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SOPHOS
Security made simple.

Sophos Group plc
Results for the Year-Ended 31 March 2016

Strong FY16 performance
Confident FY17 outlook with significant growth in unlevered free cash flow expected

Oxford, 26 May 2016. Sophos Group plc (the "Company" or the "Group" / LSE: SOPH), a leading provider of cloud-enabled enduser and network security solutions, today issues its results for the year-ended 31 March 2016 ("FY16").

Financial Highlights

- Strong FY16 performance, at the upper end of the Board's expectations

	FY16	FY15	Growth	
			Reported	Like-for-like
	$M	$M	%	%
Non-GAAP measures:				
Billings[1,2]	534.9	476.0	12.4	19.7
Cash EBITDA[3]	120.9	101.4	19.2	31.6
Unlevered free cash flow[4]	46.4	65.3	(28.9)	n/a
GAAP measures:				
Revenue[5]	478.2	446.7	7.1	15.6
Operating loss	(32.7)	(0.5)	n/m	n/a
Net cash flow from operating activities	21.3	59.9	(64.4)	n/a

- FY16 like-for-like billings grew 19.7 percent year-over-year ("YOY")
- Strong billings growth across all regions and products, driven by growth in both new and existing customers
  - New customer billings[6] grew 33.0 percent YOY driven by Unified Threat Management ("UTM") and Sophos Central platform
  - Retention rate, including up-sell, improved YOY to 101.9 percent from 100.2 percent
  - Cross-sell improved YOY to 7.4 percent from 5.6 percent of customers who have both Endpoint and UTM products
- Revenue grew 15.6 percent YOY on a constant currency basis, 7.1 percent at reported rate
  - Investments in the year drove significant subscription billings growth, the full benefit of which will be recognised as revenue over the terms of the contracts
  - Billings growth resulted in a $65.4 million increase to the year-end deferred revenue balance to $498.7 million; of which $286.5 million which will be recognised in FY17, up 14.0 percent YOY, highlighting the visibility and sustainability of the Sophos subscription based business model
- Reported cash EBITDA margin improved YOY to 22.6 percent from 21.3 percent, a 31.6 percent increase YOY on a constant currency basis
- Exceptional items of $41.9 million, particularly costs associated with the initial public offering of the Company's shares in July 2015, reflected in an operating loss of $32.7 million
- Net cash flow from operating activities of $21.3 million and unlevered free cash flow of $46.4 million both in line with the Board's expectations; decreased YOY predominantly due to $41.9 million of exceptional costs and anticipated one-time movements in working capital
- Final dividend of 1.1 US Cents per share; a total dividend for the year of 1.8 US Cents per share

Operational Highlights

- Continued market share gains as Sophos outperformed industry market growth rates in FY16 for both network security and enduser security
- Continued investment in research and development again led to significant new product releases in the period including Sophos XG Firewall with Security Heartbeat™ and the extension of email, web and advanced server security to our centrally managed cloud platform
- Successfully completed two technology acquisitions to enhance and broaden the Group's market-leading product portfolio: Reflexion Networks Inc., a SaaS-based offering providing security, archiving, encryption and business continuity for email; and, SurfRight B.V., a leader in Next-Generation Endpoint technology that aids the prevention, detection and remediation of sophisticated malware attacks, including zero-day attacks
- Granted six US patents in the year for innovative methods in threat detection and remediation
- Sophos was the first company to deliver synchronized security through the launch of its next-generation firewall that actively shares valuable security intelligence directly with the Sophos endpoint via the Sophos Security Heartbeat™ technology

Kris Hagerman, Chief Executive Officer, commented:

"We are pleased with our strong performance during our first year as a public company. The year has been marked by sustained strength across all major regions and product categories, with our financial and operational performance exceeding the Board's expectations set at the start of the year and at the upper-end of our revised outlook. Our leading product portfolio, innovation to drive our strategy of synchronized security, commitment to "security made simple" and "channel first" sales strategy enabled us to grow our billings and revenue across both new and existing customers.

The good momentum in our business is reflected in our optimism for FY17 where we expect to see strong growth in billings and revenue, modest cash EBITDA margin expansion and an approximate doubling in unlevered free cash flow"

Outlook

For the year-ending 31 March 2017, the Board expects to deliver mid-teens percentage billings growth on a like-for-like basis whilst also delivering modest cash EBITDA margin expansion, reflecting the operational leverage in the business. Billings growth, together with a YOY increase in the deferred revenue to be recognised within one year, will contribute to similar mid-teens revenue growth. Unlevered free cash flow is expected to approximately double in FY17 as working capital normalises and the level of the Group's anticipated profit improves.

About

The Sophos Group is a leading global provider of cloud-enabled enduser and network security solutions, offering organisations end-to-end protection against known and unknown IT security threats through products that are easy to install, configure, update and maintain. For further information please visit: www.sophos.com. The Group has over 30 years of experience in enterprise security and has built a portfolio of products that protects over 220,000 organisations and over 100 million endusers in 150 countries across a variety of industries.

Forward-looking Statements

Certain statements in this announcement constitute "forward-looking statements". These forward-looking statements involve risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements, or industry results, to be materially different from those projected in the forward-looking statements. These factors include: general economic and business conditions; changes in technology; timing or delay in signing, commencement, implementation and performance or programmes, or the delivery of products or services under them; structural change in the security industry; relationships with customers; competition; and ability to attract personnel. You are cautioned not to rely on these forward-looking statements, which speak only as of the date of this announcement. The Group undertakes no obligation to update or revise any forward-looking statement to reflect any change in expectations or any change in events, conditions or circumstances.

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Management will be hosting an analyst meeting to discuss the Full-Year Results at 09:30am London time; at 18 Lincoln's Inn Fields, London, WC2A 3ED. A dial-in number facility will be provided on +44 (0) 20 3003 2666. A recording of the meeting will also be available for one week after the event on the Company's website

1. Billings represents the value of products and services invoiced to customers after receiving a purchase order from the customer and delivering products and services to them, or for which there is no right to a refund for undelivered items. Billings does not equate to statutory revenue.
2. Like-for-like billings represent billings on a constant currency basis excluding disposals and including acquisitions from the point of acquisition plus the pre-acquisition billings of any acquired companies on a reported basis. Like-for-like billings are presented to enhance comparability.
3. Cash earnings before interest, taxation, depreciation and amortisation ("Cash EBITDA") is defined as the Group's operating (loss)/ profit adjusted for depreciation and amortisation charges, any gain or loss on the sale of tangible and intangible assets, share option charges, unrealised foreign exchange differences and exceptional items, with billings replacing recognised revenue. Like-for-Like cash EBITDA is presented on a constant currency basis but does not adjust for pre-acquisition profits.
4. Unlevered free cash flow represents cash EBITDA less purchases of property, plant and equipment and intangibles, plus cash flows in relation to changes in working capital and taxation.
5. The majority of billings are for licence subscriptions which are recognised as revenue over the period of the contract, revenue growth is primarily a function of prior period billings and hence will not yet fully reflect the improved billings performance of the current period. Like-for-Like revenue is presented on a constant currency basis but does not adjust for pre-acquisition revenue.
6. Constant currency billings excluding Cyberoam, Reflexion and SurfRight as comparable information on billings metrics are not available for these acquired entities.

Chief Executive Officer's Review

Sophos had a successful inaugural year as a public company, as we continued to benefit from strong underlying fundamentals in the cybersecurity market, a unique and compelling strategy and consistent, solid operational execution.

In FY16 we outperformed the Board's expectations for both top-line billings and profitability, and produced a result at the upper end of our revised expectations, which we increased at the time of our interim results in November 2015. We grew billings 19.7 percent year-over-year ("YOY") on a like-for-like basis and we grew cash EBITDA by 31.6 percent at constant currency, resulting in a cash EBITDA margin of 22.6 percent. We remain confident that we will continue to deliver strong FY17 growth in billings, strong profitability with a modest cash EBITDA margin expansion and an approximate doubling in unlevered free cash flow.

We continue to make steady, consistent progress in fulfilling our mission to be the best in the world at delivering complete IT security to mid-market enterprises and the channel that serves them. IT security continues to be the top priority for IT administrators at organisations of every size, as threats continue to grow in both volume and sophistication, driving a $38 billion market growing at 7 percent. Meanwhile, the vendor community continues to be complex and fragmented, with numerous overlapping products, mostly designed for large enterprises, and conflicting claims about which proven and new techniques are most effective; it is against this backdrop that Sophos' vision of "complete security made simple" is proving both differentiated and highly effective.

Sophos has a unique and compelling strategy to pursue the exciting market opportunity in cybersecurity. It is focused on several core principles:

- **Focus on security solutions.** All we do is security. We believe there is meaningful sales and product synergy in delivering security products that can act as "sensors" and actively share information and intelligence with each other.
- **Focus on mid-market enterprises.** There are over 60 million small and mid-market enterprises globally, and the vast majority of them are poorly protected, because they are trying to make the best of IT security offerings that were not designed for their unique characteristics and needs. Sophos solutions are designed to meet the challenges of mid-market enterprises.
- **Complete security, made simple.** Complexity is the enemy of effective security. Sophos is committed to delivering world-class innovative technology, but in a way that is easy to deploy, easy to manage and easy to use.
- **Cloud-enabled security.** Cloud management of IT security and increasingly, cloud delivery of core IT security capabilities can offer significant benefits to enterprises of any size and the channel partners who work with them.
- **Synchronized security.** Security works better as a system. Sophos is committed to delivering best-in-class standalone security technologies, but also to leading the industry in enabling those technologies to actively communicate with each other, helping organisations to prevent, detect, and remediate against attacks more effectively than a collection of disparate, isolated products.
- **Channel First.** Sophos has a clear and proven commitment to sell all our products through our network of over 20,000 channel partners, which delivers scale, operating leverage, channel trust and loyalty, avoiding the conflict and confusion that arises from maintaining multiple channels.

At the heart of any technology company's success is product delivery and in FY16 Sophos delivered a robust set of new and enhanced offerings. We also made substantial progress in our strategy to deliver synchronized security and establish a cloud-enabled platform through which all our products can be managed in a single "pane of glass", and through which all our products can actively communicate with each other and share and act on security intelligence. Highlights in product delivery included:

- a new version of our SG UTM featuring Sophos Sandstorm, a cloud-based sandboxing service;
- the new XG Firewall, our future direction in UTM and next-generation firewalls, featuring synchronized security through the Sophos Security Heartbeat™ technology;
- next-generation endpoint capabilities such as malicious traffic detection and download reputation;
- one-click server lockdown, providing advanced and integrated application whitelisting and anti-malware, with unprecedented ease of deployment;
- the launch of a new cloud-based email security offering, through the acquisition of Reflexion Networks; and
- the introduction of a new cloud-based web security offering, integrated into Sophos Central, our cloud-based management console.

In addition to organic development, Sophos continues to take advantage of focused, disciplined M&A activity to enhance and deepen our existing offerings, or to enter new markets that we feel fit well with our mission, our strategy, and our product portfolio.

Sophos is the only IT security vendor in the world that is a proven, balanced leader in both the enduser and network security markets. We are also driving a new wave of security innovation through our strategy of synchronized security. We began by linking our Endpoint and next-generation firewall products. But our vision extends far beyond that as, over time, we look to integrate our entire product portfolio into a single platform, all managed in a single console, available either in the cloud or on-premise. We believe this approach has numerous benefits to our customers, to our partners and to our business model, including:

- differentiation versus other security vendors;
- enhanced and more proactive security, by generating actionable, detailed intelligence and addressing the vulnerable "white spaces" that exist between isolated products from multiple vendors that do not communicate with each other;
- easier deployment, management, and use;
- enhanced ability for partners to cross-sell and up-sell, to grow their top-line billings; and
- improvement in partner profitability as they can manage across multiple customers, remotely, providing more effective utilisation of their valuable technical staff.

Our differentiated mission and strategy continue to resonate with our customers and partners and are at the core of our growing momentum. We continue to gain share, as we outperform market growth rates in both of our core segments, network security and enduser security. We believe we also have plenty of additional "running room", as we only have about 5 percent share in each of these markets.

We posted significant growth in both existing customer billings and new customer billings in each of our major regions. Our retention rate for our existing customers also improved, as they responded positively to the enhancements we made across our product portfolio. We added over 5,000 new partners and our total is now in excess of 20,000. Within our partner base we have grown our strongest and most active "Blue Chip" partners, those who conduct more than five transactions in the prior six-month period, by 38 percent to approximately 4,700. The number of our Blue Chip partners that sell both Enduser and Network products increased by 37 percent YOY. We will continue to develop our partner base to deliver sustainable billings and growth at an efficient sales expense.

We are driving greater brand awareness in our key markets and will remain focused on this effort during FY17 with creative and innovative marketing such as IT-centric social media campaigns, an expansion of our free tools and a continued focus on providing clear and practical IT security advice for businesses. One notable advance in our free tools during the year was the introduction of Sophos Home, a cloud-managed, easy-to-use anti-malware and web filtering solution for PCs and Macs in the home. Although there are many free antivirus tools for home users available on the market, ours is designed for the modern household, supports both the Microsoft Windows and Apple Mac operating environments, is completely cloud-enabled and is differentiated in its simplicity, ease of use and un-annoying user design. Sophos Home is now generating thousands of new users every day for Sophos, providing a positive introduction to Sophos and enhancing our brand visibility and awareness, which in turn makes it easier for our sales teams and channel partners to sell our products to enterprises of all sizes.

During FY16 Sophos continued to receive positive recognition and endorsement from industry analysts, such as Gartner and Forrester for key products in our network and enduser portfolio. Sophos has also continued to be recognised during the financial year as a leader by industry publications such as SC Magazine and Channel Reseller News ("CRN").

We are particularly pleased that Sophos continued to gain recognition in the industry as a great place to work, which supports our ability to attract and retain world-class talent. Sophos was rated as one of the "Top 30 medium sized businesses to work for undergraduates" in the UK by ratemyplacement.com and in the "Top 100 Places to Work for Graduates" in the UK by The Job Crowd. Sophos was also named as a "Dream Company to Work For" by World HRD Congress in India. Our people drive our success and as we continue to grow our business we constantly look for new ways to enhance our work environment, so our team members can do the very best work of their careers here at Sophos and feel excited and fulfilled about doing so.

Security remains a top priority for organisations of all sizes and continues to be a truly mission critical investment area. I continue to hear from our customers that they struggle to find the personnel and budget resources to effectively protect their organisations. They are looking for vendors who can help them stay secure, cost effectively, and also who can help them simplify their infrastructure, rather than make it more complex and difficult to manage. We believe we are uniquely positioned in the industry to meet this demand and I remain extremely confident in our future prospects.

I would like to add my personal thanks to every Sophos employee, partner and supporter whose hard work and commitment are so pivotal to our success, and whose actions help protect hundreds of thousands of organisations all over the world, every day.

Kris Hagerman
Chief Executive Officer

Financial Review

Trading for the year closed at the upper end of the Board's expectations with like-for-like billings growth of 19.7 percent as the Group experienced strong growth across all regions and products. Revenue grew 15.6 percent on a constant currency basis, or at 7.1 percent on a reported basis.

The strong billings performance in the year resulted in an increase in the deferred revenue balance of $65.4 million to $498.7 million as at the end of March 2016; of which $286.5 million which will be recognised as revenue in FY17, up 14 percent YOY, highlighting the visibility and sustainability of the Sophos subscription based business model. The Group targets investment to drive subscription billings growth and hence much of the positive impact of the year's billing activity will be seen in the profit and loss account of future years.

Billings to new customers grew 33.0 percent YOY. In addition, the renewal rates and cross-sell rates to existing customers, of which there are now in excess of 220,000, continue to improve. This combination of new customer growth combined with improving retention and cross-sell metrics across an expanding customer base underpins the Group's confidence for future billings growth.

Cash EBITDA increased to $120.9 million and margins improved to 22.6 percent as the Group grew billings and leveraged its operating expense base. Research and development and marketing investments are anticipated to increase in line with billings growth going forward. The Group expects to continue to leverage other functions to support margin expansion.

The operating loss widened YOY in line with the Board's expectations as a result of exceptional items, predominantly associated with the cost of the IPO. Before exceptional items the Group made an operating profit of $9.2 million.

Unlevered free cash flow was also in line with the Board's expectations and below the prior year due to one-time nonrecurring items. It is expected that unlevered free cash flow will approximately double in FY17 as working capital normalises and the level of anticipated profit improves, driven by continued billings growth and modest margin expansion. Net cash flow from operating activities was predominantly impacted by $41.9 million of exceptional items and is expected to significantly increase in the year ahead.

The table below presents the Group's financial highlights (in reported currency):

			Growth	
	FY16	FY15	Reported	Like-for-like
	$M	$M	%	%
Billings	534.9	476.0	12.4	19.7
Revenue[1]	478.2	446.7	7.1	15.6
Cash EBITDA[1]	120.9	101.4	19.2	31.6
Operating loss	(32.7)	(0.5)	n/m	n/a
Unlevered free cash flow	46.4	65.3	(28.9)	n/a
Net cash flow from operating activities	21.3	59.9	(64.4)	n/a

1 Like-for-like growth rates for revenue and cash EBITDA are presented on a constant currency basis but do not adjust for pre-acquisition revenues and profits.

BILLINGS

The Group's reported billings increased by $58.9 million from $476.0 million in the year-ended 31 March 2015 to $534.9 million in the year-ended 31 March 2016, with growth in all regions, products and types as detailed below. This represented 12.4 percent reported growth or 19.7 percent growth on a like-for-like basis. The variance between the reported and like-for-like billing growth rates represents the impact of both currency and acquisitions. This significant variance was predominantly due to the devaluation in the average Euro rate which impacted the reported growth rate in the EMEA region.

			Growth	
	FY16	**FY15**	**Reported**	**Like-for-like**
	$M	**$M**	**%**	**%**
Billings by Region:				
- Americas	187.9	152.9	22.9	20.5
- EMEA	264.0	255.5	3.3	15.5
- APJ	83.0	67.6	22.8	33.1
	534.9	476.0	12.4	19.7
Billings by Product:				
- Network	266.7	223.7	19.2	27.5
- Enduser	238.2	224.1	6.3	13.4
- Other	30.0	28.2	6.4	9.1
	534.9	476.0	12.4	19.7
Billings by Type:				
- Subscription	422.8	384.9	9.8	16.5
- Hardware	99.0	78.4	26.3	37.7
- Other	13.1	12.7	3.1	10.2
	534.9	476.0	12.4	19.7

The Group's billings are primarily comprised of subscription agreements, which represented 79 percent of the Group's billings in FY16. Subscription agreements are paid in full upfront with revenue being recognised on a deferred basis over the life of the agreements, which can vary from one to five years, resulting in a highly visible and predictable future revenue stream. There was an immaterial billings contribution from Reflexion and SurfRight in the respective periods post-acquisition.

Billings by region

Americas

Billings attributable to the Americas increased by $35.0 million to $187.9 million in the year-ended 31 March 2016, representing 22.9 percent growth on a reported basis and 20.5 percent on a like-for-like basis. This increase was driven by new customer growth across both Enduser and Network, and an increase in the existing customer retention rate. Enduser new customer growth was positively impacted by significant adoption of the Sophos Central platform. Reported growth includes the impact of billings from Reflexion, a cloud-based Email security company acquired in June 2015; like-for-like billings growth adjusts for the acquisition and currency.

EMEA
Billings attributable to EMEA increased by $8.5 million to $264.0 million in the year-ended 31 March 2016, representing 3.3 percent growth on a reported basis and 15.5 percent growth on a like-for-like basis. This increase was primarily due to Network growth in new customer business. Enduser billings also continued to grow, albeit more modestly, with adoption of the Sophos Central platform, which is now starting to gain momentum, a few quarters behind the Americas. As anticipated, EMEA's reported billings for the year were negatively impacted by the strengthening US Dollar, the impact of which moderated over the second-half of the year.

APJ
Billings attributable to APJ increased by $15.4 million to $83.0 million in the year-ended 31 March 2016, representing 22.8 percent growth on a reported basis and 33.1 percent growth on a like-for-like basis. Network billings growth was particularly strong in Japan in the year, assisted by a number of larger one-time deals, but similar to EMEA, currency headwinds from the strengthening US Dollar impacted on reported billings growth.

Billings by product

Network products
The Group's billings attributable to Network products increased by $43.0 million to $266.7 million in the year-ended 31 March 2016, representing 19.2 percent growth on a reported basis and 27.5 percent growth on a like-for-like basis. This was primarily due to 31.2 percent like-for-like growth in UTM sales that grew strongly in all regions and across both new and existing customers. The Network like-for-like three-year CAGR was 19.8 percent.

Enduser products
The Group's billings attributable to Enduser products increased by $14.1 million to $238.2 million in the year-ended 31 March 2016, representing 6.3 percent growth on a reported basis and 13.4 percent growth on a like-for-like basis. Enduser YOY billings growth was primarily driven by the cloud platform. The like-for-like three-year CAGR was 8.8 percent.

Billings by type
The percentage of hardware billings increased to 18.5 percent in the year (2015: 16.5 percent), reflecting the higher proportion of Network billings, which increased from 47.0 percent of billings to 49.9 percent, and growth in UTM billings in particular.

Key billings metrics

Billings from new customers
Billings from new customers grew at an even faster rate than billings from existing customers. Total billings from new customers grew faster than in FY15, increasing 33.0 percent YOY and as a percentage of billings increased to 25 percent from 23 percent in the prior year. Sophos Network billings from new customers grew 36.2 percent YOY and increased as a percentage of Network billings to 32 percent from 31 percent in the prior year. Enduser billings from new customers grew 28.3 percent YOY and have increased as a percentage of Enduser billings to 19 percent from 17 percent in the prior year.

Retention rates
The Group's results are largely driven by revenue generated from subscriptions for its products and services, including professional services and enhanced support services. The Group's net retention rates include the impact of cross-selling and up-selling, which helps the Group evaluate its success in fully leveraging its broad product portfolio throughout its installed customer base. The Group's net retention rate, excluding Cyberoam, improved in the year from 100.2 percent in the year-ended 31 March 2015 to 101.9 percent in the year-ended 31 March 2016.

Billings by size
Sophos products are designed for the Group's target market, mid-market enterprises (defined as enterprises with between 100 and 5,000 employees), but are frequently also bought by both smaller and larger enterprises. In FY16, the proportion of billings to each of the customer size groups remained largely consistent YOY.

Billings by length of contract
The Group sells subscription agreements covering a range of durations, most typically being one to three years in length. The average contract length for the year-ended 31 March 2016 was 28.6 months, a small increase on the 28.0 months for the year-ended 31 March 2015 due to a small number of longer-term deals in Japan. Excluding these longer-term deals in Japan, average contract length would have remained stable.

The billings analysis of contracts by subscription length was as follows:

(Like-for-like billings, excluding Cyberoam, Reflexion and SurfRight)	**FY16**	**FY15**
	%	**%**
Under one year	32.8	33.5
One to two years	8.2	8.3
Two to three years	46.7	45.3
Greater than three years	12.3	12.9

Cross-sell and Up-sell Opportunities
As the IT needs of the Group's existing customers evolve and as customers realise the benefits of the products and services they previously purchased, the Group's product portfolio provides an opportunity to cross-sell additional products and services or to up-sell enhanced versions of products, or additional enduser licences, or longer subscription periods.

Following the launch during the year of the Group's synchronized security strategy, and the introduction of new products incorporating Sophos Security Heartbeat™ technology, the percentage of customers who own both a Sophos Endpoint and UTM has continued to improve. At 31 March 2016, approximately 7.4 percent of customers had both a UTM product and an Endpoint product compared to 5.6 percent of customers at 31 March 2015. The Group expects this metric to steadily improve over future periods as more customers take advantage of the benefits of synchronized security. The cloud platform also facilitates easier cross-sell of other products beyond endpoint, such as server, mobile and web security; and over time the Group expects to extend this platform to incorporate the Group's entire product portfolio, including encryption, email security, web security, Wi-Fi, and UTM/NGFW. Many of the Group's customers do not yet deploy all of these essential security components from any vendor and as such this represents further cross-sell opportunities over and above the Group's core Endpoint and UTM products.

Revenue

The Group's revenue increased by $31.5 million, or 7.1 percent, to $478.2 million in the year-ended 31 March 2016. On a constant currency basis, revenue growth for the year was 15.6 percent. This growth was due to a combination of continuing growth in subscription billings across all major product groups and an improvement in UTM hardware billings, which are recognised as revenue in the same period as the billing.

As the majority of the Group's revenue relates to subscriptions (FY16: 76.3 percent; FY15: 79.4 percent), the benefit from increased billings is spread over a number of years on the subsequent recognition of deferred revenue. Reported revenue in the year of $478.2 million comprised $251.4 million from recognition of prior year deferred revenues and $226.8 million from new billings. The deferred revenue balance at the end of the year of $498.7 million increased $65.4 million YOY, $286.5 million of which will be recognised as revenue in FY17, an increase of 14.0 percent YOY.

Revenue in the Americas increased by 10.3 percent to $166.1 million in the year-ended 31 March 2016 due to growth in both Network sales, including the UTM hardware component, and growth in Enduser revenue which is predominantly made up of subscription based products.

Though impacted by foreign exchange headwinds for much of the year, EMEA revenue increased by 2.6 percent to $239.5 million in the year-ended 31 March 2016, primarily due to growth in UTM billings.

APJ revenue increased by 16.0 percent to $72.6 million in the year-ended 31 March 2016, also predominantly due to strong growth in UTM billings.

	FY16	FY15	Growth
	$M	$M	%
Revenue by Region:			
- Americas	166.1	150.6	10.3
- EMEA	239.5	233.5	2.6
- APJ	72.6	62.6	16.0
	478.2	446.7	7.1
Revenue by Product:			
- Network	239.0	206.5	15.7
- Enduser	211.9	210.0	0.9
- Other	27.3	30.2	(9.6)
	478.2	446.7	7.1
Revenue by Type:			
- Subscription	364.7	354.8	2.8
- Hardware	100.9	80.0	26.1
- Other	12.6	11.9	5.9
	478.2	446.7	7.1

The impact of currency headwinds in both EMEA and APJ meant that despite reporting strong like-for-like subscription billings growth of 16.5 percent, EMEA and APJ both reported headline reductions in subscription revenues. A further analysis of subscription revenue by region is set out below to illustrate the impact of changes in exchange rates:

	FY16	FY15	Growth
	$M	$M	%
Americas	141.7	130.4	8.7
EMEA	176.0	177.3	(0.7)
APJ	47.0	47.1	(0.2)
Total subscription	364.7	354.8	2.8

Cost of Sales

The Group's cost of sales increased by $15.1 million, or 16.9 percent, to $104.4 million in the year-ended 31 March 2016, primarily due to the growth of Network product billings, which have a larger hardware component.

Sales and Marketing

The Group's sales and marketing expenses increased by $8.6 million or 4.9 percent, to $184.0 million in the year-ended 31 March 2016. Marketing expenses are increasing to broadly match the investment with billings growth. Sales expenses are increasing more slowly as the Group starts to leverage its strong channel model.

Research and Development

The Group's research and development expenses increased by $17.8 million, or 21.8 percent, to $99.6 million in the year-ended 31 March 2016. This reflected the continued investment in the development of new products and enhancements of existing products, including higher headcount as a consequence of the acquisition of Reflexion and SurfRight in the year. As with marketing investment, research and development investment is targeted to now broadly grow in line with billings.

General Finance and Administration

The Group's underlying general finance and administration expenses increased by $13.6 million, or 35.4 percent, to $52.0 million in the year-ended 31 March 2016. The increase was almost entirely attributable to the share-based payment expense, which is higher following the issue of new equity awards at the time of the Company's IPO. Excluding share-based payments and exceptional items, the underlying general finance and administration expenses decreased YOY, and now represent 6.7 percent of billings (FY15: 7.8 percent) as the Group leverages its strong back office function.

The Group's exceptional items included within general finance and administration expenses increased by $24.6 million to $41.9 million in the year-ended 31 March 2016. The increase was mainly due to costs of $17.8 million incurred during the Company's IPO, as well as acquisition costs and expenses incurred in relation to the defence or settlement of claims brought against a number of our employees by their former employer and certain intellectual property litigation cases.

Amortisation of Intangible Assets

The Group's amortisation of intangible assets decreased by $18.4 million, or 38.7 percent, to $29.2 million in the year-ended 31 March 2016. This decrease was due to the reduction in amortisation charges associated with acquisitions in prior years exceeding the charge in the year from the FY16 acquisitions of Reflexion and SurfRight.

Currency Movements and Impact
The weakening of the Euro as compared to the US Dollar negatively impacted the Group's reported billings and profit growth rate in the year-ended 31 March 2016.

The Group's foreign exchange gain was $0.2 million in the year-ended 31 March 2016, compared with a gain of $2.6 million in the year-ended 31 March 2015. This change was primarily due to the moderate weakening of the US Dollar compared to Sterling and the Euro having strengthened throughout the prior year.

Cash EBITDA
Whilst subscription billings are recognised in the profit and loss account as revenue over the length of the contract, substantially all of the costs in connection with the contract have been incurred and are recognised in the profit and loss account upfront. The Directors believe that cash EBITDA is a useful supplemental measure of earnings that provides visibility on actual cash earned in the period and is a better reflection of the profitability of the contract signed, as it matches cash inflows with nearly all of the cash costs of delivering the relevant service to the customer.

On a reported basis, cash EBITDA increased by 19.2 percent to $120.9 million in the year-ended 31 March 2016. On a constant currency basis, cash EBITDA growth was 31.6 percent as a result of a combination of strong billings and operational leverage, particularly within the back office and sales functions. Cash EBITDA margins improved year over year to 22.6 percent from 21.3 percent.

Operating Loss
The Group's operating loss was $32.7 million in the year-ended 31 March 2016 compared to a loss of $0.5 million in the prior year. After adding back exceptional items, as explained above, gains on group asset disposals and foreign exchange gains and losses, the operating profit was $9.0 million in the year-ended 31 March 2016 compared to $14.2 million in the prior year. The YOY reduction was a consequence of investment in FY16, the positive impact of which will be reflected as revenue in the profit and loss account of future years.

Net Finance Costs
The Group's net finance costs decreased by $18.1 million to $35.7 million in the year due to the impact of the IPO, the proceeds of which enabled the repayment of both the amounts due to the previous parent company and $87.7 million of bank debt. These underlying improvements were offset by a $27.1 million variance in foreign exchange gain on borrowings and a $5.9 million expense relating to the write-off of un-amortised capitalised finance fees that originally arose on the repaid external debt facility.

Income Tax
The Group's tax charge for the year was $3.5 million (FY15: $5.7 million) with an effective tax rate of -5 percent (FY15: -11 percent). The charge is driven by both the profit mix amongst the key jurisdictions in which the Group operates and by a number of one-time events.

Following the IPO, the Group has increased the proportion of employee remuneration associated with share-based compensation, the cost of which can be claimed as a statutory deduction in at least two of the key jurisdictions in which the Group operates, including the UK and the US. This resulted in the recognition of a deferred tax asset in FY16 of $13.7 million, of which $3.5 million has been recognised through the income statement.

During FY16 the Group has also elected to adopt the new Research & Development (R&D) Expenditure Credit regime introduced by the UK Government with effect from 1 April 2013 and has benefitted from a $5.3 million credit to the tax charge in respect of the three years to 31 March 2016.

Loss for the Year
The Group's loss for the year increased by $11.9 million, from a loss of $60.0 million in the year-ended 31 March 2015 to a loss of $71.9 million in the year-ended 31 March 2016 predominantly reflecting exceptional expense items.

Unlevered Free Cash Flow
Unlevered free cash flow represents cash EBITDA less purchases of property, plant and equipment and intangibles, plus cash flows in relation to changes in working capital and taxation. Unlevered free cash flow is presented to enhance understanding of the Group's cash generation capability.

	FY16	**FY15**
	$M	**$M**
Cash EBITDA	**120.9**	**101.4**
Net capital expenditure	(16.8)	(11.9)
Operating cash flow	**104.1**	**89.5**
Change in working capital	(32.5)	1.5
Corporation tax paid	(25.2)	(25.7)
Unlevered free cash flow	**46.4**	**65.3**

In line with the Board's expectations, unlevered free cash flow reduced to $46.4 million predominantly due to anticipated one-time working capital movements.

Unlevered free cash flow can be reconciled to the statutory measure of net cash from operating activities as follows:

	FY16	**FY15**
	$M	**$M**
Net cash flow from operating activities	**21.3**	**59.9**
Exceptional items	41.9	17.3
Net capital expenditure	(16.8)	(11.9)
Unlevered free cash flow	**46.4**	**65.3**

Net cash from operations reduced to $21.3 million mainly as a result of the increased exceptional items related to the IPO and expenses incurred in the defence or settlement of claims brought against a number of our employees by their former employer and certain intellectual property litigation cases.

Changes in Working Capital

Working capital changes YOY were largely due to the FY15 balance sheet including accrued and payable amounts in relation to closure of one office, the "Cloudburst" brand awareness marketing program and extraordinary bonus and commission payments arising from FY15 over-performance. Working capital at the end of the current year reflects an increased volume of trade occurring as well as prepayments for FY17 partner conferences that are being held earlier than in the prior year. Despite trade receivables increasing due to billings growth, DSO has decreased marginally to 44 days (FY15: 45 days).

Capital Expenditure

The Group's capital expenditure primarily comprises property, plant and equipment as well as intangible assets. In the year-ended 31 March 2016, net cash capital expenditure increased by $4.9 million YOY. The prior year comparative included the disposal of property that was surplus to requirements for $3.0 million; the underlying capital expenditure outflow was $14.9 million. The increased YOY capital expenditure is a result of expanding facilities in the Group's India operation as well as operational system improvements that enhance the Group's ability to transact business with its partners and customers.

Cash Taxation

Corporation tax amounts paid in FY16 were slightly lower than in FY15 largely due to a number of catch-up payments made in FY15 in relation to earlier years. Cash tax is driven by the profits mix amongst the key jurisdictions in which the Group operates and by acquisitions in recent years. A cash tax payment of $2.8 million also arose in FY16 due to the distribution of dividends from India.

Financing

In connection with the IPO process that was completed in July 2015, the Group refinanced its external borrowings. In the third quarter of FY16 the Group drew down a portion of the associated revolving credit facility to partially finance the acquisition of SurfRight. At 31 March 2016, the ratio of net debt to cash EBITDA was 2.1 times, which in the absence of future acquisitions will improve as a consequence of the cash generative nature of the Group.

Dividends

At the time of the IPO, the Directors indicated an intention to adopt a progressive dividend policy, reflecting the cash generative nature and long-term earnings potential of the Group. The Directors propose to pay a final dividend for the year-ended 31 March 2016 of 1.1 US Cents per share, giving a total dividend for the year of 1.8 US Cents per share. The final dividend, subject to shareholder approval, will be paid on 14 October 2016 to all shareholders on the register on 16 September 2016.

Nick Bray
Chief Financial Officer

Consolidated statement of profit or loss
For the year-ended 31 March 2016

	Note	**Year-ended 31 March 2016 $M**	Year-ended 31 March 2015 $M
Revenue		**478.2**	446.7
Cost of sales		**(104.4)**	(89.3)
Gross profit		**373.8**	357.4
Sales and marketing		**(184.0)**	(175.4)
Research and development		**(99.6)**	(81.8)
General finance and administration:		**(122.9)**	(100.7)
- Underlying		**(35.7)**	(36.9)
- Share-based payments	5	**(16.3)**	(1.5)
- Exceptional items	6	**(41.9)**	(17.3)
- Amortisation of intangible assets		**(29.2)**	(47.6)
- Foreign exchange gain		**0.2**	2.6
Operating loss		**(32.7)**	(0.5)
Finance income		**0.7**	1.1
Finance expense	7	**(36.4)**	(54.9)
Loss before taxation		**(68.4)**	(54.3)
Income tax charge	8	**(3.5)**	(5.7)
Loss for the period		**(71.9)**	(60.0)
Earnings per Share ($ Cents)			
Basic and diluted EPS	9	**(16.4)**	(14.7)
Adjusted EPS	9	**27.5**	24.8

All of the loss for the year is attributable to equity shareholders of the parent company.

Consolidated statement of other comprehensive income
For the year-ended 31 March 2016

	Year-ended 31 March 2016 $M	Year-ended 31 March 2015 $M
Loss for the period	**(71.9)**	(60.0)
Other comprehensive losses :		
Items that will not be reclassified subsequently to profit or loss:	**-**	-
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences arising on translation of foreign operations	**(2.9)**	(7.1)
Total other comprehensive losses	**(2.9)**	(7.1)
Comprehensive loss for the year	**(74.8)**	(67.1)

All of the Comprehensive loss for the year is attributable to equity shareholders of the parent company.

Consolidated statement of financial position
At 31 March 2016

Registered number 9608658	Note	**31 March 2016 $M**	31 March 2015 $M
Non-current assets			
Intangible assets	11	**756.6**	719.3
Property, plant and equipment	12	**24.9**	25.1
Deferred tax asset		**73.9**	47.2
Other receivables		**0.8**	0.4
		856.2	792.0
Current assets			
Investments		-	0.6
Inventories		**18.7**	12.5
Trade and other receivables		**129.8**	110.5
Cash and cash equivalents		**66.8**	72.6
		215.3	196.2
Total assets		**1,071.5**	988.2
Current liabilities			
Trade and other payables		**76.4**	557.0
Deferred revenue	13	**286.5**	251.4
Income tax payable		**11.2**	10.7
Financial liabilities	14	**26.2**	2.9
Provisions		**0.3**	0.7
		400.6	822.7
Non-current liabilities			
Trade and other payables		**0.8**	0.7
Deferred revenue	13	**212.2**	181.9
Financial liabilities	14	**300.9**	377.8
Provisions		**1.0**	0.3
Deferred tax liabilities		**10.1**	10.6
		525.0	571.3
Total liabilities		**925.6**	1,394.0
Net assets / (liabilities)		**145.9**	(405.8)
Represented by:			
Share capital		**21.3**	552.6
Share premium		**115.9**	-
Merger reserve		**(200.9)**	(200.9)
Other reserves		**(0.1)**	10.4
Retained earnings / (deficit)		**205.7**	(750.0)
Share-based payment reserve		**36.2**	11.4
Translation reserve		**(32.2)**	(29.3)
Total equity		**145.9**	(405.8)

Consolidated statement of changes in equity
For the year-ended 31 March 2016

	Share Capital $M	Share Premium $M	Merger Reserve $M	Other Reserves[1] $M	Retained Earnings $M	Share-Based Payment Reserve $M	Translation Reserve $M	Total $M
At 1 April 2014[2]	552.6	-	(200.9)	10.4	(690.0)	10.0	(22.2)	(340.1)
Loss for the period:	-	-	-	-	(60.0)	-	-	(60.0)
Other comprehensive profit or loss:	-	-	-	-	-	-	(7.1)	(7.1)
Total comprehensive loss	-	-	-	-	(60.0)	-	(7.1)	(67.1)
Share-based payments expense	-	-	-	-	-	1.4	-	1.4
At 31 March 2015	552.6	-	(200.9)	10.4	(750.0)	11.4	(29.3)	(405.8)
Loss for the period:	-	-	-	-	(71.9)	-	-	(71.9)
Other comprehensive profit or loss:	-	-	-	-	-	-	(2.9)	(2.9)
Total comprehensive loss	-	-	-	-	(71.9)	-	(2.9)	(74.8)
Reserve transfer	-	-	-	(10.4)	10.4	-	-	-
Shares issued[3]	-	485.3	-	-	-	-	-	485.3
Capital reduction[4]	(533.1)	(485.2)	-	-	1,020.4	-	-	2.1
EBT treasury shares	-	-	-	(0.2)	-	-	-	(0.2)
Primary proceeds	1.7	123.3	-	-	-	-	-	125.0
Share issue expenses	-	(8.6)	-	-	-	-	-	(8.6)
Share options exercised	0.1	1.1	-	-	-	-	-	1.2
Disposal of EBT treasury shares	-	-	-	0.1	(0.1)	-	-	-
Share-based payments expense	-	-	-	-	-	15.0	-	15.0
Share-based payments deferred tax	-	-	-	-	-	9.8	-	9.8
Cash dividend	-	-	-	-	(3.1)	-	-	(3.1)
At 31 March 2016	**21.3**	**115.9**	**(200.9)**	**(0.1)**	**205.7**	**36.2**	**(32.2)**	**145.9**

[1] At 31 March 2016 other reserves comprise own shares held in an Employment Benefit Trust.

[2] Sophos Group plc listed its shares on the London Stock Exchange on 1 July 2015. The Group has applied the principles of reverse acquisition accounting under IFRS 3 – Business Combinations in preparing the consolidated financial statements. By applying the principles of reverse acquisition accounting, the Group is presented as if Sophos Group plc has always owned Shield Midco Limited, the largest company for which consolidated financial statements were previously produced under IFRS. On 26 June 2015 Sophos Group issued 333,037 Ordinary, A-Class and C shares of £0.75 each together with 1,009,869 Preference shares of £0.10 each in consideration for the purchase of the issued share capital of Pentagon Holdings SARL.

[3] On 26 June 2015 Sophos Group plc issued 14 shares at nominal £0.001 in consideration for the purchase of $485.3m of Preferred Equity Certificates issued by Pentagon Holdings SARL.

[4] On 1 July 2015 Sophos Group plc reorganised its share capital and share premium to comprise 414,654,813 Ordinary shares of £0.03 each creating distributable reserves.

Consolidated statement of cash flows
For the year-ended 31 March 2016

	Note	**Year-ended 31 March 2016 $M**	Year-ended 31 March 2015 $M
Loss for the year		**(71.9)**	(60.0)
Adjusted for:			
Depreciation		**8.4**	8.3
Amortisation of intangible assets		**29.2**	47.6
Amortisation of fair value adjustment on deferred income		**(1.8)**	(3.5)
Foreign exchange		**2.4**	(2.0)
Share-based payments		**15.0**	1.4
Finance income		**(0.7)**	(1.1)
Finance costs		**36.4**	54.9
Income tax charge		**3.5**	5.7
		20.5	51.3
Increase in inventories		**(6.7)**	(8.1)
increase in trade and other receivables		**(16.1)**	(15.8)
(Decrease)/increase in trade and other payables		**(10.9)**	27.0
Increase in deferred revenue		**59.4**	32.7
Increase/(decrease) in provisions		**0.3**	(1.5)
Cash generated from continuing operations		**46.5**	85.6
Income taxes paid		**(25.2)**	(25.7)
Net cash flow from operating activities		**21.3**	59.9
Investing activities			
Disposal of subsidiary undertakings	15	**-**	4.5
Purchase of property, plant and equipment		**(8.5)**	(7.3)
Acquisition of subsidiaries net of cash acquired	15	**(46.0)**	(10.2)
Purchase of intangible assets - software		**(8.3)**	(7.6)
Proceeds on sale of assets		**-**	3.0
Finance income		**0.7**	1.1
Net cash flow from investing activities		**(62.1)**	(16.5)
Financing activities			
Proceeds from issue of shares		**126.2**	-
Transaction costs related to the issue of shares		**(8.6)**	-
Dividends paid		**(3.1)**	-
Proceeds from borrowings	15	**326.9**	-
Repayment of borrowings	15	**(389.6)**	(4.0)
Transaction costs related to borrowings	15	**(4.4)**	(0.2)
Finance lease payments		**(0.1)**	(0.1)
Finance costs		**(12.9)**	(21.8)
Net cash flow from financing activities		**34.4**	(26.1)
(Decrease)/increase in cash and cash equivalents		**(6.4)**	17.3
Net foreign exchange differences		**0.6**	(8.8)
Cash and cash equivalents at the start of period		**72.6**	64.1
Cash and cash equivalents at the end of period		**66.8**	72.6

1. General information

Sophos Group plc ("the Company") is a company domiciled in the United Kingdom. The Company's registered office is Sophos Group plc, 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 31 March 2016 comprise the Company and its subsidiaries (together referred to as "the Group"). The Group is a leading provider of cloud-enabled enduser and network security solutions. Prior to the Initial Public Offering of the Company's shares, Shield Midco Limited was the largest Company for which consolidated financial statements were produced. Statutory accounts for that Company for the year-ended 31 March 2015 were approved by the Board of Directors on 1 June 2015 and were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

These results do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006. The consolidated financial statements for the year-ended 31 March 2016 have been audited with an unqualified report being issued. The report of the auditors did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The consolidated financial statements of the Group for the year-ended 31 March 2016 were approved by the Board of Directors on 25 May 2016.

2. Basis of Preparation

The consolidated financial statements of the Group for the year-ended 31 March 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and under the historical cost convention. The accounting policies adopted in preparation of the consolidated financial statements are consistent with those used to prepare the Group's consolidated financial statements for the year-ended 31 March 2015. New standards effective for the Group for the year-ended 31 March 2016 did not have an impact on the results or disclosures shown in the consolidated financial statements.

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 and has adopted the going concern basis in preparing the consolidated financial statements.

3. Segments

For internal management reporting purposes, the primary segment reporting format is determined to be geographic segments as the Group's risks and rates of return are affected predominantly by the different economic environments. This is consistent with the information provided to the Chief Operating Decision Maker. The Group has only one secondary 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 operations consisting of Europe, Middle East and Africa (“EMEA”), The Americas and Asia Pacific and Japan (“APJ”).

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

Billings are classified by 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 that of the end customers. A disclosure of revenue by region is included in the Financial Review.

The accounting policies of the reportable segments are the same as the Group’s accounting policies. Segment profits represent the profit earned by each segment without allocation of central administration costs including Directors’ salaries, finance costs and income tax expense. This is the measure reported to the Chief Operating Decision Maker, the Chief Executive Officer, and Senior Management Team for the purposes of resource allocation and assessment of segment performance.

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 billings and expenditure regarding the Group's geographical segments for the year-ended 31 March 2016 and 31 March 2015.

Year-ended 31 March 2016	**Americas $M**	**EMEA $M**	**APJ $M**	**Total $M**
Billings	**187.9**	**264.0**	**83.0**	**534.9**
Regional cost of sales	**(13.3)**	**(34.6)**	**(15.8)**	**(63.7)**
Regional gross margin	**174.6**	**229.4**	**67.2**	**471.2**
Regional sales and marketing expense	**(55.4)**	**(60.2)**	**(28.1)**	**(143.7)**
Regional operating profit	**119.2**	**169.2**	**39.1**	**327.5**
Revenue deferral				**(56.7)**
Central costs				**(265.9)**
Amortisation				**(29.2)**
Depreciation				**(8.4)**
Operating loss				**(32.7)**

Year-ended 31 March 2015	Americas $M	EMEA $M	APJ $M	Total $M
Billings	152.9	255.5	67.6	476.0
Regional cost of sales	(11.1)	(27.7)	(11.3)	(50.1)
Regional gross margin	141.8	227.8	56.3	425.9
Regional sales and marketing expense	(48.0)	(58.1)	(25.9)	(132.0)
Regional operating profit	93.8	169.7	30.4	293.9
Revenue deferral				(29.3)
Central costs				(209.2)
Amortisation				(47.6)
Depreciation				(8.3)
Operating loss				(0.5)

4. Reconciliation of cash EBITDA

Cash EBITDA is defined as the Group's operating loss adjusted for depreciation and amortisation charges, any gains or losses on the sale of tangible and intangible assets, share option charges, unrealised foreign exchange differences and exceptional items with billings replacing revenue. The Directors believe this measure is a more appropriate earnings and cash flow measure than EBITDA.

	Year-ended 31 March 2016 $M	Year-ended 31 March 2015 $M
Operating loss	**(32.7)**	(0.5)
Depreciation	**8.4**	8.3
Loss on Group asset disposal	**-**	-
Amortisation of intangible purchased assets	**29.2**	47.6
Share-based payments expense	**15.0**	1.4
Exceptional items	**41.9**	17.3
Foreign exchange loss / (gain)	**2.4**	(2.0)
Adjusted EBITDA	**64.2**	72.1
Net deferral of revenue	**56.7**	29.3
Cash EBITDA	**120.9**	101.4
Billings	**534.9**	476.0
Revenue	**(478.2)**	(446.7)
Net deferral of revenue	**56.7**	29.3

5. Share-based payments expense

The expense recognised for employee services received during the year is as follows:

	Year-ended 31 March 2016 $M	Year-ended 31 March 2015 $M
Cash-settled transactions	**1.3**	0.1
Equity-settled transactions	**15.0**	1.4
Total share-based payment expense	**16.3**	1.5

6. Exceptional items

Exceptional items are those that in the Directors' judgment need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group more accurately. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the consolidated income statement within General finance and administration expenses.

During the year-ended 31 March 2016, Initial Public Offering ("IPO") costs of $17.8M (2015: $Nil), acquisition related expenses of $1.7M (2015: $3.3M), restructuring and integration costs of $2.6M (2015: $6.5M) and costs incurred in relation to the defence and settlement of certain intellectual property litigation of $19.8M (2015: $7.5M). The IP litigation costs includes a one-time payment to Fortinet Inc. on 9 December 2015 in respect of the settlement of all outstanding litigation, including various claims asserted by Fortinet Inc. against the Group and a number of former Fortinet Inc. employees employed by the Group and the respective patent claims the parties had asserted against each other. This resulted in total Exceptional items of $41.9M (2015: $17.3M). Tax credits on these exceptional items amounted to $5.3M (2015: $6.2M).

7. Finance expense

	Year-ended 31 March 2016 $M	Year-ended 31 March 2015 $M
Interest expense on loans and borrowings	**11.0**	20.8
Other interest, bank charges and swap settlements	**0.5**	0.9
	11.5	21.7
Accretion on Subordinated Preference Certificates	**13.5**	54.8
Accretion on contingent consideration	**0.2**	-
Foreign exchange loss/(gain) on borrowings	**4.4**	(22.7)
Amortisation of facility fees	**0.9**	1.1
Facility fees expensed on settlement of debt	**5.9**	-
Total finance expense	**36.4**	54.9

8. Taxation

UK corporation tax for the year-ended 31 March 2016 is calculated at 20% (2015:21%) of the estimated assessable loss for the period.

	Year-ended 31 March 2016 $M	Year-ended 31 March 2015 $M
Current income tax:		
UK corporation tax	**(2.0)**	-
Adjustments in respect of previous years UK corporation tax	**(2.7)**	-
Overseas tax before exceptional items	**30.4**	29.5
Overseas tax on exceptional items	**(1.0)**	(6.2)
Adjustment in respect of previous years	**0.6**	1.5
Total current tax charge	**25.3**	24.8
Deferred tax:		
Origination and reversal of temporary differences	**(15.9)**	(13.9)
Origination and reversal of temporary differences on exceptional items	**(4.2)**	-
Adjustment in respect of previous years	**(1.7)**	(5.2)
Total deferred tax credit	**(21.8)**	(19.1)
Total income tax charge	**3.5**	5.7

An election was made in the period for Sophos Limited to be included within the new UK Research & Development (R&D) Expenditure Credit regime for the FY14 and FY15 tax periods, this has resulted in the UK prior year current tax adjustment shown above.

The charge for the year-ended can be reconciled to the loss for the period before taxation per the Consolidated Statement of profit or loss as follows:

	Year-ended 31 March 2016 $M	Year-ended 31 March 2015 $M
Loss for the year before taxation	**(68.4)**	(54.3)
Loss for the year before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	**(13.7)**	(11.4)
Effects of:		
Adjustments in respect of previous years	**(4.2)**	(3.7)
Change in tax rate during the year	**1.1**	1.6
Expenses not deductible for tax purposes	**7.0**	6.0
Losses not recognised	**6.8**	8.0
Higher tax rates on overseas earnings	**8.7**	7.3
Research and development and other tax credits	**(3.2)**	(1.7)
Other movements	**1.0**	(0.4)
Charge for taxation on loss for the year	**3.5**	5.7

9. Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing the profit for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the profit for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued if all dilutive potential ordinary shares were converted into ordinary shares. In accordance with IAS 33, the dilutive earnings per share are without reference to adjustments in respect of outstanding shares when the impact would be anti-dilutive.

Adjusted EPS is calculated by dividing the cash EBITDA for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

In each case, the weighted average number of shares takes into account the weighted average number of own shares held during the period.

The following reflects the income and share data used in calculating EPS:

	Year-ended 31 March 2016 $'M	Year-ended 31 March 2015 $'M
Loss for the period attributable to the equity holders of the Company	**(71.9)**	(60.0)
Cash EBITDA for the period attributable to the equity holders of the Company	**120.9**	101.4

	Year-ended 31 March 2016	Year-ended 31 March 2015
Weighted average number of shares (000's):	**438,640**	408,207

	Year-ended 31 March 2016 $ Cents	Year-ended 31 March 2015 $ Cents
Basic and diluted EPS	**(16.4)**	(14.7)
Adjusted EPS	**27.5**	24.8

The weighted average number of shares used in the calculation for the current and comparative periods reflects the shares in issue after adjusting for the capital restructuring.

10. Dividends

Cash dividends on ordinary shares declared and paid	**Year-ended 31 March 2016 $M**	Year-ended 31 March 2015 $M
Interim dividend for year ending 31 March 2016 at 0.7 US Cents per share (FY15: nil)	**3.1**	**-**
Total cash dividends paid	**3.1**	-

The Directors have proposed that the Company will pay a full-year dividend for the year-ending 31 March 2016 amounting to 1.1 US Cents per share.

Proposed final dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 31 March 2016.

11. Intangible assets

Net Book Value	Goodwill $M	Intellectual Property $M	Software $M	Others $M	Total $M
At 31 March 2014	694.1	30.4	13.2	39.9	**777.6**
Additions	-	-	7.6	-	**7.6**
Acquired through business combinations	1.4	9.9	-	-	**11.3**
Disposals	-	-	(0.4)	-	**(0.4)**
Charge for the year	(0.2)	(20.6)	(5.4)	(21.4)	**(47.6)**
Effect of movements in exchange rates	(25.7)	(0.2)	(1.4)	(1.9)	**(29.2)**
At 31 March 2015	669.6	19.5	13.6	16.6	**719.3**
Additions	-	-	8.3	-	**8.3**
Acquired through business combinations	41.6	5.6	-	6.2	**53.4**
Charge for the year	-	(12.7)	(6.2)	(10.3)	**(29.2)**
Effect of movements in exchange rates	4.9	0.2	(0.4)	0.1	**4.8**
At 31 March 2016	**716.1**	**12.6**	**15.3**	**12.6**	**756.6**

12. Property, plant and equipment

Net Book Value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 31 March 2014	22.0	9.7	2.3	**34.0**
Additions	0.2	5.9	1.1	**7.2**
Disposals	(2.8)	-	(0.1)	**(2.9)**
Charge for the year	(2.6)	(5.2)	(0.5)	**(8.3)**
Effect of movements in exchange rates	(3.4)	(1.2)	(0.3)	**(4.9)**
At 31 March 2015	13.4	9.2	2.5	**25.1**
Additions	1.6	5.9	1.0	**8.5**
Acquired through business combinations	-	0.6	0.1	**0.7**
Charge for the year	(2.5)	(5.1)	(0.8)	**(8.4)**
Effect of movements in exchange rates	(0.8)	(0.1)	(0.1)	**(1.0)**
At 31 March 2016	**11.7**	**10.5**	**2.7**	**24.9**

13. Deferred revenue

	31 March 2016 $M	31 March 2015 $M
Current	**251.4**	265.9
Non-current	**181.9**	181.9
At 1 April	**433.3**	447.8
Billings deferred during the year	**534.9**	476.0
Revenue released to the statement of profit or loss	**(478.2)**	(446.7)
Translation and other adjustments	**8.7**	(43.8)
Current	**286.5**	251.4
Non-current	**212.2**	181.9
At 31 March	**498.7**	433.3

14. Financial liabilities

Total financial liabilities at the end of the reporting period were as follows:

	31 March 2016 $M	31 March 2015 $M
Current instalments due on finance leases	**0.1**	-
Current instalments due on bank loans	**25.0**	3.9
Contingent consideration	**1.1**	-
Unamortised facility fees	**-**	(1.0)
Total current financial liabilities	**26.2**	2.9
Non-current instalments due on finance leases within 5 years	**0.1**	-
Non-current instalments due on bank loans	**303.4**	382.7
Contingent consideration	**1.0**	-
Unamortised facility fees	**(3.6)**	(4.9)
Total non-current financial liabilities	**300.9**	377.8
Total financial liabilities	**327.1**	380.7

Included in borrowings are bank loans of $328.4M (2015: $386.6M) as analysed below. This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31 March 2016 $M	31 March 2015 $M
Current instalments due on bank loans	**25.0**	3.9
Non-current instalments due on bank loans	**303.4**	382.7
Total bank loans	**328.4**	386.6

The bank loans are repayable as follows:

	31 March 2016 $M	31 March 2015 $M
Due within one year	**25.0**	3.9
Due between one and two years	**-**	3.9
Due between two and five years	**303.4**	11.7
Due after more than five years	**-**	367.1
Total bank loans	**328.4**	386.6

The Group re-financed its bank loans from primary proceeds arising on the IPO on 1 July 2015, reducing the US Dollar borrowing by $71.1M to $235.0M and reducing the Euro borrowing by €14.1M to €60.0M. Following the re-financing, the following terms apply to the bank loans outstanding at 31 March 2016:

Facility	**Interest**	**Margin**	**Principal M**	**Principal $ M**
Facility - A	Libor	2.25%	**$235.0**	**235.0**
Facility - B	Euribor	2.25%	**€60.0**	**68.4**
Revolving Credit Facility	Libor	2.00%	**$25.0**	**25.0**
				328.4

Repayment and maturity:
Facility A ($235.0M), Facility B (€60.0M) and the Revolving Credit Facility (multicurrency up to $30.0M) are repayable in full on the termination date at the end of the 60-month term on 1 July 2020. Any utilisation of the Revolving Credit Facility is repayable on the last day of its interest period, any amount repaid may be re-borrowed.

The margin payable on the facilities is dependent upon the ratio of the Group's net debt to cash EBITDA as defined in the facility agreement. The bank loans are secured by fixed and floating charges over the trade and assets of certain Group companies.

15. Notes to the consolidated statement of cash flows

Disposal of subsidiary undertakings	**Year-ended 31 March 2016 $M**	Year-ended 31 March 2015 $M
Consideration received, satisfied in cash - Utimaco safeware AG	**-**	4.5
Disposal of subsidiaries net of cash	**-**	4.5

Acquisition of subsidiaries net of cash acquired	**Year-ended 31 March 2016 $M**	Year-ended 31 March 2015 $M
Consideration paid, satisfied in cash:		
- Surfright B.V. and Threatstar Holdings B.V.	**31.8**	-
- Reflexion Networks Inc.	**15.0**	-
- Mojave Inc.	**-**	10.3
- Cyberoam Technologies Pvt Ltd	**-**	0.2
Net cash purchased	**(0.8)**	(0.3)
Disposal of subsidiaries net of cash	**46.0**	10.2

Movement in net debt	31 March 2015 $M	Cash flow $M	Non-cash movements $M	Effect of movements in exchange rates $M	**31 March 2016 $M**
Cash at bank and in hand	(59.0)	10.5	-	(1.2)	**(49.7)**
Short-term deposits	(13.6)	(4.1)	-	0.6	**(17.1)**
Cash and cash equivalents	(72.6)	6.4	-	(0.6)	**(66.8)**
Obligations under finance leases	0.1	(0.1)	0.2	-	**0.2**
Bank loans	380.6	(67.2)	6.8	4.5	**324.7**
Gross debt	380.7	(67.3)	7.0	4.5	**324.9**
Net debt	308.1	(60.9)	7.0	3.9	**258.1**