

Sophos Limited

Directors' report and financial statements

Registered number 2096520

March 31, 2014



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Strategic Report

The directors of Sophos Limited have prepared this Strategic report for the year-ended March 31, 2014 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").

During the year the Company acquired 50% of the equity shares and 93.79% of the preference shares in Cyberoam Technologies Pvt Limited, a market leading UTM vendor. Cyberoam is fully owned by the Sophos Group. The combination of Sophos and Cyberoam further improves the technology, talent and prospects of the Company in the high-growth UTM space.

Key performance indicators and overview of financial performance for the year-ended 31 March 2014:

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 £128m (2013: £114m).

Operating Costs

The £3m reduction in operating profit to £10m in 2014 (2013: £13m) is primarily caused by increased cost in relation to the integration of newly acquired Cyberoam Technologies Pvt Limited.

Cost of sales at £18m (2013: £14m) represents 14% of turnover (2013: 12%).

Average staff numbers have remained stable at 450 from 452 (2013).

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.

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

A handwritten signature in black ink, consisting of a series of loops and strokes, positioned above a long, thin horizontal line that extends to the right.

Nicholas Seaton Bray
Chief Financial Officer and Director
16 December 2014

Directors' 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, 2014.

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
Kristof Peter Hagerman (resigned 25 July 2014)
Jennifer Margaret Onslow (appointed 4 March 2014)
Stuart Fillingham (appointed 29 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 2014 are £57,360k (2013: £34,700k).

Dividends of £62,615k were received in the year from the Company's subsidiaries.

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



Nicholas Seaton Bray
Chief Financial Officer and Director
16 December 2014

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements for the year ended March 31, 2014

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 2014 set out on pages 8 to 22. 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 2014 and of its profit 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.

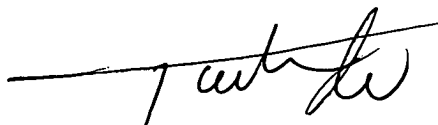
Opinion on other matter prescribed by the Companies Act 2006

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

[16] December 2014

Profit and loss account

For the year-ended March 31, 2014

	Note	2014 £'000	2013 £'000
Turnover	3	128,194	113,993
Cost of sales		(18,007)	(14,109)
Gross profit		110,187	99,884
Administrative Expenses		(100,303)	(86,920)
Operating Profit	2	9,884	12,964
Loss on disposal of subsidiary		-	(545)
Income from shares in Group undertakings	20	62,615	3,425
Finance income	7	220	800
Profit on ordinary activities before taxation		72,719	16,644
Tax credit on profit on ordinary activities	8	1,115	664
Profit for the financial year		73,834	17,308

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 22 form part of these financial statements.


Company balance sheet

At March 31, 2014

Registered number: 2096520

	Note	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	30,391	30,227
Investments	12	285,186	244,175
		315,577	274,402
Current assets			
Stocks of inventory	13	32	169
Debtors (includes £19,404k >1 year)	14	104,463	59,304
Cash at bank and in hand		11,040	5,692
		115,536	65,165
Creditors: amounts falling due within one year	15	(187,089)	(113,439)
Net current liabilities		(71,553)	(48,274)
Total assets less current liabilities		244,024	226,128
Creditors: amounts falling due after more than one year	15	(89,914)	(86,281)
Provisions for liabilities	16	(1,147)	(1,251)
Net assets		152,962	138,596
Capital and reserves			
Called up share capital	18	1,069	1,069
Share premium	19	69,994	69,994
Other reserves	19	(91,693)	(91,931)
Profit and loss account	19	173,592	159,464
Shareholder's funds		152,962	138,596

These financial statements were approved by the board of directors on 16 December 2014 and were signed on its behalf by:



Nicholas Seaton Bray
Chief Financial Officer and Director

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, and 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 payables as deferred revenue as appropriate.

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 - 33⅓% 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	-	33⅓% 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 inter-company 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:	2014 £'000	2013 £'000
Operating lease rentals	65	149
Depreciation	5,156	3,630
Amortisation	-	337
Research and development	497	484
Pension scheme contributions	692	858
Net foreign currency differences	(2,207)	(493)
Loss on disposal of subsidiary	-	545
Auditors remuneration	5	5
Share options charge	991	1,410

3 Analysis of turnover

	2014 £'000	2013 £'000
By activity		
Sale of goods	3,981	4,243
Rendering of services	124,213	109,750
	<u>128,194</u>	<u>113,993</u>
By geography		
UK	13,495	12,000
North America	9,299	8,268
Rest of Europe	80,621	71,690
Rest of the World	24,779	22,035
	<u>128,194</u>	<u>113,993</u>

4 Staff costs

	2014 £'000	2013 £'000
Wages and salaries	24,193	26,301
Social security costs	2,553	2,627
Pension costs	692	858
Other costs	1,940	2,544
Share based payments charge	991	1,410
	<u>30,369</u>	<u>33,740</u>

5 Directors' emoluments

	2014 £'000	2013 £'000
Directors emoluments	907	1,486
Aggregate contributions to pensions schemes	15	159
	<u>922</u>	<u>1,645</u>

Total emoluments paid to the highest paid director during the year were £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:

	2014	2013
Technical	164	169
Sales and Marketing	98	103
Administration	188	180
	<u>450</u>	<u>452</u>

7 Interest Income

	2014	2013
	£'000	£'000
Interest on bank deposits	-	1
Interest on loans to related parties	220	799
	<u>220</u>	<u>800</u>

8 Tax on profit on ordinary activities

	2014	2013
	£'000	£'000
Current tax:		
Current year tax charge @ 23% (FY13: 24%)	158	55
Total current tax charge	158	55
Double taxation relief	(158)	(55)
Total current tax charge	<u>-</u>	<u>-</u>

	2014	2013
	£'000	£'000
Deferred tax:		
Origination and reversal of timing differences	(1,411)	(158)
Adjustments in respect of prior years	296	(506)
Deferred tax credit on ordinary activities	<u>(1,115)</u>	<u>(664)</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 2014 of 23% (2013: 24%). The differences are explained below:

	2014	2013
	£'000	£'000
Profit on ordinary activities before tax	72,719	16,644
Profit on ordinary activities multiplied by standard rate in the UK of 23% (2013: 24%)	16,725	3,995
<u>Effects of:</u>		
Expenses not deductible for tax purposes	1,013	737
Dividend received (exempt under section 931)	(14,401)	(822)
R&D tax credits	(1,018)	(516)
Other timing differences	565	(445)
Capital allowances in excess of depreciation	1,003	620
FRS20 Share Options charge	228	338
Group Relief surrendered	(3,957)	(3,852)
Double taxation relief	(158)	(55)
Current tax charge for the year	0	0

	2014	2013
	£'000	£'000
Deferred tax		
Corporation tax recoverable	-	(385)
Group relief payable	-	-
Deferred tax asset	(1,509)	(664)

The deferred tax figures above comprise:

	2014	2013
	Provided	Provided
Capital allowances in excess of depreciation	(931)	620
Short term timing differences	(578)	(1,284)
	(1,509)	(644)

There are no unprovided deferred income tax assets.

Notes to the Company financial statements (continued)

9 Intangible assets

	ActiveState Intellectual Property £'000	Endforce Intellectual Property £'000	Total £'000
Cost			
At April 1, 2013	7,166	4,036	15,241
At March 31, 2014	7,166	4,036	15,241
Amortization			
At April 1, 2013	7,166	4,036	15,241
At March 31, 2014	7,166	4,036	15,241
Net book value			
At April 1, 2013	-	-	-
At March 31, 2014	-	-	-

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, 2013	37,683	13,091	73	82	50,929
Additions	44	4,787		490	5,321
At March 31, 2014	37,727	17,878	73	572	56,250
Depreciation					
At April 1, 2013	15,496	5,065	73	69	20,703
Charge for the year	1,465	3,674	-	17	5,156
At March 31, 2014	16,961	8,739	73	86	25,859
Net book value					
At April 1, 2013	22,187	8,026	-	13	30,227
At March 31, 2014	20,766	9,139	-	486	30,391

At 31 March, 2014 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £377k (2013: £379k).

Within freehold land and buildings the gross cost which is depreciable is £36,288k (2013: £36,486k).

Notes to the Company financial statements (continued)

11 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2014 £'000	2013 £'000
Deferred income tax assets in relation to:		
Adjustment in respect of prior year	-	506
Other temporary differences	578	-
Advanced capital allowances	931	620
Total	1,509	1,126

Deferred income tax liabilities in relation to:

Rate change	-	17
Other temporary differences	-	445
Total	-	462

The deferred tax above comprises:

Capital allowances in excess of depreciation	(931)	620
Short term timing differences	(578)	(1,284)
Total	(1,509)	(664)

12 Investments

	£'000
At April 1, 2013	244,175
Additions	41,011
At March 31, 2014	285,186

The increase in investments during the year ended 31 March 2014 predominantly relates to the acquisition of Cyberoam Technologies Pvt Limited which resulted in the addition of £38,869,000.

13 Stocks of inventory

	2014 £'000	2013 £'000
Finished goods and goods for resale	32	169

Notes to the Company financial statements (continued)

14 Debtors

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	11,790	10,790
Amounts owed by group undertakings	62,272	14,306
Other debtors	631	46
Deferred tax asset	1,509	1,126
Prepayments	8,856	2,546
Corporation tax debtor	-	385
	<u>85,060</u>	<u>29,199</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	19,404	30,105
Total debtors	<u>104,463</u>	<u>59,304</u>

15 Creditors

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	(2,443)	(3,690)
Amounts due to Group undertakings	(76,775)	(18,976)
Deferred tax liability	-	(462)
Social security and other taxes	(1,042)	(721)
Other creditors	(721)	(322)
Accruals	(7,384)	(7,366)
Deferred revenue	(98,724)	(81,720)
	<u>(187,089)</u>	<u>(113,439)</u>
Amounts falling due after more than one year:		
Amounts due to Group undertakings	(13,727)	(9,399)
Liability component of preference shares	(3,485)	(3,485)
Deferred revenue	(72,702)	(73,397)
	<u>(89,914)</u>	<u>(86,281)</u>
Total creditors	<u>(277,003)</u>	<u>(199,720)</u>

Notes to the Company financial statements (continued)

16 Provisions

	Restructuring £'000	Other £'000	Total £'000
At April 1, 2013	1,251	-	1,251
Arising during the year	339	808	1,147
Released during the year	(693)	-	(693)
Utilized	(558)	-	(558)
At March 31, 2014	339	808	1,147

The opening restructuring provision related to vacant properties which are surplus to the company's requirements and are due to be disposed of. This provision has either been utilised or released during the year. Arising in the year-ended March 31, 2014 relates to expenditure in relation to vacant properties which are surplus to the Company's requirements.

The Other provision arising in the year relates to the expenditure related to the 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.

	<u>2014</u> £'000	<u>2013</u> £'000
Cash-settled transactions	207	-
Equity-settled transactions	784	1,410
Total stock based payment charge	991	1,410

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:

	2014	2013
Weighted average stock price (\$ cents)	28.00	33.00
Weighted average exercise price (\$ cents)	38.00	38.00
Expected volatility	60.20%	53.60%
Expected life of options (years)	2.25	2.50
Risk free rate	0.23%	0.47%
Expected dividends	Nil	Nil

The weighted average fair value of options granted during the year was \$ cents 7.1 (2013 \$ cents 9.4)

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:

	2014		2013	
	Number options 000's	WAEP \$ cents	Number options 000's	WAEP \$ cents
Outstanding at the start of the year	40,090	25.6	27,804	20.1
Awarded	952	38.0	15,336	38.0
Forfeited	(6,732)	20.3	(2,864)	26.3
Exercised	(598)	31.8	(187)	32.4
Outstanding at the end of the year	<u>33,712</u>	<u>30.2</u>	<u>40,089</u>	<u>25.6</u>
Exercisable at the end of the year	<u>9,680</u>	<u>27.4</u>	<u>6,972</u>	<u>22.2</u>

The weighted average share price for options exercised during the year was \$ cents 28.0 (2013: \$ cents 33.00)

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

	2014		2013	
	Number options 000's	WARCT Years	Number options 000's	WARCT Years
Exercise price:				
2.5000	1,174	6.2	1,493	7.2
7.5625	8,497	6.2	13,917	7.2
30.2500	6,885	6.2	8,056	7.2
38.0000	17,158	8.7	16,623	9.2
Outstanding at the end of the year	<u>33,712</u>	<u>7.7</u>	<u>40,089</u>	<u>8.0</u>

Notes to the Company financial statements (continued)

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:

	2014		2013	
	Number shares 000's	WASP \$ cents	Number shares 000's	WASP \$ cents
Outstanding at the start of the year	909	30.25	1,240	30.25
Awarded	-	-	-	-
Forfeited	-	-	-	-
Vested	(330)	30.25	(331)	30.25
Outstanding at the end of the year	579	30.25	909	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, 2013	2,628,209	1,051	46,516	18	2,674,725	1,069
At March 31, 2014	2,628,209	1,051	46,516	18	2,674,725	1,069

19 Reserves

	Share premium	Other reserves	Profit and loss account	Total reserves
	£'000	£'000	£'000	£'000
At April 1, 2013	69,994	(91,931)	159,464	137,527
Profit for the year	-	-	73,834	73,834
Share based payment expense (equity settled)	-	784	-	784
Fair value of surrendered options	-	(546)	-	(546)
Foreign exchange	-	-	(2,346)	(2,346)
Dividends paid and proposed	-	-	(57,360)	(57,360)
At March 31, 2014	69,994	(91,693)	173,592	151,893

Notes to the Company financial statements *(continued)*

20 Reconciliation of movements in shareholder's funds

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Profit for the year before dividends	11,219	13,883
Intragroup dividends paid	(57,360)	(34,195)
Income from shares in Group undertakings	62,615	3,425
Share based payment expense (equity settled)	784	1,410
Fair value of surrendered options	(546)	-
Foreign exchange	(2,346)	452
Increase in/(deduction to) shareholder's funds	14,366	(15,025)
Opening shareholder's funds	137,527	152,552
Closing shareholder's funds	151,893	137,527

In 2014, the Company received £62,615k of Intra Group receivables (from subsidiary Companies) of which £57,360k were immediately distributed to the parent Company as interim dividends.

21 Operating Leases

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Within one year	62	67
In the second to fifth years inclusive	32	83
Net rent expense for the period	94	150

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 Sarl (incorporated in Luxembourg) and the ultimate controlling parties are the fund holders of Apax.

23 Post Balance Sheet Events

On 17 April 2014, Sophos Limited sold two buildings and associated land which generated a profit on disposal of £114,000.

During the coming financial year this disposal will reduce the fixed assets cost by £4,672,000 and accumulated depreciation by £2,991,000.