensed as incurred.

Development expenditure is recognised as an intangible asset when its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales.

Development expenditure incurred on minor or major upgrades, or other changes in software functionalities does not satisfy the criteria, as the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense in the Statement of profit or loss as incurred.

#### Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used.

#### 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 Statement of Financial Position date.

##### **Deferred tax**

Deferred taxation is provided in full on timing differences that result in an obligation at the Statement of Financial Position 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 only 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

The fair value of employee share options are measured using the Black-Scholes model. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of Restricted share units and Performance share units is equal to the market price of the underlying shares on the day of the grant.

## Sophos Limited

### Notes to the Company financial statements (continued)

#### Dividends

Dividends paid and received are included in the Company financial statements in the period in which the related dividends are actually paid or received or, in respect of the Company's final dividend for the year, approved by shareholders.

#### 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.

#### 4 Operating loss

<b>Operating loss is stated after charging:</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Operating lease rentals	152	140
Depreciation	2,827	5,667
Amortisation	9,844	3,858
Research and development	21,724	16,423
Pension scheme contributions	919	787
Net foreign currency differences	9,874	1,785
Auditor's remuneration	5	5
Total share options charge (equity and cash settled)	<u>7,159</u>	<u>369</u>

#### 5 Analysis of turnover

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b><i>By activity</i></b>		
Sale of goods	2,708	2,264
Rendering of services	<u>142,013</u>	<u>137,064</u>
	<b><u>144,721</u></b>	<b><u>139,328</u></b>
<b><i>By geography</i></b>		
UK	27,634	29,225
North America	31,712	31,639
Rest of Europe	64,593	63,124
Rest of the World	<u>20,781</u>	<u>15,340</u>
	<b><u>144,721</u></b>	<b><u>139,328</u></b>

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 6 Staff costs

	2016 £'000	2015 £'000
Wages and salaries	29,916	26,293
Social security costs	3,145	2,933
Pension costs	919	787
Other costs	2,155	1,734
Share based payments charge (equity and cash settled)	7,159	369
	<u>43,294</u>	<u>32,116</u>

#### 7 Employee information

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

	2016	2015
Technical	182	165
Sales and Marketing	115	103
Administration	186	173
	<u>483</u>	<u>441</u>

#### 8 Directors' emoluments

	2016 £'000	2015 £'000
Directors emoluments	2,055	978
Aggregate contributions to pensions schemes	26	26
	<u>2,081</u>	<u>1,004</u>

Total emoluments paid to the highest paid Director during the year were £1,578k (2015: £636k)

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 9 Interest Income/(expense)

	2016 £'000	2015 £'000
Interest income on loans to related parties	<u>62</u>	<u>60</u>
Interest expense on loans from related parties	<u>(121)</u>	<u>(110)</u>

#### 10 Tax on profit on ordinary activities

	2016 £'000	2015 £'000
<b>Current tax:</b>		
Current year tax credit @ 20% (FY15: 21%)	(1,500)	-
Adjustments in respect of prior years	<u>(2,089)</u>	<u>-</u>
	<b>(3,589)</b>	<b>-</b>
Withholding tax not utilised	<u>-</u>	<u>255</u>
<b>Total current tax charge/(credit)</b>	<b><u>(3,589)</u></b>	<b><u>255</u></b>

	2016 £'000	2015 £'000
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(6,351)	(2,950)
Adjustments in respect of prior years	823	29
Impact of rate change	<u>168</u>	<u>70</u>
<b>Deferred tax credit on ordinary activities</b>	<b><u>(5,359)</u></b>	<b><u>(2,851)</u></b>
<b>Total tax credit on ordinary activities</b>	<b><u>(8,948)</u></b>	<b><u>(2,596)</u></b>

#### Reconciliation to total tax credit:

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 2016 of 20% (2015: 21%). The differences are explained below:

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 10 Tax on profit on ordinary activities (continued)

	2016	2015
	£'000	£'000
<b>Loss on ordinary activities before tax</b>	(32,850)	(10,462)
Loss on ordinary activities multiplied by standard rate in the UK of 20% (2015: 21%)	(6,570)	(2,197)
<u>Effects of:</u>		
Expenses not deductible for tax purposes	1,037	432
Dividend received (exempt under section 931)	(2,001)	-
R&D tax credits	(3,589)	(1,262)
Share options adjustment	1,183	77
Withholding tax not utilised	-	255
Adjustments in respect of previous years	824	29
Change in tax rate during the year	168	70
<b>Total tax credit on ordinary activities for the year</b>	<b>(8,948)</b>	<b>(2,596)</b>

The aggregate current and deferred tax relating to items that are recognised as items in equity is (£236k) (2015: nil).

#### Factors affecting future tax charges

The Finance (No.2) Act 2015 determined that the main rate of UK corporation tax would be reduced from 20% to 19% with effect from 1 April 2017 and reduced from 19% to 18% with effect from 1 April 2020. The decreases to 19% from 1 April 2017 and 18% from 1 April 2020 have therefore been fully enacted.

A further reduction in the UK corporation rate to 17% from 1 April 2020 has been announced but has not yet been substantively enacted.

At the balance sheet date the company has unused tax losses of £32,101k (2015: £9,231k) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses as it is considered probable that there will be future profits available in the company.

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 11 Intangible Assets

	Software £'000	Data Protection Intellectual Property £'000	Mojave Intellectual Property £'000	ActiveState Intellectual Property £'000	Endforce Intellectual Property £'000	Cyberoam Intellectual Property £'000	Total £'000
<b>Cost</b>							
At April 1, 2015	16,242	593	6,391	7,166	4,036	-	34,428
Additions	5,110	-	-	-	-	3,020	8,130
<b>At March 31, 2016</b>	<b>21,352</b>	<b>593</b>	<b>6,391</b>	<b>7,166</b>	<b>4,036</b>	<b>3,020</b>	<b>42,558</b>
<b>Amortization</b>							
At April 1, 2015	7,998	238	630	7,166	4,036	-	20,068
Charge for the year	3,694	237	4,178	-	-	1,734	9,843
<b>At March 31, 2016</b>	<b>11,692</b>	<b>475</b>	<b>4,808</b>	<b>7,166</b>	<b>4,036</b>	<b>1,734</b>	<b>29,911</b>
<b>Net book value</b>							
At April 1, 2015	8,244	355	5,761	-	-	-	14,360
<b>At March 31, 2016</b>	<b>9,660</b>	<b>118</b>	<b>1,583</b>	<b>-</b>	<b>-</b>	<b>1,286</b>	<b>12,647</b>

#### 12 Property plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Motor Vehicles £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>					
At April 1, 2015	33,056	7,392	73	865	41,386
Additions	-	1,588	-	162	1,750
<b>At March 31, 2016</b>	<b>33,056</b>	<b>8,980</b>	<b>73</b>	<b>1,027</b>	<b>43,136</b>
<b>Depreciation</b>					
At April 1, 2015	15,246	5,026	73	190	20,535
Charge for the year	1,282	1,416	-	129	2,827
<b>At March 31, 2016</b>	<b>16,528</b>	<b>6,442</b>	<b>73</b>	<b>319</b>	<b>23,362</b>
<b>Net book value</b>					
At April 1, 2015	17,810	2,366	-	675	20,851
<b>At March 31, 2016</b>	<b>16,528</b>	<b>2,538</b>	<b>-</b>	<b>708</b>	<b>19,774</b>

At March 31 2016 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £14k (2015: £66k).

Within freehold land and buildings the gross cost which is depreciable is £31,856k (2015: £31,862k).

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 13 Investments

	£'000
At April 1, 2015	281,080
Increase	4,638
<b>At March 31, 2016</b>	<b>285,718</b>

The increase in investments during the year-ended 31 March 2016 relates to the following:

- £20k relates to capitalisation of Sophos Taiwan Limited, a new subsidiary formed during the current year
- £4,618k relates to capital investment in Sophos B.V. in order for that Sophos Group entity to acquire Surflight B.V. and Threatstar Holdings B.V. during the current year.

#### 14 Inventories

	2016 £'000	2015 £'000
Finished goods (and goods for resale)	<b>8,353</b>	<b>75</b>

As of 2016 Sophos Limited now fully manages the global supply chain function and this is reflected in the increased inventory balance in the current financial year.

#### 15 Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	19,658	14,665
Amounts owed by Group undertakings	80,527	54,112
Other debtors	147	570
Deferred tax asset	9,955	4,360
Prepayments	7,722	7,402
Corporation tax debtor	3,589	-
	<b>121,598</b>	<b>81,109</b>
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	29,335	25,596
<b>Total debtors</b>	<b>150,933</b>	<b>106,705</b>

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 16 Deferred tax

	2016 £'000	2015 £'000
<b>The deferred tax in the debtors note above comprises:</b>		
Capital allowances in excess of depreciation	(2,610)	(1,838)
Short term timing differences	(1,010)	(676)
Losses	(6,099)	(1,846)
Share based payments	(236)	-
<b>Total</b>	<b>(9,955)</b>	<b>(4,360)</b>

The net deferred tax asset expected to reverse in FY17 is £3,384k. This relates to the utilisation of losses of £2,106k, the reversal of timing differences on depreciation in excess of capital allowances of £1,143k, and the reversal of other timing differences offset by expected tax deductions when payments are made to utilise provisions of £135k.

#### 17 Creditors

	2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>		
Trade creditors	(7,329)	(2,006)
Amounts due to Group undertakings	(106,068)	(74,158)
Social security and other taxes	(2,043)	(1,846)
Other creditors	(605)	(938)
Accruals	(10,974)	(9,762)
Deferred revenue	(152,556)	(108,095)
	<b>(279,575)</b>	<b>(196,805)</b>
<b>Amounts falling due after more than one year:</b>		
Amounts due to Group undertakings	(9,945)	(16,362)
Deferred revenue	(73,117)	(79,415)
	<b>(83,062)</b>	<b>(95,777)</b>
<b>Total creditors</b>	<b>(362,637)</b>	<b>(292,582)</b>



## Sophos Limited

### Notes to the Company financial statements (continued)

#### 18 Provisions for liabilities

	Restructuring £'000	Other £'000	Total £'000
At April 1, 2015	(27)	(422)	(449)
Arising during the year	(90)	-	(90)
Utilized during the year	45	285	330
<b>At March 31, 2016</b>	<b>(72)</b>	<b>(137)</b>	<b>(209)</b>

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 full opening provision has been utilised during the year with a further provision taken in the year due to reassessment of the status of the vacant properties.

The opening Other provision relates to the expenditure associated to the continued integration of Sophos Technologies Pvt Limited (formerly Cyberoam Technologies Pvt Limited) into the Sophos Group. This opening provision has predominantly been utilized during the year.

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

#### 19 Called-up share capital

*Allotted, called-up and fully paid shares*

	Ordinary shares		Total	
	Thousands	£'000	Thousands	£'000
At April 1, 2015	2,674,725	1,069	2,674,725	1,069
<b>At March 31, 2016</b>	<b>2,674,725</b>	<b>1,069</b>	<b>2,674,725</b>	<b>1,069</b>

#### 20 Operating leases

At the reporting date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 £'000	2015 £'000
Within one year	114	88
In the second to fifth years inclusive	38	52
<b>Net rent expense for the period</b>	<b>152</b>	<b>140</b>

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

## Sophos Limited

### Notes to the Company financial statements (continued)

#### 21 Transition to FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 April 2014.

The impact on the transition was as follows: £'000

**Reconciliation of equity at 1 April 2014:**

UK GAAP – equity shareholders funds at 1 April 2014	153,217
Remove foreign exchange on long-term loans deemed 'permanent as equity'	(255)
<b>FRS 102 – Equity shareholders funds at 1 April 2014</b>	<b>152,962</b>

**Reconciliation of equity at 31 March 2015:**

UK GAAP – equity shareholders funds at 31 March 2015	148,751
Remove foreign exchange on long-term loans deemed 'permanent as equity'	123
<b>FRS 102 – Equity shareholders funds at 31 March 2015</b>	<b>148,874</b>

**Reconciliation of loss for the year-ended 31 March 2015:**

UK GAAP - Loss for the year 31 March 2015	(7,633)
Loss on translation of foreign currency borrowings	(233)
<b>FRS 102 - loss for the year 31 March 2015</b>	<b>(7,866)</b>

The following were changes in accounting policies arising from the transition to FRS 102:

**Foreign exchange on long term loans**

Under previous UK GAAP, the Company was able to take foreign exchange differences on foreign currency long-term loans to reserves due to their status as 'permanent as equity'. Under FRS 102, there is no concept of 'permanent as equity' and so foreign exchange differences on foreign currency long-term loans must be taken to the Statement of profit or loss in the period in which they are incurred.

**Transitional relief:**

On transition to FRS 102 from previous UK GAAP, the Company has taken advantage of transitional relief as follows:

**Share-based payment transactions**

The Company and Group have elected not to apply Section 26 share-based payment to equity instruments granted before the date of transition to FRS 102. FRS 20 has been applied to instruments granted prior to the date of transition.

**Investments**

The company has elected to treat the carrying amount of investments under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.

## **Sophos Limited**

### **Notes to the Company financial statements (continued)**

#### **22 Ultimate parent undertaking**

The Company's parent company is Sophos Holdings Limited, a company registered in England and Wales. The largest group within which these Company financial statements are consolidated is headed by Sophos Group plc, a company incorporated in England and Wales. The consolidated financial statements of the group are available to the public and may be obtained from <https://investors.sophos.com/>.

#### **23 Functional currency**

Sophos Limited is registered in England and Wales and has a functional currency of GBP; as this is the currency of the primary economic environment in which the entity operates.

#### **24 Events after the end of the reporting period**

There are no material events after the reporting period which require disclosure under FRS 102 para 32.10.