

Sophos Limited

**Directors' report and consolidated financial
statements**

Registered number 2096520

March 31, 2012

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Directors' report

The directors of Sophos Limited (the Company) present their annual report with the audited, consolidated financial statements of Sophos Limited and its subsidiaries (the Group) for the financial year ended March 31, 2012 ("FY12")

Overview

Sophos: You're safer in our world

Sophos is 100% focused on delivering the best IT security for businesses. We understand what it takes to keep businesses secure, which is why we are recognized by analysts and customers alike as a leader in IT security. We produced our first encryption and antivirus products back in the 1980s, and today our security products protect over 100,000 businesses and 100 million users, in more than 150 countries.

We are leading the way with a different approach to IT security. We call it "complete security, without complexity." Our award-winning products protect companies, employees and company data from IT security threats and as a result we reduce risk, increase productivity and allow companies to focus on what they do best, running their own business. With an ever-changing IT landscape, our products provide protection across the network, servers, laptops, desktops, the cloud and even users' personal mobile devices used for corporate business – we protect everywhere.

"Complete security, without complexity" means we offer better protection with more visibility, and easy-to-deploy security innovations, all from one of the industry's most established vendors, whose singular focus is security for business. Sophos is the only vendor that Gartner rates as a leader in Unified Threat Management (Network Security), Endpoint Security and Data Protection. Our products are backed by our global network of SophosLabs experts, continually monitoring and dealing with threats, attacks and legitimate but potentially unwanted applications through our real-time 'active protection cloud-based' service.

Our vision: Complete security, without complexity

IT security is becoming increasingly complex. Continual technology innovation in areas such as smartphones, tablets and cloud storage brings greater efficiency, productivity and cost advantage to companies who deploy such technologies, yet they also necessitate an ever-increasing array of security products to manage. Unfortunately, IT teams and IT security budgets are not growing at the same rate, something has to change to maintain pace with and to keep ahead of the changing landscape and constantly evolving IT security threat.

Through "complete security, without complexity", we provide our customers the ability to stay ahead of the threat whilst taking full advantage of both existing and new IT infrastructure that will provide the company with competitive advantage. Our products provide:

1. A single security system for their organizations – the "security layer" for corporate IT – delivering
 - a. *Security that is "Better together"* technically compelling products that work better together to enhance IT security as opposed to the more traditional standalone point products sold by other vendors that are less effective and more costly.
 - b. *A single pane of glass* A unified view of our customer's security system so the customer can quickly see all aspects working together and hence improve productivity, efficiency and importantly the IT security benefits obtained.
 - c. *Active cloud Protection*. real-time security threat identification and resolution immediately distributed to our customers via the cloud.

- 2 Less complexity — Sophos Complete Security is simple to deploy and manage, and removes the challenges of multiple point products. And if easy to deploy and manage, then it actually gets implemented and hence provides the required IT security benefit
- 3 Support from experts — one IT security partner who our customers can trust and call upon for all their IT security issues with strong support presence in the local geography

This approach doesn't just protect our customers better, we also save them time and money as compared to the more traditional point product and multi vendor approach

SophosLabs

SophosLabs, our global network of highly skilled and trained analysts located in Asia-Pacific, Europe and North America, has combined security experience of more than 500 years protecting businesses from known and emerging threats

Our analysts cover every area of IT security, with an integrated and automated system that tracks areas such as malware, vulnerabilities, intrusions, spam, legitimate but potentially unwanted applications, legitimate and infected websites, personal data formats and removable device types

Our automated systems analyze millions of emails and billions of web pages, updating our databases with terabytes of legitimate and malicious code and identifying tens of thousands of infected URLs and hundreds of thousands of new variants of malicious code daily

Our analysts constantly monitor and fine-tune our customers' protection automatically through our live Active Cloud Protection system. A constant connection through the cloud means we can fine-tune the intelligence when required and ensure immediate delivery of the improvements to our customers. Our products automate and simplify the tasks that take our customers too much time today and help keep their people effectively working both users and the IT team

Business model

The majority of our billings are subscription based from both existing and new customers, with the majority of our customers being invoiced and paying for the entire term of the subscription upfront. Our business is predominantly high volume, low value with a predictable and secure billings stream. We have strong renewal rates from existing customers. Our business model is highly cash generative with a low annual capital requirement.

Over the past three financial years, Sophos' Cash EBITDA margin has averaged 26% of billings and our capital expenditures have represented less than 2.2% of billings annually.

Management uses Cash EBITDA as a key measure of business performance. The key difference between the more recognized industry measure of EBITDA and cash EBITDA is that costs are deducted from billings as opposed to revenue in deriving cash EBITDA. Management sees billings as the key leading indicator of the business and the business is operationally managed with a primary billings focus as opposed to a primary revenue focus. Cash EBITDA aligns closely to the underlying cash flows generated by the business and hence the underlying value of the business.

Competitive Strengths

Eliminates Complexity

Sophos' easy to use, yet comprehensive security suites are particularly appealing to mid market IT organizations who face the same threats as large organizations but have limited dedicated IT security staff. Our easy to use products scale to the largest enterprises in the world.

Attractive Subscription Model

Sophos' products are sold on multi-year contracts. Buying our complete security suites offer both technical and commercial benefits.

Active Protection through SophosLabs cloud based system

A key component of our offering is SophosLabs, which provides the Company and our customers with worldwide visibility of emerging threats and rapidly creates and delivers real time security updates via the cloud from analyzing web and email traffic 24 hours a day.

Highly-Incentivized Sales Channel

Sophos operates a differentiated partner program with a clear focus on training, education and enablement. The program enables our committed partners to earn higher margins on Sophos products than on those of our competitors. In selling our individual security products and complete security suites our partners are able to provide value added services to their end customers.

Superior Customer Service

Sophos' customer service is an important part of our strategy. Customer support within Sophos is handled by our own staff (versus competitors who typically outsource support) and is offered 24/7/365 with local language support.

Our business strategy: looking forward

We launched our enhanced Complete Security Suite in May 2012. It is our most comprehensive offering to date and reflects our commitment to deliver complete security without complexity. While providing a clear and compelling value proposition to the end customer, Complete Security Suites are increasingly attractive to the Sophos indirect sales channel. We have significantly increased our focus and our investment in channel sales, transitioning from the historical "partner assist" model towards a "partner led" model. In the year ahead, additional focus, training, channel margin and channel marketing investments are being made to accelerate this move to partner-led channel sales, with the aim of achieving longer-term, higher end customer growth rates.

Our IT security suites and individual products are both technically and commercially compelling. Our strategy is to expand the number of products to existing customer increasing our customer cross sell and upsell as well as improving further our strong retention rates whilst continuing to attract new customers. In this way we expect to continue to increase our market share.

Our performance in the year ending 31 March 2012

Summary of key performance indicators

	Year ended March 31, 2012	Year ended March 31, 2011	Growth
Billings ¹	\$402.9m	\$343.6m	17%
Adjusted EBITDA ²	\$66.7m	\$61.6m	8%
Cash EBITDA ³	\$107.9m	\$94.8m	14%
Cash generated from operations	\$92.2m	\$76.3m	21%

Key performance indicators (KPIs) are the measures of success that management uses to monitor the performance of the Group. As a result of our subscription-based model, Sophos uses billings (rather than revenue) and Cash EBITDA (rather than EBITDA) as key business metrics.

Billings represent the full value of the products and services to be delivered under a subscription agreement typically lasting between one and five years. Under this model, customers pay Sophos in cash up-front for such subscriptions once the Company initially delivers the applicable products and/or services to them. Under International Financial Reporting Standards ("IFRS") and U.S. GAAP, subscription revenue is deferred and results from the spreading of the billings value over the life of the contract.

Billings exceed reported revenue while expenditure, on the other hand, is reported in the same period in which it is incurred. Billings are broadly equivalent to the cash receipts in a period and reflect the current performance of the business, while revenue is a reflection of historical performance.

Cash EBITDA is viewed by management as a more appropriate earnings and cash flow measure than reported EBITDA. Management deems the costs and operating expenses of the business to be the same for both Cash EBITDA and reported EBITDA due to the following factors:

- A majority of the technical support costs relating to a given subscription typically occur on or shortly after the initiation date, and are reflected in the expenses in the same year as the billing.
- All sales costs, including commission on the billings, are recognized and paid at the time of the billing.
- Product development costs in relation to the billing have been completed and incurred prior to billing.

A reconciliation of operating profit to EBITDA and Cash EBITDA is shown in note 5.

¹ Billings is defined as the value of products and services invoiced to customers after first receiving a purchase order from them and delivering the product/service to the customer, or for which there is no right to a refund for undelivered elements.

² Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of tangible assets, amortization of intangible assets, stock option charges, and exceptional costs.

³ Cash EBITDA is defined as Adjusted EBITDA with billings income replacing recognized revenue, and adjusted for other non-cash items as permitted by the Credit Agreement.

Overview of financial performance FY12

FY12 has been a year of continued global economic uncertainty and a changing competitive landscape. In spite of this Sophos exceeded \$400 million in billings for the first time, delivering 17% growth over the previous year.

Billings growth benefitted from the acquisition of Astaro in July FY12, with the acquired Unified Threat Management (UTM) product delivering 30% pro-forma growth in the period post acquisition. This reflects the success of the products in delivering easy to use network security to organizations of all sizes.

Customer retention rates have remained strong and our customers are increasing the breadth of products they buy from us. This reflects Sophos' strategy to help IT managers deliver more with less resource by providing multiple security products into a single suite solution. Sophos' commitment to simple, complete protection is reinforced by the launch of Complete Security Suites in May 2012 – the most comprehensive offering from Sophos to date.

Billing growth rates varied by region, with North America delivering growth of 10%, the acquisition of Astaro contributing to 17% growth in Europe and investments in emerging markets in Asia Pacific contributing to 34% growth in our Rest of World region as shown in note 4.

The majority of Sophos' billings are derived from a subscription-based business model, which is highly visible and recurring in nature. It allows customers to benefit from the security intelligence generated by SophosLabs™ and access to technical support throughout the subscription period which is generally between one and five years.

The customer base, as a whole, typically renews contracts at a dollar value in excess of 100% of the original amount as a result of up-selling additional solutions or seats.

Revenue is recognized ratably over the subscription period. Consequently, the revenue relating to a significant amount of the billings booked during the year is deferred and recognized in future periods. Revenue recognized during the year was \$365.4m (growth of 19% on prior year revenue of \$306.8m).

Deferred revenue increased from \$352.8m to \$424.5m. Of this, \$181.5m will be released to the Consolidated Income Statement in the year ending 31 March 2013.

While operating results reduced from a profit of \$19.9m in 2011 to a loss of \$10.7m in 2012, cash EBITDA increased from \$94.0m to \$107.4m.

The reduction in operating results is primarily caused by a significant increase in amortization of intangibles resulting from the acquisition of Astaro. Included within amortization of intangible assets is \$37.3m relating to Astaro Intangibles and \$11.9m, (2011: \$18.1m) relating to Utimaco intangibles. The decrease in the charge for Utimaco reflects the Group policy to amortize these assets on a reducing balance basis.

Cost of sales increased to \$64.7m (2011: \$39.4m). This represents 16.1% of billings (2011: 11.5%). The increase was predominantly a result of growth in our UTM product which has a higher average cost of sale than our software only products.

Operating costs, comprising sales and marketing costs, research and development costs and non-exceptional administration costs, increased by \$26.8m from \$214.0m to \$240.8m in 2012. Excluding depreciation and share based payments, the increase was \$20.5m, from \$210.2m in 2011 to \$230.8m in 2012. We have continued to invest in sales, marketing and development to drive continued growth, while maintaining focus on back office productivity and efficiency.

Cash flow from operating activities increased by \$4.9m to \$82.8m in 2012 (2011: \$77.9m). Our business model encourages strong cash flows as invoices are raised at the beginning of the subscription license period. Cash collection remains a key driver of cash flow and it remained strong at 52 days (2011: 55 days).

Historically, the majority of Sophos's capital expenditures relate to maintenance spending, typically replacement of obsolete equipment or upgrading software. Incremental capital expenditures have been primarily incurred as a result of an expansion, generating additional IT equipment needs.

In FY12 we have made a significant investment in Salesforce.com to replace the existing CRM system, with further investment in back office systems planned in FY13. We have made significant progress in moving to world class, robust systems, capable of supporting our growth and allowing us to significantly improve processes and efficiencies across all areas of the business.

Board of directors and staff

Average staff number increased slightly during the year from 1,573 to 1,648.

The directors who held office during the year were:

	Title
Peter Gyenes	Non-Executive Chairman and Chairman of the Remuneration Committee
Steve Munford	Chief Executive Officer
Nick Bray	Chief Financial Officer
Sandra Bergeron	Non-Executive Director
Edwin Gillis	Non-Executive Director and Chairman of the Audit Committee
Jan Hruska	Non-Executive Director
Peter Lammer	Non-Executive Director
Roy Mackenzie	Non-Executive Director
Salim Nathoo	Non-Executive Director

Principal risks and uncertainties

The Company has undertaken a broad ranging review of our principal risks during the FY12. In conjunction with external advisors we enhanced our risk review process to identify the key strategic and operational risks to the business. The company has active plans in place to deal with and mitigate these principal risks.

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

The Group's products and services are complex to develop and maintain and there is a risk that they may contain defects, vulnerabilities or errors that may not be detected until after their commercial release and installation by customers. Such errors or defects may impair the reliability of our products and services and adversely affect their marketability. Further, Sophos continually updates its products as part of our ongoing commitment to ensure our customers receive the latest IT security features. The quality of our products and services is therefore dependent upon these continual updates. Sophos is partly dependent upon third-party suppliers for timely delivery of our product updates to end users. Rigorous and continual testing and quality control measures help to mitigate this risk.

The integration of any acquisition requires management focus. There is a risk that this may remove focus from the core business and ensuring that we continue to provide customers with the level of service that they have come to expect. This is mitigated by ensuring that these projects are managed by dedicated teams and by strengthening the management team where necessary. There is a further risk that, should the acquired entity not perform as expected, the investment could be at risk of impairment. Management's focus on, and commitment to, the ongoing performance of the Group helps to mitigate this risk.

Sophos owns substantial intellectual property rights and relies on a combination of patents, copyrights, contractual rights, trademarks and trade secrets to establish and protect proprietary rights in our products. Any infringement of these rights could cause loss of revenue and adversely affect business operations. Conversely there is a risk that Sophos could inadvertently infringe the intellectual property rights of others or may be called on to defend itself against alleged infringement claims. Focus on internal research and development, quality assurance and testing helps to mitigate this risk.

The economic environment leads to continued uncertainty in foreign exchange rates and increases the credit risk of our customers, as well as a more challenging business environment. Sophos generally invoices customers in their local currency and typically also pays expenses in local currency to partially hedge the currency risk. However, the Group is also exposed to exchange differences arising on the translation of results into the Group's reporting currency of US dollars. Sophos does not make speculative use of derivatives, currency or other financial instruments. The credit risk primarily relates to trade receivables and is mitigated by the use of third party credit checks and the regular review of outstanding balances by local country credit controls and the management team.

Sophos is undergoing a major improvement program in regard to IT systems. A Salesforce CRM system has just been implemented and we are now in the process of implementing a global SAP system. Whilst these system changes are expected to lead to significantly enhanced productivity and efficiency gains any major system change involves risk and uncertainty. We have dedicated teams focused on these systems to reduce the risk of implementation.

Dividends

The amounts of dividends paid by the company to the parent company in the year ending March 31, 2012 were as follows:

On July 1, 2011, a dividend in species with a value of \$84.7m in connection with the acquisition of the Astaro Group. On September 30, 2011 an interim cash dividend of \$14.1m and on December 30, 2011 a further interim cash dividend of \$10.8m. The directors do not propose a final dividend (2011 \$nil).

Market value of land and buildings

Sophos maintains its global headquarters in a building designed and constructed for the Company. The building's open market value, based on typical rental yields of non-specialist commercial properties, would be below the net book value recorded in the financial statements. However, it is the opinion of the directors that as Sophos intends to occupy the building as its global headquarters for the foreseeable future, the value in use of the building exceeds the book value.

Research and development

We continue to undertake research and development relating to the principal activities of the Group. Prior to its acquisition by the Group, Utimaco Safeware had capitalized research and development costs of \$6.8m (at the time of acquisition) and this is being written off over its useful economic life.

Employees

We continue to invest to drive future growth. A key objective of the Group is to achieve a shared commitment by all employees to the success of the business. Throughout Sophos there is consultation between employees and management on matters of mutual interest and information is disseminated through team and Company briefings, the intranet and individual development reviews. Employees are encouraged to promote and participate in the progress and profitability of the Group through the employee stock purchase plan, stock option plans and other incentive schemes.

Sophos provides full consideration to applications for employment from disabled persons where the requirements of the role can be adequately fulfilled by a disabled person. Where existing employees become disabled it is the Group's policy, wherever practicable, to provide continuing employment under normal terms.

and conditions and to provide training and career development to disabled employees wherever appropriate

We continue to conduct an annual yearly employee survey. Overall 73% of our employees globally took part. We were very pleased with the results. Some of the central messages were that employees

- Enjoy their work and Sophos is a great place to work
- Have supportive and reliable colleagues
- Want to stay and develop their careers at Sophos
- Understand how they contribute to the company
- Have supportive and encouraging managers
- Are proud of the service we deliver
- Would recommend Sophos to a friend

Environment and social responsibility

We recognize the importance of our environmental responsibilities and aim to reduce any damage that might be caused by our activities. During the year we have evaluated and implemented a number of initiatives including reducing the power and improving the efficiency of the cooling required for our main Abingdon IT data center. We are an active member of the Cyber Security Challenge, an organization that promotes the training, awareness and skills needed in the community at large for IT security as well as a member of the Princes Trust.

During the course of FY12, we have actively introduced a new anti-bribery and corruption policy and training within our business. We have had no reported breaches.

Political and charitable donations

Sophos made no political donations during the year (2011: \$nil). Contributions to charities totaled \$33,441 (2011: \$34,082).

Policy and practice on payment of creditors

Sophos policy is to pay creditors on a timely basis. Trade creditors as at March 31, 2012 were equivalent to 37 days purchases (2011: 37 days), based on the average daily amount invoiced by suppliers during the year.

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 at the forthcoming Annual General Meeting.

On behalf of the Board



Steve Munford
CHIEF EXECUTIVE OFFICER
June 26, 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and applicable law and have elected to prepare the parent Company 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 Group and parent Company and of their profit or loss for that period

In preparing each of the Group and parent Company 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,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent Company financial statements, 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 Group and the parent Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

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 2012 set out on pages 14 to 66. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements 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 11, 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2012 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Sophos Limited (*continued*)

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company 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

June 26, 2012

Consolidated income statement

For the year ended March 31, 2012

	Note	2012 \$'000	2011 \$'000
Billings*	4	402,866	343,637
Revenue	3	365,382	306,781
Cost of sales		(64,734)	(39,388)
Gross profit		300,648	267,393
Sales and marketing		(148,204)	(121,250)
Research and development		(63,719)	(58,754)
General finance and administration			
- Non-exceptional		(28,925)	(34,021)
- Exceptional	6	(15,045)	(16,574)
Amortization of intangible assets		(52,282)	(21,332)
Foreign exchange(loss)/gain		(3,192)	4,420
Operating (loss)/profit		(10,719)	19,882
Finance income	11	1,678	4,467
Finance expense	12	(7,096)	(1,245)
(Loss)/profit before tax		(16,137)	23,104
Income tax credit/(charge)	13	11,470	(4,912)
(Loss)/profit for the year		(4,667)	18,192
Attributable to			
Equity stockholders of the parent		(5,308)	18,294
Non-controlling interest		641	(102)
(Loss)/profit for the year		(4,667)	18,192

* Billings do not represent the Group's statutory revenue (see accounting policies within the notes to the accounts for the definition)

All results relate to continuing operations

Consolidated statement of comprehensive income

For the year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
	\$'000	\$'000
(Loss)/profit for the year	(4,667)	18,192
Other comprehensive income		
Foreign exchange translation differences	(19,540)	(3,844)
Net gain on hedge of net investments in foreign operations	-	(2,554)
Total comprehensive (loss)/income for the year	(24,207)	11,794
Attributable to		
Equity stockholders of the parent	(24,377)	11,543
Non-controlling interest	170	251
Total comprehensive income for the year	(24,207)	11,794

Consolidated statement of financial position

At March 31, 2012

Registered Number 2096520

	Note	2012 \$'000	2011 \$'000
Non-current assets			
Intangible assets	15	354,217	225,806
Property, plant and equipment	14	47,469	47,464
Deferred tax assets	17	36,913	28,412
Other receivables	19	1,466	1,303
		440,065	302,985
Current assets			
Stocks of inventories	18	8,583	2,372
Trade and other receivables	19	115,724	124,597
Cash and cash equivalents	20	80,817	81,590
		205,124	208,559
Total assets		645,189	511,544
Current liabilities			
Trade and other payables	21	72,653	50,333
Deferred revenue	22	181,499	197,398
Income tax payable		10,744	9,633
Other financial liabilities	23	53,243	-
Provisions	24	4,924	6,305
		323,063	263,669
Non-current liabilities			
Trade and other payables	21	360	-
Deferred revenue	22	243,032	155,394
Other financial liabilities	23	53,266	1,035
Provisions	24	1,267	1,668
Deferred tax liabilities	17	21,188	12,337
		319,113	170,434
Total liabilities		642,176	434,103
Net assets		3,013	77,441
Represented by			
Stock capital	26	1,709	106
Stock premium		111,830	56,850
Retained (deficit)/earnings		(122,944)	1,208
Stock based payment reserves		16,058	3,777
Translation reserves		(10,670)	7,852
Sophos Limited Group Stockholders' equity		(4,017)	69,793
Non-controlling interest		7,030	7,648
Total equity		3,013	77,441

These financial statements were approved by the board of directors on June 26, 2012 and were signed on its behalf by


Nick Bray
CHIEF FINANCE OFFICER

Consolidated statement of changes in equity

For the year ended March 31, 2012

	Stock Capital \$'000	Stock premium \$'000	Retained earnings \$'000	Stock based payment reserves \$'000	Translation reserve \$'000	Total \$'000	Non- controlling Interest \$'000	Total \$'000
At April 1, 2010	105	35,287	(26,170)	17,959	14,039	41,220	12,200	53,420
Profit for the year	-	-	18,294	-	-	18,294	(102)	18,192
<i>Other comprehensive income</i>								
Exchange differences	1	3,621	-	-	(7,818)	(4,197)	353	(3,844)
Net loss on hedge of net investment in foreign operations	-	-	-	-	(2,554)	(2,554)	-	(2,554)
Total comprehensive income for the year	1	3,621	18,294	-	(10,372)	11,543	251	11,794
Issue of stock	-	17,942	-	-	-	17,942	-	17,942
Increase in Utimaco AG stockholding	-	-	(2,501)	-	-	(2,501)	(3,864)	(6,365)
Recognition of share based payments	-	-	-	(2,597)	-	(2,597)	-	(2,597)
Dividend paid to non-controlling interest	-	-	-	-	-	-	(939)	(939)
Cancellation of warrant	-	4,185	-	-	-	4,185	-	4,185
Transfers	-	(4,185)	11,585	(11,585)	4,185	-	-	-
At March 31, 2011	106	56,850	1,208	3,777	7,852	69,793	7,648	77,441
Loss for the year	-	-	(5,308)	-	-	(5,308)	641	(4,667)
<i>Other comprehensive income:</i>								
Exchange differences	(3)	(474)	-	(70)	(18,522)	(19,069)	(471)	(19,540)
Total comprehensive income for the year	(3)	(474)	(5,308)	(70)	(18,522)	(24,377)	170	(24,207)
Issue of stock	1,606	55,454	-	-	-	57,060	-	57,060
Recognition of share based payments	-	-	-	3,134	-	3,134	-	3,134
Cumulative share based expense	-	-	(9,217)	9,217	-	-	-	-
Dividend paid in specie	-	-	(84,702)	-	-	(84,702)	-	(84,702)
Dividend paid	-	-	(24,925)	-	-	(24,925)	(788)	(25,713)
At March 31, 2012	1,709	111,830	(122,944)	16,058	(10,670)	(4,017)	7,030	3,013

On July 1, 2011 previous intra group debt of \$26,929,071 and €39,877,200 were distributed to the parent company as a dividend in specie in connection with the acquisition of the Astaro Group

During the year a transfer of \$9,217,000 was made from retained earnings to share based payment reserves to reflect cumulative share based payments under both present and past share option plans

The following describes the nature and purpose of each reserve within owner's equity

Stock capital	Amount subscribed for stock capital at nominal value
Stock premium	Amount subscribed for stock capital in excess of nominal value
Retained earnings	Cumulative net gains and losses recognized in the financial statements
Stock based payment reserve	Cumulative charge recognized under IFRS2 in respect of stock based payments
Translation reserve	Foreign exchange differences arising on translating into the reporting currency

Consolidated statement of cash flows

For the year ended March 31, 2012	Note	2012 \$'000	2011 \$'000
(Loss)/profit adjusted for		(4,667)	18,192
Depreciation	14	6,899	6,401
Amortization of intangible assets	15	52,282	21,332
Amortization of fair value adjustment on deferred income		7,997	-
Unrealized foreign exchange		2,749	(5,226)
Stock based payments	27	3,134	(2,598)
Finance income	11	(1,678)	(4,467)
Finance costs	12	7,096	1,245
Loss on disposal of assets		1,157	-
Income tax (credit)/charge	13	(11,470)	4,912
		63,499	39,791
(Increase)/decrease in inventories		(2,916)	875
Decrease/(increase) in trade and other receivables		3,501	(7,327)
Increase/(decrease) in trade and other payables		3,872	(3,757)
Increase in deferred revenue		26,009	40,537
(Decrease)/increase in provisions		(1,716)	6,152
Cash generated from operations		92,249	76,272
Income taxes (paid)/received		(3,692)	1,609
Net cash flow from operating activities		88,557	77,881
Investing activities			
Purchase of property, plant and equipment		(6,538)	(3,333)
Acquisition of subsidiary net of cash acquired		(153,817)	-
Purchase of intangible assets - software		(4,394)	(892)
Finance income		237	136
Net cash flow from investing activities		(164,512)	(4,089)
Financing activities			
Proceeds from issue of stocks		57,060	152
Net funds from/(to) parent		19,008	(19,244)
Payment from borrowings		-	(74,270)
Finance costs		(863)	(631)
Dividends paid to non-controlling interest		(788)	(939)
Net cash flow from financing activities		74,417	(94,932)
Decrease in cash and cash equivalents		(1,538)	(21,140)
Net foreign exchange differences		765	(483)
Cash and cash equivalents at the start of the year		81,590	103,213
Cash and cash equivalents at the end of the year	20	80,817	81,590

Notes to the consolidated financial statements

(Forming part of the financial statements)

1 General information

Reporting entity

Sophos Limited ('the Company') is a company domiciled in the United Kingdom. The Company's registered office is Sophos Limited, The Pentagon, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YP, United Kingdom. The consolidated financial statements of the Company as at and for the year ended March 31, 2012 comprise the Company and its subsidiaries (together referred to as 'the Group'). The Group is primarily involved in the provision of endpoint security, data protection and network access control solutions.

Statement of compliance

The consolidated financial statements have been prepared using International Financial Reporting Standards as adopted by the European Union (Adopted 'IFRSs') as they apply to the Group.

2 Significant accounting policies

Convention

The Group 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 Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group 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 Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Business Review on pages 6 to 8. Further information regarding the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report and the notes to the financial statements. In addition note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk.

The consolidated historical financial information has been prepared under the historical cost convention and is presented in US dollars. All values are rounded to the nearest thousand (\$'000) unless otherwise indicated.

The accounting policies used in preparing the consolidated historical financial information for the year ended March 31, 2012 have been consistently applied to all years presented and are set out below.

Basis of consolidation

The historical financial information consolidates the financial information of Sophos Limited and the entities it controls (its subsidiaries) at March 31, 2012. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial information of the subsidiaries is prepared for the same reporting period as the parent Company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group transactions that are recognized in the Statement of Financial Position, are eliminated in full.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Foreign currency translation

The functional currency of Sophos Limited is Sterling. The Group uses US dollars as its presentation currency to aid comparability of its financial information with that of its peers whose information is generally presented in US dollars. The individual historical financial information of each Group company is prepared in the currency of the primary economic environment in which it operates (its functional currency). Each entity in the Group determines its own functional currency and items included in the historical financial information of each entity are measured using that functional currency.

In preparing the financial information of the individual companies, transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing at the reporting date. All exchange differences are taken to the Consolidated Income Statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the Consolidated Income Statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

On consolidation, assets and liabilities of foreign subsidiaries are translated into the presentation currency (US dollars) at the exchange rate prevailing at the reporting date. Income and expense items are translated into US dollars at the prior monthly closing rate to that in which the transaction took place because they approximate the rate of exchange at transaction dates. Exchange differences arising on the translation of opening net assets of entities not denominated in US dollars, together with differences arising from the translation of the net results at average or actual rates to the exchange rate prevailing at the reporting date, are taken to equity.

On disposal of a foreign entity, the deferred accumulated amount recognized in equity relating to that particular foreign operation is recognized in the Consolidated Income Statement.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of historical financial information requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Group's accounting policies described in this note, management has made the following judgments that have a significant effect on the amounts recognized in the historical financial information.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Deferred taxation

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Further details are contained in note 17.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Impairment of goodwill and intangibles

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in notes 15 and 16.

Stock based payments transactions

The fair value of employee stock options and stock warrants issued to third parties are measured using the Black-Scholes model. Measurement inputs includes stock 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 behavior), 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.

Research and development costs

Development costs are capitalized in accordance with the accounting policy in this note. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Business combinations

Management is required to make an assessment of the intangible assets to be recognized as a result of the business acquisition. Furthermore, management is required to make an assessment as to whether the intangible assets are separable and their fair values as at the time of acquisition. This is based on certain assumptions including the expected future cash flows arising from use of the intangibles, discount rates and estimated economic lives of the intangibles.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Except for freehold land, depreciation is provided to write off the cost less the estimated residual values of all property, plant and equipment on a straight-line basis over their estimated useful life as follows:

Freehold buildings	25 years
Leasehold improvements	over the lease period
Computer equipment	3 years
Other plant and equipment	5 years
Motor vehicles	4 years
Fixtures and fittings	6 - 10 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Property, plant and equipment (*continued*)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the Consolidated Income Statement in the period of de-recognition.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Business combinations on or after April 1, 2004 are accounted for under IFRS 3. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognized in the Consolidated Statement of Financial Position as goodwill and is not amortized. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognized immediately in the Consolidated Income Statement. Goodwill recognized as an asset as at March 31, 2004 is recorded at its previous carrying amount under UK GAAP and is not amortized.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognized in the Consolidated Income Statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Intangible assets

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognized outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets is taken to the Consolidated Income Statement in the period in which it is incurred to the extent that the expenditure does not qualify for capitalization under research and development costs.

Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalized costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalization of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Intangible assets (*continued*)

Intangible assets with a finite life have no residual value and are amortized over their expected useful lives as follows

Other Intellectual property	- 35% reducing balance basis
Intellectual property relating to Unified Threat Management technology	- 65% reducing balance basis
Brand names	- 35% reducing balance basis
Customer base	- 45% - 49% reducing balance basis
All other intangibles	- 3 years (straight-line basis)

The amortization expense on intangible assets with finite lives is recognized in the Consolidated Income Statement as a general finance and administration cost. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The term of their useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Research and development costs

Expenditure on research activities is expensed as incurred.

Development expenditure is recognized 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 amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized 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 recognized as an expense in the Consolidated Income Statement as incurred.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Impairment of assets

At least annually, or when otherwise required, management reviews the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money as well as risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately as income, although impairment losses relating to goodwill may not be reversed.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all costs incurred in bringing each product to its present location and condition. The cost of raw materials, consumables and goods for resale is based on the purchase cost and is determined on a first-in, first-out basis.

Net realizable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Financial instruments

Financial assets and liabilities are recognized on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. When financial instruments are recognized initially, they are measured at fair value, being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Trade receivables

Trade receivables, which generally have 30-90 day terms, are carried at original invoice amount, including value added tax and other sales taxes, less an estimate made for doubtful receivables based on a review of any outstanding amounts at the period end and on historical performance. Bad debts are written off in the period in which they are identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits repayable in 90 days or less. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and bank deposits net of outstanding bank overdrafts.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Trade payables

Trade payables are recognized at cost, which is deemed to be materially the same as the fair value

Classification of stock as debt or equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

When stock is issued, any component that creates a financial liability of the Group is presented as a liability in the Consolidated Statement of Financial Position, measured initially at fair value net of transaction costs and thereafter at amortized cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the Consolidated Income Statement.

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs. Equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognized when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transactions costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognized respectively in finance income and finance expense.

Derivative financial instruments

The Group sometimes uses derivative financial instruments, principally forward foreign currency contracts to reduce its exposure to exchange rate movements and interest rate caps to reduce its exposure to fluctuating interest rates. The Group does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognized as assets and liabilities measured at their fair values at the reporting date. Changes in the fair values are recognized in the Consolidated Income Statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognized in the Consolidated Income Statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility.

The Group expects that hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions.

De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognized when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognized in the Consolidated Income Statement.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Provisions

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognized as a separate asset but only when recovery is virtually certain.

The expense relating to any provision is presented in the Consolidated Income Statement net of any reimbursement.

Where discounting is used, the increase in the provision due to unwinding the discount is recognized as a finance cost.

Taxation

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Taxation (*continued*)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the historical financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

In the United Kingdom, until June 15, 2010 the Group was entitled to a tax deduction for amounts treated as remuneration on exercise of certain employee stock options. As explained under 'Stock based payments' below, a remuneration expense is recorded in the Consolidated Income Statement over the period from the award date to the vesting date of the relevant options. Where there is a temporary difference between the accounting and tax bases, a deferred tax asset may be recorded. Any deferred tax asset arising on stock option awards is calculated as the estimated amount of tax deduction to be obtained in the future (based on the Group's stock price at the reporting date) pro-rated to the extent that the services of the employee have been rendered over the vesting period. If this amount exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings. Similarly, current tax relief in excess of the cumulative amount of the remuneration expense at the statutory rate is also recorded in retained earnings. Following the acquisition by Apax Partners a deferred tax asset has only been recognized in jurisdictions in which a future tax deduction is expected.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the Consolidated Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

Pensions and other post-retirement benefits

The Group operates defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to defined contribution schemes are recognized in the Consolidated Income Statement in the period in which they become payable.

In addition the Group acquired an unfunded defined benefit scheme with the acquisition of Utimaco in October 2008. The obligation under this scheme is recognized within provisions. The obligation is valued by an approved actuary, with any movements in the liability recorded in the Consolidated Income Statement.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from software licenses and service contracts

The Group sells software products under fixed term contracts and perpetual licenses. Where there is multi-element arrangement revenue is allocated to each element on a fair value basis regardless of any separate prices stated within the contract. The portion of the revenue allocated to an element is recognized when the revenue 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 runs for periods ranging from 1 to 5 years.

Revenue for these fixed rate contracts is recognized ratably 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 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 recognizes the revenue in line with the contract terms granted to the end user.

Perpetual licenses

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

Sale of goods

Revenue from the sale of goods is recognized ratably over the period of the associated software license contract because the hardware is only sold with the intention of being used together with the related software license.

Interest income

Revenue is recognized as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Billings

Billings is the value of products and services we invoiced to customers after receiving a purchase order from the customer and delivering our products and services to them, or for which there is no right to a refund for undelivered items. Billings does not equate to revenue.

Notes to the consolidated financial statements (*continued*)

2 Significant accounting policies (*continued*)

Stock based payments

Employees (including senior executives) of the Group receive remuneration in the form of stock based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions")

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 27

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, ending on the date on which the relevant employees become fully entitled to the award

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognized in the Consolidated Income Statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognized over the original vesting period. In addition, an expense is recognized over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognized if this difference is negative

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognized in the Consolidated Income Statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Consolidated Income Statement

Exceptional items

Material items, by virtue of their size or incidence deriving from events or transactions falling within the ordinary activities of the Company, either individually or of a similar type in aggregate, are disclosed separately within the financial statements

Events after reporting date

Events between the reporting date and the date the financial statements are approved, favorable and unfavorable, providing evidence conditions that existed at the reporting date adjust the amounts recognized in the financial statements. Those that indicate conditions arising after the reporting date are disclosed but are not recognized within the financial statements

Notes to the consolidated financial statements (*continued*)

3 Revenue

Revenue recognized in the Consolidated Income Statement is analyzed as follows

	2012 \$'000	2011 \$'000
Rendering of services	333,443	293,452
Sale of goods	31,939	13,329
	<u>365,382</u>	<u>306,781</u>

4 Segment information

For management reporting purposes, the primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by the products and services provided to customers. Secondary segment information is reported geographically. The Group has only one business segment on the basis that the products and services offered to external customers are very similar and therefore do not result in different risks and rates of return for the Group.

The Group's geographical segments are based on the location of the Group's assets.

Billings are based on the geographic location of direct customers, OEMs and the distributors which purchase our products. The geographic location of OEMs or distributors may be different from the geographic location of the end customers. Revenue has been allocated to each geography in a manner consistent with the billings profile.

Transfer prices between geographical segments are set on an arm's length basis in a manner similar to transactions with third parties.

Geographical segments

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the year ended March 31, 2012 and comparative periods.

	North America \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
Year-ended March 31, 2012				
Billings⁽¹⁾	132,217	202,184	68,465	402,866
Revenue				
Revenue from continuing operations	124,369	179,229	61,784	365,382
Other segment information				
Segment assets	31,928	212,032	15,186	259,146
Unallocated assets				386,043
Total assets				645,189
Capital expenditure:				
Property, plant and equipment	1,284	5,066	188	6,538
Intangible assets	50	4,343	1	4,394
	<u>1,334</u>	<u>9,409</u>	<u>189</u>	<u>10,932</u>

Notes to the consolidated financial statements (continued)

4 Segment information (continued)

	North America \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
Year-ended March 31, 2011				
Billings ⁽¹⁾	120,326	172,365	50,946	343,637
Revenue				
Revenue from continuing operations	116,672	141,800	48,309	306,781
Other segment information				
Segment assets	25,689	212,495	16,460	254,644
Unallocated assets				256,900
Total assets				511,544
Capital expenditure				
Property, plant and equipment	904	2,330	99	3,333
Intangible assets	53	835	4	892
	957	3,165	103	4,225

⁽¹⁾ Billings do not represent the Group's statutory revenue

Corporate assets not allocated to geographical segments relate to corporation and deferred tax, goodwill, intellectual property and other intangible assets (excluding computer software) acquired on acquisition of subsidiaries

Notes to the consolidated financial statements (continued)

5 Reconciliation of Operating (loss)/profit to EBITDA

	Note	2012 \$'000	2011 \$'000
Operating (loss)/profit		(10,719)	19,882
Depreciation	14	6,899	6,401
Amortization of Intangible purchased assets	15	52,282	21,332
EBITDA		48,462	47,615
Share based payments	27	3,191	(2,598)
Exceptional costs	6	15,045	16,574
Adjusted EBITDA		66,698	61,591
Net deferral of revenue		37,484	36,856
Unrealised foreign exchange (loss)/gain		2,749	(5,226)
Other adjusting items		976	1,562
Cash EBITDA		107,899	94,783
Billings	4	402,866	343,637
Revenue	3	(365,382)	(306,781)
Net deferral of revenue		37,484	36,856

The senior management team use Cash EBITDA as a key profitability performance measures of the business. Additionally, management believes this measure is a more appropriate earnings and cash flow measure than reported EBITDA.

6 Exceptional costs

Due to their significance and one off nature during the year to March 31, 2012, acquisition related expenses of \$7,500,000, restructuring costs of \$4,711,000 and further investment realignment costs of \$2,834,000 resulted in a total of \$15,045,000 being shown separately on the face of the Consolidated Income Statement as exceptional costs.

During the year to March 31, 2011, consultancy expenses relating to the acquisition of the Sophos Group by Apax Partners of \$6,097,000, investment realignment costs of \$8,394,000 and due diligence costs of \$2,083,000, totaling \$16,574,000 are shown separately on the face of the Consolidated Income Statement.

Notes to the consolidated financial statements (continued)

7 Profit/(loss) for the year

The profit/(loss) before taxation is stated after charging

	2012	2011
	\$'000	\$'000
Depreciation of property, plant and equipment	6,899	6,401
Amortization of intangible assets	52,282	21,332
Research and development expenditure	63,719	58,754
Operating lease rentals		
Property	9,443	7,656
Other	1,775	809
Auditor's remuneration	790	586
Pension scheme contributions	4,407	3,558
Impairment of trade receivables	1,068	320
Net foreign currency differences	3,192	(4,420)
Other income	(56)	(58)

8 Auditor's remuneration

The Group paid the following amounts to its auditors in respect of the audit of the historical financial information and for other services provided to the Group

	2012	2011
	\$'000	\$'000
Audit of the financial statements	165	204
Subsidiary local statutory audits	448	232
Other services	177	150
	790	586

Subsidiary local audit for 2012 includes \$168k in respect of Astaro

9 Employee costs

	2012	2011
	\$'000	\$'000
Wages and salaries	157,152	153,777
Social Security costs	17,406	18,159
Pension costs	4,407	3,558
Other costs	6,267	8,692
	185,232	184,186
Stock based payments	3,191	(2,598)
	188,423	181,588

The Stock based payments expense arises from equity-settled stock based payment transactions. Refer to note 27 for further information.

Notes to the consolidated financial statements (continued)

9 Employee costs (continued)

The average monthly number of employees during the period, analyzed by category, was as follows

	2012	2011
Technical	829	822
Sales and marketing	694	642
Administration	125	109
	1,648	1,573

10 Directors' remuneration

	2012	2011
	\$'000	\$'000
Directors emoluments	2,336	1,503
Aggregate contributions to pension schemes	32	19
	2,368	1,522

The number of directors accruing benefits under the defined contribution schemes as at March 31, 2012 was two (2010 two)

There were 5 directors (2011 none) in respect of whose services share based payments were received or receivable under long-term incentive schemes. During the year, no directors exercised stock options (2011 three)

The aggregate of emoluments of the highest paid director for the year ended March 31, 2012 was \$1,475,765 (2011 \$792,826), and Company pension contributions of \$15,149 were made to a money purchase scheme on his behalf (2011 \$14,094)

11 Finance Income

	2012	2011
	\$'000	\$'000
Interest on bank deposits	153	126
Interest on loans to related parties	1,525	-
Derecognition of financial liabilities	-	4,341
	1,678	4,467

12 Finance expense

	2012	2011
	\$'000	\$'000
Interest expense on loans and borrowings	-	225
Amortization of facility fees	-	614
Interest on loans from related parties	6,664	-
Other interest	432	406
	7,096	1,245

Notes to the consolidated financial statements (continued)

13 Taxation

	2012	2011
	\$'000	\$'000
Current income tax		
UK corporation tax	175	-
Overseas tax	6,563	5,826
Adjustment in respect of previous years	(1,233)	(3,219)
Total current tax charge	5,505	2,607
Deferred tax		
Origination and reversal of temporary differences	(9,223)	2,049
Adjustment in respect of previous years	(7,752)	256
Total deferred tax (credit)/charge	(16,975)	2,305
Total income tax (credit)/charge	(11,470)	4,912

UK corporation tax for the year ended March 31, 2012 is calculated at 26% (2011 28%) of the estimated assessable profit/(loss) for the year

The (credit)/charge for the year can be reconciled to the (loss)/profit for the year before taxation per the Consolidated Income Statement as follows

	2012	2011
	\$'000	\$'000
(Loss)/profit for the year before taxation	(16,137)	23,104
(Loss)/profit for the year before taxation multiplied by the standard rate of corporation tax in the UK of 26% (2010 28%)	(4,196)	6,469
Effects of		
Expenses not deductible for tax purposes	3,163	(603)
Timing differences not recognized	-	641
Higher tax rates on overseas earnings	(1,259)	1,537
Research and development and other tax credits	(804)	(1,186)
Adjustments in respect of previous years	(8,696)	(2,896)
Change in tax rate during the year	1,356	2,994
Additional local taxes	350	-
Irrecoverable WHT written off	217	-
Other movements	(1,601)	(2,044)
(Credit)/charge for taxation on (loss)/profit for the year	(11,470)	4,912

Notes to the consolidated financial statements (*continued*)

14 Property, plant and equipment

	Freehold land and buildings \$'000	Plant and machinery \$'000	Motor vehicles \$'000	Fixtures and fittings \$'000	Total \$'000
Cost					
At April 1, 2010	57,422	30,162	209	9,001	96,794
Additions	-	2,292	-	1,041	3,333
Acquired through business combinations	-	-	-	-	-
Disposals	-	(46)	(25)	(53)	(124)
Effect of movements in exchange rates	3,237	1,376	9	742	5,364
At March 31, 2011	60,659	33,784	193	10,731	105,367
Additions	606	4,074	-	1,858	6,538
Acquired through business combinations	-	665	15	1,026	1,706
Disposals	(4,059)	(4,139)	(47)	(4,827)	(13,072)
Effect of movements in exchange rates	(193)	(442)	(6)	(790)	(1,431)
At March 31, 2012	57,013	33,942	155	7,998	99,108
Depreciation					
At April 1, 2010	16,997	26,127	209	5,383	48,716
Charge for the year	2,250	2,692	-	1,459	6,401
Disposals	-	(23)	(25)	-	(48)
Effect of movements in exchange rates	1,028	1,191	9	606	2,834
At March 31, 2011	20,275	29,987	193	7,448	57,903
Charge for the year	2,572	2,958	5	1,364	6,899
Disposals	(3,881)	(4,088)	(47)	(4,166)	(12,182)
Effect of movements in exchange rates	(73)	(326)	(5)	(577)	(981)
At March 31, 2012	18,893	28,531	146	4,069	51,639
Net book value					
At March 31, 2011	40,384	3,797	-	3,283	47,464
At March 31, 2012	38,120	5,411	9	3,929	47,469

Included in the net book value of property, plant and equipment are assets under finance lease of \$432,600 (2011 \$Nil)

There has been no impairment to the property, plant and equipment held by the Group

Notes to the consolidated financial statements (continued)

15 Intangible assets

	Goodwill \$'000	Intellectual property \$'000	Software \$'000	Others \$'000	Total \$'000
Cost					
At April 1, 2010	183,731	66,914	5,481	52,994	309,120
Additions	-	-	892	-	892
Acquired through business combinations	-	-	-	-	-
Effect of movements in exchange rates	7,841	3,238	323	2,578	13,980
At March 31, 2011	191,572	70,152	6,696	55,572	323,992
Additions	-	-	4,394	-	4,394
Acquired through business combinations	113,067	22,601	1,008	67,659	204,335
Disposal/write down	-	-	(1,983)	-	(1,983)
Effect of movements in exchange rates	(19,825)	(5,673)	(136)	(8,880)	(34,514)
At March 31, 2012	284,814	87,080	9,979	114,351	496,224
Amortization/Impairment loss					
At April 1, 2010	4,547	32,018	3,963	31,611	72,139
Charge for the year	-	11,607	1,225	8,500	21,332
Effect of movements in exchange rates	(187)	2,407	278	2,217	4,715
At March 31, 2011	4,360	46,032	5,466	42,328	98,186
Charge for the year	-	21,373	1,187	29,722	52,282
Disposal/write down	-	-	(1,716)	-	(1,716)
Effect of movements in exchange rates	119	(3,204)	(48)	(3,612)	(6,745)
At March 31, 2012	4,479	64,201	4,889	68,438	142,007
Net book value					
At March 31, 2011	187,212	24,120	1,230	13,244	225,806
At March 31, 2012	280,335	22,879	5,090	45,913	354,217

The Group has not capitalized development costs in the year ended March 31, 2012 (2011 \$Nil). Capitalized research and development costs acquired as part of the business combination with Utimaco are shown above within intellectual property and are written off over 5 years.

Amortization charges and impairment losses on intellectual property, patents and other intangible assets are recognized within research and development expenses, amortization charges on brand names are recognized within administration expenses.

The Group does not have any intangible assets with an indefinite useful life, except for goodwill.

Notes to the consolidated financial statements (*continued*)

16 Impairment of goodwill and intangibles

Impairment of goodwill and intangible assets is tested annually or more frequently when there is indication of impairment. Impairment is tested at the Group level, which represents the lowest level at which goodwill is monitored for internal management purposes. Goodwill and intangibles recognized on the acquisition of the Astaro group, the Utimaco group, ActiveState and Endforce is utilized across all cash generating units in the Group.

Goodwill is considered impaired if the carrying value of the cash generating units to which it relates is greater than the higher of fair value less costs to sell and the value in use.

For the year ending March 31, 2012, the directors have reviewed the value of goodwill based on internal value in use calculations. The key assumptions for these calculations are discount rates, growth rates and expected changes to revenue and direct costs during the period.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital. The rate used to discount the forecast cash flows for the Group was 12.0% (2011: 11.0%).

The Group prepares cash flow forecasts derived from management's most recent financial forecasts for the following 4 years. Beyond these forecasts, cash flows have been extrapolated using a steady 2.5% (2011: 2.0%) per annum growth rate.

As at March 31, 2012, there were no indicators of impairment that suggested the carrying amounts of the Group's long lived assets are not recoverable.

In the prior year Goodwill impairment was tested against the fair value less cost to sell as a majority stake in the Group was sold to Apax Partners in a transaction valuing the Group at \$830m on June 15, 2010.

The directors considered the effects of buyer specific synergies and control premium, disposal costs, and any significant events occurring between March 31, 2011 and June 15, 2010 in concluding that the fair value less costs to sell of the Group of cash generating units was significantly in excess of their carrying value.

Notes to the consolidated financial statements (continued)

17 Deferred tax

Deferred tax assets and liabilities are attributable to the following

	2012	2011
	\$'000	\$'000
Deferred income tax assets:		
Arising on consolidation of deferred revenue	24,210	23,556
Tax value of carry forward losses of overseas subsidiaries	7,577	1,589
Advanced capital allowances of overseas subsidiaries	359	790
Stock based payments	300	-
Other timing differences	4,467	2,477
	36,913	28,412
Deferred income tax liabilities		
Accelerated depreciation for tax purposes	19,618	11,585
Arising on deferred revenue	196	-
Other timing differences	1,374	752
	21,188	12,337

The Group has unutilized tax losses and investment tax credits as at March 31, 2012 of \$29,835,000 (2011 \$19,789,000) upon which a deferred tax asset of \$11,952,000 (2011 \$8,927,000) has not been recognized. In addition, a deferred tax asset of \$2,583,304 (2011 \$2,483,000) in relation to building costs has not been recognized.

As at March 31, 2012, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized was \$Nil (2011 \$Nil). No liability has been recognized because the Group is in a position to control the reversal of temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability settled, based on tax rates that have been acted or substantially enacted at the reporting date. The March 2012 Budget announced that the main rate of UK corporation tax will reduce from 26% to 24% with effect from April 1, 2012. The Budget was substantively enacted on March 26, 2012 and therefore is applicable at the reporting date.

The previously announced decreases to 23% from April 1, 2013 and further decrease to 22% are not expected to be substantively enacted until future finance bills are approved. If the rate reduction to 23% had been substantively enacted on or before the reporting date it would have had the effect of reducing the deferred tax asset recognized at that date by \$1,069,000 and reducing the deferred tax liability recognized at that date by \$766,000 and would have reduced the amount of total unrecognized deferred tax assets at that date by \$26,000.

Notes to the consolidated financial statements (continued)

18 Inventories

	2012	2011
	\$'000	\$'000
Work in progress	652	279
Finished goods and goods for resale	7,931	2,093
	8,583	2,372

The amount of write-down of inventories released within cost of sales was \$81,000, (2011 recognized \$670,000)

19 Trade and other receivables

	2012	2011
	\$'000	\$'000
Current		
Trade receivables	81,235	78,302
Prepayments	10,022	6,335
Other receivables	7,113	7,487
Amounts due from Shield Bidco	17,354	32,473
	115,724	124,597
Non-current		
Other receivables	1,466	1,303

Trade receivables are non-interest bearing and are generally on 30-90 day terms depending on the geographical territory in which sales are generated. The carrying value of trade and other receivables also represents their fair value. During the year ended March 31, 2012, provision for impairment of \$1,068,000 (2011 \$320,000) recognized in operating expenses was made against receivables.

Notes to the consolidated financial statements *(continued)*

19 Trade and other receivables *(continued)*

As at March 31, 2012, trade receivables at nominal value of \$2,126,000 (2011 \$3,684,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows

	2012	2011
	\$'000	\$'000
As at April 1	3,684	3,407
Arising on business acquisition	96	-
Charge for the year	1,068	320
Amounts written off	(1,799)	(216)
Unused amounts reversed	(813)	191
Effects of movements in exchange rate	(110)	(18)
As at March 31	2,126	3,684

The analysis of trade receivables that were past due but not impaired is as follows

Up to 3 months	15,528	13,281
3 to 6 months	4,322	1,939
Greater than 6 months	3,395	1,433
	23,245	16,653

20 Cash and cash equivalent

	2012	2011
	\$'000	\$'000
Cash at bank and in hand	63,488	62,215
Short-term deposits	17,329	19,375
	80,817	81,590

Notes to the consolidated financial statements (*continued*)

21 Trade and other payables

	2012	2011
	\$'000	\$'000
Current		
Trade payables	14,438	8,541
Accruals	28,217	27,690
Social security and other taxes	8,421	8,209
Other payables	15,034	5,011
Amounts due to parent	6,543	882
Trade and other payables due in less than one year	72,653	50,333
Non-current		
Other payables	360	-
Trade and other payables due in more than one year	360	-

Trade payables are non-interest bearing and are normally settled on 30-day terms or as otherwise agreed with suppliers

22 Deferred revenue

	2012	2011
	\$'000	\$'000
Current		
Due within 12 months	181,499	197,398
Due after 12 months	243,032	155,394
	424,531	352,792

On acquisition of the Astaro Group on June 30, 2011, deferred revenues with a book value of \$49,626,000 were adjusted to a fair value of \$32,095,000. The reduction of \$17,531,000 represents the original selling cost and associated profit.

Notes to the consolidated financial statements (*continued*)

23 Financial liabilities

	2012	2011
	\$'000	\$'000
Current		
Current installments due on finance leases	135	
Amounts due to Group undertakings	53,108	-
	53,243	-
Non-current		
Non-current installments due on finance leases within 5 years	295	-
Amounts due to Group undertakings	51,936	-
Liability component of preference stock	1,035	1,035
	53,266	1,035
	106,509	1,035

Amounts due to Group undertakings

On July 1, 2011 A new loan of €20,000,000 due July 1, 2016 was lent by a non consolidated group undertaking in connection with the acquisition of the Astaro Group. Previous intra group debt of \$26,929,071 due July 1, 2016 and €39,877,200 were also, distributed to a non consolidated group undertaking. Interest of 7.0% - 8.4% is charged on outstanding loan balances.

Finance leases

The group has leased certain of its fixtures and fittings under finance leases with a term of 3 to 5 ½ years and an underlying interest rates ranging from 5.2% - 5.3% per annum.

	2012	2011
	\$'000	\$'000
Minimum lease payments		
Due within 12 months	154	-
Due after 12 months but within 60 months	315	-
	469	-
Less: future finance charges	(39)	-
Present value of minimum lease payments	430	-

Notes to the consolidated financial statements (continued)

24 Provisions

	Restructuring \$'000	Pension \$'000	Other \$'000	Total \$'000
At April 1, 2010	-	1,327	484	1,811
Arising during the year	8,394	351	2,083	10,828
Utilized	(4,060)	(90)	(112)	(4,262)
Released during the year	-	-	(414)	(414)
Exchange differences	-	2	8	10
At March 31, 2011	4,334	1,590	2,049	7,973
Arising during the year	2,458	67	2,045	4,570
Utilized	(3,913)	(100)	(1,990)	(6,003)
Released during the year	-	(283)	-	(283)
Exchange differences	(12)	(79)	25	(66)
At March 31, 2012	2,867	1,195	2,129	6,191
March 31, 2012				
Current	2,867	-	2,057	4,924
Non-current	-	1,195	72	1,267
	2,867	1,195	2,129	6,191
March 31, 2011				
Current	4,334	-	1,971	6,305
Non-current	-	1,590	78	1,668
	4,334	1,590	2,049	7,973

Restructuring provision

The opening provision is in relation to the cost savings initiatives implemented during the year ending March 2010. The remainder of this provision is expected to be fully utilized by the end of June 2012.

The restructuring provision arising in the year ending 31 March 2012, relates to new cost savings initiatives implemented during the current year and this provision is expected to be fully utilized by December 2012.

Pension provision

The pension provision relates to a defined benefit scheme in a German subsidiary, please refer to note 28 for details.

Other provisions

The opening provision relate to dilapidations and a provision in relation to professional fees and expenses incurred during the due diligence work on the Astaro group, this provision was fully utilized during the year.

The provision arising in the year ended 31 March 2012 relate to expenses in relation to the integration of the Astaro Group into the wider Sophos Group and is expected to be fully utilized by 31 March 2013.

Notes to the consolidated financial statements (*continued*)

25 Financial risk management

Financial risk management is conducted at a Group level, applying treasury policies which have been approved by the Board. The major financial risks to which the Group is exposed relate to interest rate risk, credit risk and movements in foreign currency exchange rates. Where appropriate, cost effective and practicable, the Group uses various financial instruments to manage these risks. The main purpose of these financial instruments is to ensure liquidity for the Group operations. No speculative use of derivatives, currency or other instruments is permitted.

The Directors review and agree policies for managing each of these risks as summarized below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having variable rate loans and borrowings, and interest rate caps to limit any exposure to significant interest rate fluctuations.

Credit risk

The Group's principal financial assets are cash and bank deposits and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables and cash balances. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

The amounts presented in the Consolidated Statement of Financial Position are net of allowance for doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The expense recognized in the Consolidated Income Statement in respect of doubtful debts during the year was \$1,068,000 (2011: \$320,000).

The Group has no significant concentration of credit risk in trade receivables, exposure is spread over a large number of counterparties and customers.

With respect to cash and deposits, the Group's exposure to credit risk arises from the risk of default by the counterparty with a maximum exposure equal to the carrying amount of these assets. To mitigate this risk, cash and deposits are only held with reputable banking institutions. The Group reduces the concentrations of credit risk in cash and deposits by holding balances with a number of separate institutions.

Foreign currency risk

The Group is exposed to translation and transaction foreign exchange risk. Several other currencies in addition to the reporting currency of USD are used, including Sterling and the Euro. The Group experiences currency exchange differences arising upon retranslation of monetary items (primarily short-term intercompany balances and long-term borrowings), which are recognized as an expense in the year the retranslation occurs. The Group endeavors to match the cash inflows and outflows in the various currencies, the Group typically invoices its customers in their local currency, and pays its local expenses in local currency as a means to mitigate this risk. The Group is also exposed to exchange differences arising from the translation of its subsidiaries' financial statements in to the Group's reporting currency of USD with the corresponding exchange differences taken directly to equity.

Notes to the consolidated financial statements (*continued*)

25 Financial risk management (*continued*)

The following table illustrates the movement that 10% in the value of Sterling or the Euro would have had on the Group's loss for the year and on the Group's equity as at the end of the year

	2012	2011
	\$000	\$000
10% strengthening in Sterling	1,336	377
10% strengthening in Euro	5,960	4,052
10% weakening in Sterling	(1,336)	(460)
10% weakening in Euro	(5,960)	(4,952)

Any foreign exchange variance would be recognized as unrealized foreign exchange in the Consolidated Income Statement and have no impact on cash flows

Liquidity risk

The Group prepares budgets annually in advance. This enables the Group's operating cash flow requirements to be anticipated and to ensure sufficient liquidity is available to meet foreseeable needs, financial obligations and to invest any surplus cash assets safely and profitably.

The Group's objective is to maintain a balance between continuity of funding, minimizing finance costs and maintaining flexibility through the use of short-term deposits and intra-Group loan arrangements.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize stockholders' value.

The capital structure of the Group consists of cash and cash equivalents as disclosed in note 20, borrowings as disclosed in note 23 and equity attributable to equity holders of the parent, comprising issued capital, reserves, and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital.

Notes to the consolidated financial statements *(continued)*

26 Issued capital

Allotted, called up and fully paid

	Ordinary stock		Convertible preferred ordinary stock		Total	
	Thousands	\$'000	Thousands	\$'000	Thousands	\$'000
At April 1, 2010	127,969	78	46,516	27	174,485	105
Issued under stock purchase plan	33	-	-	-	33	-
Issued on exercise of stock options	207	-	-	-	207	-
Exchange differences	n/a	1	n/a	-	n/a	1
At March 31, 2011	128,209	79	45,516	27	174,725	106
Issued as part of the Astaro acquisition	2,500,000	1,606	-	-	2,500,000	1,606
Exchange differences	n/a	(3)	n/a	-	n/a	(3)
At March 31, 2012	2,628,209	1,682	45,516	27	2,674,725	1,709

All classes of stock are classified as equity stock and rank par *passu* for any dividend declared by the Company. On a qualifying listing or at the election of the holders, the convertible preferred ordinary stock converts into ordinary stock on a one-for-one basis. The convertible preferred ordinary stock shall also carry priority over the assets of the stock purchased by employees under the employee stock purchase plan.

On July 1, 2011, 2,500,000,000 ordinary stocks of £0.0004 each were issued to Shield Bidco Limited for a consideration of \$50,022,000 and €4,156,000 in connection with the acquisition of the Astaro Group.

For the year ended March 31, 2011, 32,700 ordinary stocks of £0.0004 each were issued under the Sophos employee stock purchase plan and 206,744 stocks under the Sophos employee stock option schemes for a total consideration of £11,992,000.

Notes to the consolidated financial statements (continued)

27 Stock based payments

Following the change of control of the Group on June 15, 2010, the Sophos Ltd stock option schemes ceased and all unvested stock options were forfeited. Pentagon Holdings SARL offered a number of new, 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>2012</u>	<u>2011</u>
	\$'000	\$'000
Cash-settled transactions	57	39
Equity-settled transactions	3,134	3,737
Credit on forfeiture of Sophos Ltd stock option awards	-	(6,374)
Total stock based payment charge/(credit)	3,191	(2,598)

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.

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

	<u>2012</u>	<u>2011</u>
Weighted average stock price (\$ cents)	38.0	57.2
Weighted average exercise price (\$ cents)	38.0	16.6
Expected volatility	40.00%	36.00%
Expected life of options (years)	3.14	4.5 to 5.5
Risk free rate	1.07%	1.00%
Expected dividends	Nil	Nil

The weighted average fair value of options granted during the year was \$ cents 10.0 (2011 \$ cents 37.7).

Notes to the consolidated financial statements (continued)

27 Stock based payments (continued)

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 behavioral 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 (2011 as adjusted for restricted stock shown separately below)

	2012		2011	
	Number of Options	WAEP \$ cents	Number of Options	WAEP \$ cents
Outstanding at the start of the year	42,878,543	16.6	22,608,934	127.4
Awarded	6,595,002	38.0	42,878,543	16.6
Forfeited	(4,691,335)	20.9	(6,892,668)	158.2
Exercised	(305,000)	30.3	(15,716,266)	106.2
Outstanding at the end of the year	44,477,210	20.1	42,878,543	16.6
Exercisable at the end of the year	7,681,234	21.3	Nil	Nil

The weighted average share price for options exercised during the year was \$ cents 38.0.

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

Exercise price (\$ cents)	2012		2011	
	Number of Options	WARCT (years)	Number of Options	WARCT (years)
2.5	4,509,680	8.2	5,958,458	9.2
7.5625	16,286,166	8.2	16,286,166	9.2
30.25	18,391,864	8.2	20,633,919	9.2
38.00	5,289,500	9.2	-	-
Outstanding at the end of the year	44,477,210	8.3	42,878,543	9.2

Notes to the consolidated financial statements (continued)

27 Stock based payments (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

	2012		2011	
	Number of Shares	WASP \$ cents	Number of Shares	WASP \$ cents
Outstanding at the start of the year	3,131,020	30.25	-	-
Awarded	1,653,397	30.25	3,131,020	30.25
Forfeited	-	-	-	-
Vested	(909,147)	30.25	-	-
Outstanding at the end of the year	3,875,270	30.25	3,131,020	30.25

28 Pension Schemes

The Group contributes to money purchase personal pension schemes in the UK and to similar or state pension schemes overseas for the benefit of the employees and directors. The assets of the schemes are administered by trusts or other bodies in funds independent from the Group. In addition, the Group has a defined benefit scheme in Germany arising from the Utimaco acquisition in October 2008.

The pension cost charge for the year represents contributions payable by the Group to the funds and increases to the defined benefit scheme provision and amounted to \$4,407,000 (2011: \$3,558,000).

Contributions of \$556,713 (2011: \$Nil) to the defined contribution pension scheme were outstanding but not overdue at the year end.

The defined benefit scheme is an unfunded scheme, as is usual in Germany, with the deficit on the scheme financed by accruals established within the Utimaco accounts. As at March 31, 2012 the scheme had 1 active member and 6 deferred members.

The principal assumptions used in the valuation of the scheme liabilities were:

Discount rate	4.49%
Rate of increase in salaries	n/a
Rate of increase of pensions in payment	2.00%
Inflation assumption	2.00%

The charge to the Consolidated Income Statement in respect of the defined benefit scheme was \$67,000, of which \$2,000 represented the current service cost and \$65,000 the interest expense. The charge for 2013 is expected to be approximately \$61,000.

Notes to the consolidated financial statements *(continued)*

28 Pension schemes *(continued)*

The movement in the valuation of the defined benefit obligation was

	2012 \$'000
Present value of obligation at March 31, 2011	1,307
Current service cost	2
Interest expense	65
Benefits paid	(100)
Exchange differences	(79)
Present value of obligation at March 31, 2012	1,195

The present value of obligations as at March 31, 2012 is included in provisions. Given the unfunded nature of the scheme there is no offsetting asset.

29 Related party transactions

Ownership

The Company's immediate parent company is Shield Bidco Limited, a company registered in England and Wales. The smallest group within which the Companies financial statements are consolidated is that headed by the Company. The largest group within which these financial statements are consolidated is headed by Shield Midco Limited, a company incorporated in England and Wales. The ultimate parent undertaking is Apax Partners LP (incorporated in Delaware, USA) and the ultimate controlling parties are the fund holders of Apax.

Notes to the consolidated financial statements (continued)

29 Related party transactions (continued)

Subsidiaries

The consolidated financial information includes the financial information of Sophos Limited and the subsidiaries listed in the following table

Subsidiary undertaking	Country of incorporation	Principal activity	Class of stocks held	Percentage of stocks held
Sophos Inc ¹	USA	Selling IT security solutions	Ordinary	100%
Sophos Pty Ltd ¹	Australia	Selling IT security solutions	Ordinary	100%
Sophos Sarl ¹	France	Selling IT security solutions	Ordinary	100%
Sophos KK ¹	Japan	Selling IT security solutions	Ordinary	100%
Sophos Italy Srl ¹	Italy	Selling IT security solutions	Ordinary	100%
Sophos Computer Security Pte Ltd ¹	Singapore	Selling IT security solutions	Ordinary	100%
Sophos Inc ¹	Canada	Selling IT security solutions	Common	100%
Sophos Nominees Limited ¹	UK	Share nominee company	Ordinary	100%
Sophos AB ¹	Sweden	Selling IT security solutions	Ordinary	100%
Sophos Benelux ¹	Netherlands	Selling IT security solutions	Ordinary	100%
Utimaco Safeware Ltd ¹	UK	Inactive	Ordinary	100%
Sophos Oy ¹	Finland	Selling IT security solutions	Ordinary	100%
Sophos (Schweiz) AG ¹	Switzerland	Selling IT security solutions	Ordinary	100%
Sophos Iberia Srl ¹	Spain	Selling IT security solutions	Ordinary	100%
Sophos Technology Solutions India Private Ltd ¹	India	Selling IT security solutions	Ordinary	100%
Sophos Hong Kong Co Ltd ^{***}	Hong Kong	Selling IT security solutions	Ordinary	97%
Sophos Holdings GmbH ¹	Germany	Holding company	Ordinary	100%
Sophos Astaro Hldgs GmbH ¹	Germany	Holding company	Ordinary	100%
Sophos GmbH ²	Germany	Selling IT security solutions	Ordinary	100%
Utimaco Safeware AG ²	Germany	Selling IT security solutions	Ordinary	95%
Umbrella Acquisitions GmbH ²	Germany	Holding company	Ordinary	100%
Sophos Astaro GmbH ³	Germany	Holding Company	Ordinary	100%
Astaro Ltd ⁴	UK	Dissolved during year	Ordinary	100%
Astaro Verwalt ⁴	Germany	Holding Company	Ordinary	100%
Astaro Hldg Schweiz AG ⁴	Switzerland	Holding Company	Ordinary	100%
Astaro GmbH & Co KG ⁴	Germany	Selling IT security solutions	Ordinary LPS	100%
Astaro Archiving AG ⁵	Switzerland	Selling IT security solutions	Ordinary	100%
Astaro Trading AG ⁵	Switzerland	Selling IT security solutions	Ordinary	100%
Astaro Corp ⁶	USA	Selling IT security solutions	Ordinary	100%
Astaro Asia PTE ⁶	Singapore	Selling IT security solutions	Ordinary	100%
Astaro KK ⁶	Japan	Selling IT security solutions	Ordinary	100%
Astaro Limited ⁶	Hong Kong	Dissolved during year	Ordinary	100%

¹ Shares held by Sophos Limited

² Shares held by Sophos Holdings GmbH

³ Shares held by Sophos Astaro Hldgs GmbH

⁴ Shares held by Sophos Astaro GmbH

⁵ Shares held by Astaro Hldgs Schweiz AG

⁶ Shares held by Astaro GmbH & Co KG

*** 51% shares held by Sophos Limited and 49% by Utimaco Safeware AG

Notes to the consolidated financial statements (*continued*)

29 Related party transactions (*continued*)

Other related parties

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding with other related parties, are as follows:

	Sales to related party \$'000	Purchases from related party \$'000	Amounts owed by related party \$'000	Amounts owed to related party \$'000
Entities related through a minority equity investment				
Apligo GmbH				
Period ended March 31, 2012	-	6,604	-	1,079
Entities related through common directors' interest				
Virus Bulletin Limited				
Period ended March 31, 2012	56	34	-	-
Period ended March 31, 2011	49	95	49	-

During the year ended March 31, 2012, no provisions were made for doubtful debts relating to amounts owed by related parties (2011: \$Nil).

Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 60 days of invoice. Terms and conditions for transactions with subsidiaries are the same, with the exception that balances are placed on intercompany accounts with no specified credit period.

The Group has not provided or benefitted from any guarantees for any related party receivables or payables.

Compensation of key management personnel (including directors)

	2012 \$'000	2011 \$'000
Short-term employee benefits	4,065	3,106
Post-employment benefits	64	49
Stock-based payment	1,432	525
	5,561	3,680

Short term employee benefits comprise fees, salaries, benefits and bonuses earned during the period as well as non-monetary benefits.

Post employment benefits comprise the cost of providing defined benefit pensions to senior management in respect of the current period.

Stock based payments comprise the cost of senior management's participation in share based payment plans for the period as measured by the fair value of awards in accordance with IFRS2.

Notes to the consolidated financial statements (continued)

30 Business combinations

On June 30, 2011, Sophos acquired 100% of the share capital of Astaro GmbH & Co KG (Astaro) through an outright purchase of all outstanding shares for a total consideration of \$164.9m. Astaro was acquired so as to enhance the product portfolio of Sophos Ltd and gain a foothold in the Unified Threat Management market.

Acquisition related costs of \$7,500,000 (2011: \$2,083,000) have been excluded from the consideration transferred and has been recognised as an expense within general finance and administration - exceptional.

Assets acquired and liabilities assumed at the date of acquisition were as follows:

	Book value \$'000	Adjustment \$'000	Fair Value \$'000
Non-current assets			
Intangible assets			
Technology	-	22,601	22,601
Customer relationships	-	66,645	66,645
Brand	-	1,014	1,014
Previously acquired goodwill	104	(104)	-
Other non-current assets	2,715	-	2,715
Deferred tax asset	3,396	(435)	2,961
Current Assets			
Inventories	3,371	145	3,516
Trade and other receivables	11,860	(332)	11,528
Deferred tax asset	540	-	540
Cash and cash equivalents	9,183	-	9,183
Non-current liabilities			
Deferred revenues	20,883	(7,389)	13,494
Deferred tax liability	43	22,601	22,644
Other	61	-	61
Current liabilities			
Deferred revenues	28,743	(10,142)	18,601
Trade and other payables	14,087	-	14,087
Net assets recognised at the date of acquisition	(32,648)	84,464	51,816
Cash paid			163,000
Cash payable			1,883
Consideration transferred			164,883
Goodwill			113,067

Goodwill arose in the acquisition of Astaro because the cost of the combination included a control premium as well as amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Astaro. These benefits are not recognised separately from Goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the consolidated financial statements (*continued*)

30 Business combinations (continued).

Impact of the acquisition on the result of the Group

Included in the loss for the year of 4,667,000 is \$33,677,000 attributable to the additional business generated by Astaro. The loss includes amortization of intangibles net of deferred tax of \$28,348,000. Billings and revenues for the year includes \$56,794,000 and \$39,071,000 respectively in respect of Astaro.

Had the business combination been effected at April 1, 2011, the directors estimate the loss for the year of the Group would have been \$14,989,000. Billings and revenues of the Group would have been \$421,797,000 and \$378,406,000 respectively. The directors consider these 'pro-forma' numbers to represent an approximate measure of the combined group for the year ending March 31, 2012, but they are not indicative of future results due to the accelerated amortization of intangibles according to the Group's policy.

In determining the 'pro-forma' billings, revenue and profit of the Group had Astaro been acquired at the beginning of the current year, the directors have made appropriate adjustments for fair values recognised, and calculated borrowing costs on the funding levels of the group after the business combination.

31 Commitments and contingent liabilities

Operating lease arrangements

	2012	2011
	\$'000	\$'000
Amounts recognized for the year		
Minimum lease payments	11,218	8,465
Net rent expense for the year	11,218	8,465

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

	2012	2011
	\$'000	\$'000
Within one year	8,967	7,852
In the second to fifth years inclusive	24,107	15,415
After five years	7,075	11,617
	40,149	34,884

Commitments for the acquisition of property, plant and equipment

At March 31, 2012 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$706,800 (2011: \$642,000).

Security and guarantees

The immediate parent undertaking, Shield Bidco Limited, has bank loans totaling \$408.7m (2011: \$310.7m) which are secured on the trade and assets of the Group.

Notes to the consolidated financial statements *(continued)*

31 Commitments and contingent liabilities *(continued)*

At March 31, 2012 the Group had \$1,927,000 (2011 \$278,000) of bank guarantees provided by our banks to third parties

Legal proceedings

The group is involved in a number of legal proceedings that are incidental to our business. Although it is possible that adverse decisions (or settlements) may occur in one or more of the cases, it is not currently possible to estimate the loss or losses. The final outcome of these proceedings, individually or in the aggregate, is not expected to have a material impact on our business.

32 Principal exchange rates

The translation of Sterling into US dollars has been included at the following rates (\$ £1)

	Average	Closing
Year-ended March 31, 2012	\$1.6035	\$1.5978
Year-ended March 31, 2011	\$1 5521	\$1 6030

The translation of Euros into US dollars has been included at the following rates (\$ €1)

	Average	Closing
Year-ended March 31, 2012	\$1.3880	\$1.3317
Year-ended March 31, 2011	\$1 3215	\$1 4190

33 Events after the reporting period

On April 2, 2012 Sophos Astaro Software GmbH acquired 100% of the share capital of DIALOGS Software GmbH for €9,200,000. The company develops and sells products for mobile device and connection management.

The final total consideration paid is subject to an adjustment for variations in working capital and cash based on audited financial statements. The fair value of the net assets recognised on the date of acquisition are also to be based on audited financial statements.

Audited financial statements for DIALOGS Software GmbH are expected to be approved in mid June, so the Group is unable to provide reliable disclosure of the business combination until after these financial statements have been authorized for issue.

On May 10, 2012 Sophos Ltd, as part of a group of companies owned by its immediate parent company Shield Bidco Ltd, entered into an amended credit agreement with its lenders. Under the terms of the new credit agreement existing amortizing debt due June 15, 2016 with a value of \$405,661,000 on the amendment date were exchanged for new amortizing debt with a value of \$410,900,000 on the amendment date. Of the new debt, \$110,900,000 matures on May 10, 2017 and \$300,000,000 matures on May10, 2019.

Company balance sheet

At March 31, 2012

Registered number 2096520

	Note	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	3	337	1,683
Tangible assets	4	27,837	27,071
Investments	5	243,642	115,985
		271,816	144,739
Current assets			
Stocks of inventory	6	170	107
Debtors	7	59,562	199,141
Cash at bank and in hand		14,454	29,344
		74,186	228,592
Creditors amounts falling due within one year	8	(103,116)	(125,362)
Net current assets		(28,930)	(103,230)
Total assets less current liabilities		242,886	247,969
 Creditors amounts falling due after more than one year	8	 (86,272)	 (87,510)
Provisions for liabilities	9	(2,993)	(3,933)
 Net assets		 153,621	 156,526
 Capital and reserves			
Called up share capital	10	1,069	69
Share premium	11	69,994	35,464
Other reserves	11	9,182	888
Profit and loss account	11	73,376	120,105
Shareholder's funds	12	153,621	156,526

These financial statements were approved by the board of directors on June 26, 2012 and were signed on its behalf by


Nick Bray
CHIEF FINANCE OFFICER

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 parent 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 despite the current uncertain economic outlook.

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 Business Review on pages 6 to 8. Further information regarding the financial position of the Company, its cash flows, liquidity position and borrowing facilities 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 section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

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.

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 it prepares consolidated financial statements which are publicly available.

Turnover

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

Customers generally enter into annual or longer term contracts with the Company. Most commonly, customers receive software products at the start of the contract under a fixed term license and are also entitled to receive regular updates or other services for the duration of the license term. The Company also offers hardware appliances with new software licenses as an integrated platform on which certain software products can be operated. Revenue attributable to hardware, software products, updates or other services is recognized ratably over the duration of the contract.

Where the Company contracts with an OEM or a service provider rather than an end user, it mirrors the above policy and recognizes the revenue in line with the contract term granted to the end user.

Investments

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

Notes to the Company financial statements (*continued*)

1 Principal accounting policies (*continued*)

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.

Post retirement benefits

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 against profits represents the contributions payable to the scheme in respect of the accounting period.

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.

Notes to the Company financial statements (*continued*)

1 Principal accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognized in respect of all such timing differences which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS 19.

Share based payment transactions

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.

Where the Company has granted options over its own shares to the employees of subsidiaries it recognizes, in its own financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share based payment charge with the corresponding credit being recognized directly in equity.

Notes to the Company financial statements (*continued*)

2 Profit and loss account

The loss after tax dealt with in the books of the Company was £40,776,463 (2011 profit of £71,252,000) Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The directors do not recommend the payment of a dividend (2011 £nil)

3 Intangible assets

	ActiveState Intellectual Property £'000	Endforce Intellectual Property £'000	Utimaco Goodwill £'000	Total £'000
Cost				
At March 31, 2011	7,166	4,036	4,039	15,241
At March 31, 2012	7,166	4,036	4,039	15,241
Amortization				
At March 31, 2011	7,166	4,036	2,356	13,558
Charge for the year	-	-	1,346	1,346
At March 31, 2012	7,166	4,036	3,702	14,904
Net book value				
At March 31, 2011	-	-	1,683	1,683
At March 31, 2012	-	-	337	337

4 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Motor Vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost					
At March 31, 2011	37,593	12,821	84	650	51,148
Additions	-	3,389	-	2	3,391
Disposals	-	-	(11)	-	(11)
At March 31, 2012	37,593	16,210	73	652	54,528
Depreciation					
At March 31, 2011	12,601	10,771	84	621	24,077
Charge for the year	1,477	1,166	-	13	2,625
Disposals	-	-	(11)	-	(11)
At March 31, 2012	14,048	11,937	73	634	26,691
Net book value					
At March 31, 2011	24,992	2,050	-	29	27,071
At March 31, 2012	23,545	4,273	-	18	27,837

At 31 March, 2012 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £168,000 (2011 £397,000)

Notes to the Company financial statements (continued)

Within freehold land and buildings the gross cost which is depreciable is £36,399,000] (2011 £36,399,000)

5 Investments

	£'000
At April 1, 2011	115,985
Capitalisation of loan balances	9,352
New investments	118,305
At March 31, 2012	243,642

The company has the following direct investments in group companies

Subsidiary undertaking	Country of incorporation	Activity		Class of shares held	Percentage of shares held
Sophos Inc	USA	Selling IT security solutions		Ordinary	100%
Sophos Pty Ltd	Australia	Selling IT security solutions		Ordinary	100%
Sophos Sarl	France	Selling IT security solutions		Ordinary	100%
Sophos KK	Japan	Selling IT security solutions		Ordinary	100%
Sophos Italy Srl	Italy	Selling IT security solutions		Ordinary	100%
Sophos Computer Security Pte Ltd	Singapore	Selling IT security solutions		Ordinary	100%
Sophos Inc	Canada	Selling IT security solutions		Common	100%
Sophos Nominees Limited	UK	Share nominee company		Ordinary	100%
Sophos Holdings GmbH	Germany	Selling IT security solutions		Ordinary	100%
Sophos AB	Sweden	Selling IT security solutions		Ordinary	100%
Sophos Benelux	Netherlands	Selling IT security solutions		Ordinary	100%
Utimaco Safeware UK Ltd	UK	Inactive		Ordinary	100%
Sophos Oy	Finland	Selling IT security solutions		Ordinary	100%
Sophos (Schweiz) AG	Switzerland	Selling IT security solutions		Ordinary	100%
Sophos Iberia Srl	Spain	Selling IT security solutions		Ordinary	100%
Sophos Technology Solutions India Private Ltd	India	Selling IT security solutions		Ordinary	100%
Sophos Hong Kong Co Ltd ¹	Hong Kong	Selling IT security solutions		Ordinary	97%
Sophos Astaro Hldgs GmbH	Germany	Selling IT security solutions		Ordinary	100%

¹51% shares held by Sophos Limited and 49% by Utimaco Safeware AG, a subsidiary of Sophos Holdings GmbH

6 Stocks of inventory

	2012 £'000	2011 £'000
Finished goods and goods for resale	170	107

Notes to the Company financial statements (*continued*)

7 Debtors

	2012	2011
	£'000	£'000
Amounts falling due within one year		
Trade debtors	12,774	15,845
Amounts owed by group undertakings	26,792	83,391
Other debtors	83	58
Prepayments	1,973	3,785
Corporation tax debtor	385	-
	42,007	103,079
Amounts falling due after more than one year		
Amounts owed by group undertakings	17,555	96,062
Total debtors	59,562	199,141

8 Creditors

	2012	2011
	£'000	£'000
Amounts falling due within one year		
Trade creditors	2,823	1,531
Amounts due to Group undertakings	1,977	23,522
Deferred tax liability	270	711
Social security and other taxes	1,961	2,975
Other creditors	271	143
Accruals	5,704	7,370
Deferred revenue	90,110	89,110
	103,116	125,362
Amounts falling due after more than one year		
Amounts due to Group undertakings	9,391	13,237
Liability component of preference shares	3,485	3,485
Deferred revenue	73,396	70,788
	86,272	87,510
Total creditors	189,388	212,872

Outstanding amounts due in respect of the defined contribution scheme payable at the reporting date were £153,596 (2011 £79,630)

Notes to the Company financial statements (*continued*)

9 Provisions

	Restructuring £'000	Other £'000	Total £'000
At April 1, 2011	-	3,933	3,933
Arising during the year	1,705	1,296	3,001
Utilized	-	(3,941)	(3,941)
At March 31, 2012	1,705	1,288	2,993

Other provisions relate to professional fees and expenses incurred during the integration of the Astaro group which are expected to be utilized in Q1 and Q2 of the new financial year

10 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, 2011	128,209	51	46,516	18	174,725	69
Issue of shares	2,500,000	1,000	-	-	2,500,000	1,000
At March 31, 2012	2,628,209	1,051	46,516	18	2,674,725	1,069

All classes of shares are classified as equity shares and rank *pari passu* for any dividend declared by the Company. On a qualifying listing or at the election of the holders, the convertible preferred ordinary shares convert into ordinary shares on a one-for-one basis. The convertible preferred ordinary shares shall also carry priority over the assets of the shares purchased by employees under the employee share purchase plan.

During the year ended March 31, 2012, 2,500,000 ordinary shares of £0.0004 each were issued to Shield Bidco Limited for consideration of \$50,022,000 and €4,156,000 in connection with the acquisition of the Astaro Group.

For the year ended March 31, 2011, 32,700 ordinary shares of £0.0004 each were issued under the Sophos employee share purchase plan and 206,744 shares under the Sophos employee share option schemes for a total consideration of £11,992,000.

Notes to the Company financial statements (*continued*)

11 Reserves

	Share premium £'000	Other reserves £'000	Profit and loss account £'000
At April 1, 2011	35,464	888	120,105
Loss for the year	-	-	(40,776)
Share based payment expense	-	1,327	-
Issue of share capital as part of Astaro Group acquisition	34,530	-	-
Reclassification	-	6,134	(6,134)
Foreign exchange	-	833	-
Reverse subsidiary share based payment	-	-	181
At March 31, 2012	69,994	9,182	73,376

12 Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Profit for the year before dividends	27,553	12,137
Intragroup dividends (paid)/received	(15,540)	59,115
Distribution of Intra Group receivable to parent	(52,788)	-
New share capital subscribed (net of issue costs)	34,897	11,992
Share based payment expense	1,327	134
Deferred tax on share option costs	-	-
Foreign exchange	833	(797)
Investment in subsidiaries	-	207
Reversals	813	-
Cancellation of share warrant	-	(2,759)
Net addition to shareholder's funds	(2,905)	80,029
Opening shareholder's funds	156,526	76,497
Closing shareholder's funds	153,621	156,526

Notes to the Company financial statements (*continued*)

13 Commitments and contingencies

Operating lease arrangements

	2012	2011
	£'000	£'000
Within one year	146	11
In the second to fifth years inclusive	292	2
After five years	-	-
Net rent expense for the period	438	13

Security and guarantees

The immediate parent undertaking, Shield Bidco Limited has bank loans totaling \$408.7m which are secured on the trade and assets of the Group (2011: \$310.7m)

14 Related party transactions

The Company has taken advantage of the exemption in FRS 8 not to disclose transactions with wholly owned subsidiaries. During the year, the Company entered into material transactions, in the ordinary course of business, with its 95% subsidiary, Utimaco Safeware AG.

Transactions entered into, and trading balances outstanding at March 31, 2012 are as follows:

	Sales to Utimaco Safeware AG £'000	Purchases from Utimaco Safeware AG £'000	Amounts owed from Utimaco Safeware AG £'000	Amounts owed to Utimaco Safeware AG £'000
Year ended March 31, 2012	401	6,244	401	6,244
Year ended March 31, 2011	104	13,573	104	11,236

No amounts have been written off in the year or provided against at year end in respect of the amounts shown.

15 Ultimate parent undertaking

The Company's immediate parent company is Shield Bidco Limited, a company registered in England and Wales. The Company's Group financial statements are the smallest within which these Company financial statements are consolidated. The largest group within which these Company financial statements are consolidated is headed by Shield Midco Limited. The ultimate parent undertaking is Apax Partners LP (incorporated in Delaware, USA) and the ultimate controlling parties are the fund holders of Apax.