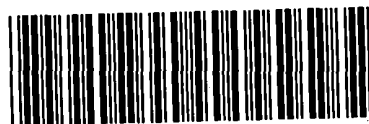


# Sophos Limited

Annual Report and Financial Statements  
Registered number 2096520  
31 March 2017

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## **Sophos Limited**

### **Strategic report for the year-ended 31 March 2017**

#### **Strategic report**

The Directors of Sophos Limited have prepared this Strategic report for the year-ended 31 March 2017 to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

#### **Principal activity**

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

*Sophos Limited is a leading provider in IT security.*

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

#### **Key performance indicators and overview of financial performance for the year-ended 31 March 2017:**

##### **Turnover:**

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

Turnover recognised during the year was £197M (2016: £145M) representing growth of 35.9% year-on-year.

##### **Operating Profit:**

The reduction in operating profit in 2017 is predominantly due to the following:

- Foreign exchange charges have increased to £15.4M in 2017 (2016: £9.9M)
- Share-based payment expense has increased to £19.6M (2016: £7.2M)
- Selling and general administration expense has increased to £69.6M in 2017 (2016: £56.2M)
- Intra Group expenses have increased to £95.9M in 2017 (2016: £66.5M)

Average staff numbers have increased to 545 from 483 in 2016.

## Sophos Limited

### Strategic report for the year-ended 31 March 2017 (continued)

#### Principal risks and uncertainties:

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

Risk	How it impacts us	What we are doing
False Detection of Threats	<p>Sophos's products may falsely detect threats or malware that do not actually exist in applications or content based on the Sophos classification of application type, virus, malware; vulnerability exploits, data or URL categories (known as 'false positives'). These false positives, while inherent in the group's industry, may impair the perceived reliability of the Sophos products and may therefore adversely impact market acceptance of the Sophos products.</p> <p>If Sophos's products restrict important files or applications based on falsely identifying them as malware or some other item that could be restricted, this could adversely affect end customers' systems and cause material system failures. Any such false identification of important files or applications could result in negative publicity, damage to Sophos' reputation, loss of end customer and sale, increased costs to remedy any problem and risk of litigation, any of which could materially adversely affect Sophos' financial condition and operating results.</p>	<p>Sophos is committed to investment in its world class Virus Labs facility with emphasis placed on staff training, testing and quality procedures.</p> <p>Moreover, there is continuous proactive focus on improvement of processes to enable early detection of a false positive event, as well as applying a 'lessons learnt' approach through root cause analysis.</p> <p>Sophos acknowledges the inherent risk associated with a false positive incident within the industry and is committed to ensuring there are mitigating processes in place to manage any incident, large or small, in order to minimize the impact on our customers.</p>
Defects or Vulnerabilities in Products or Services	<p>Sophos' products and services are complex, and as such they have contained and may in the future contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by end customers. These defects could cause Sophos' products or services to be vulnerable to security attacks, cause them to fail to help security networks, temporarily interrupt end customers' networking traffic, and fail to prevent or detect viruses or similar threats. Further, due to the evolving nature of threats and the continual emergence of new threats, Sophos may fail to identify and update its threat intelligence or other virus databases in time to protect its end customers' networks and devices.</p> <p>As a result, actual or perceived defects or vulnerabilities in Sophos' products or services, the failure of Sophos products or services to prevent a security threat could harm Sophos' reputation and divert the Sophos' resources.</p>	<p>Sophos are committed to extensive test cycles and quality procedures which are subject to continuous improvement.</p> <p>Sophos employs combinations of internal and external quality reviews and testing of products, including source code reviews, public and private 3rd party efficacy testing, automated code tests and various forms of penetration testing. We encourage a healthy collaboration with the security research community, as described in our Responsible Disclosure Policy: <a href="https://www.sophos.com/security">https://www.sophos.com/security</a>.</p> <p>In FY17, Sophos took the additional step of introducing a Bug Bounty program to leverage the skills of thousands of hackers to help make our products and web properties more secure.</p> <p>Further, we protect the privacy and security of our customers worldwide through our pledge to never engineer backdoors into our products as described here: <a href="https://www.sophos.com/nobackdoors">https://www.sophos.com/nobackdoors</a></p>

## Sophos Limited

Strategic report for the year-ended 31 March 2017 (continued)

### Principal risks and uncertainties (continued)

<p><b>IT Security and Cyber Risk</b></p>	<p>As a provider of IT security products, Sophos is naturally a target and Sophos' networks and products may have vulnerabilities that have from time to time been, and may in the future be, targeted by attacks specifically designed to disrupt Sophos' business and harm Sophos' reputation.</p> <p>If an actual or perceived breach of security occurs in the Sophos internal systems, it could adversely affect the market perception of Sophos' products. In additions, a security breach could affect Sophos' ability to operate its business, including the ability to provide support services to end customers.</p>	<p>Sophos has a dedicated Cyber Security Team who is focused on investigation and mitigation of risks related to cyber-attack. Sophos is focused on day-to-day active monitoring processes to identify and deal with IT security incidents, and in implementing continual improvements in the IT Security technology, education and awareness and policies that combine in the overall Security posture of Sophos.</p> <p>Sophos continues to increase its investment in Cyber Security.</p> <p>Sophos maintains Cyber Insurance to transfer part of the risk of any deliberate attack over to our insurer.</p>
<p><b>Disruption to day-to-day Operations</b></p>	<p>Sophos is at risk of disruption to its day to day operations from a disaster incident which may seriously impact IT systems or access to office space.</p> <p>A failure in the operation of Sophos' key systems or infrastructure on which Sophos relies could cause a failure of service to our customers and negatively impact the Sophos brand.</p>	<p>Sophos have made significant investments in the technology and infrastructure to ensure it continues to support the growth of the organisation.</p> <p>Additionally, Incident management procedures and escalation processes are in place as well as maintaining security, business continuity and disaster recovery plans. Continual updates and testing of these plans is ongoing.</p>
<p><b>Product Portfolio Management</b></p>	<p>Sophos has an extensive number of products, enhanced further by acquired technologies. The extent of investment in each product needs to be managed and prioritised taking into account the expected future prospects. Additionally, consideration must be given to the ability to be able to adequately support the entire product range.</p> <p>Failure to manage the product portfolio adequately could result in inappropriate investment focus in relation to research and innovation in product development which is essential to meet customer and partner requirements. This could result in products that do not meet the requirements of customers or partners and the risk they will look to alternative solutions, resulting in the potential loss of both new and existing revenue streams.</p> <p>Additionally, Insufficient focus on key research and development projects may damage the long-term growth prospects of Sophos.</p>	<p>Sophos continue to focus on and improve the interaction between Product Management, Product Development, Sales and Marketing and all Support functions in an integrated product development approach.</p> <p>Internal processes are run to identify opportunities for standardisation and consistency across products lines. This helps eliminate redundancies, reduce development and support costs, and improve partner and customer experiences through a more predictable and coherent product portfolio.</p> <p>Sophos are working to bring all products under a single cloud management platform to deliver "parity" (of management features and user experience) and "portability" (to address any privacy or data sovereignty issues that our partners/ customers might face).</p> <p>Additionally, during the current financial year, Sophos have consolidated both NSG and ESG under single leadership in order to improve Synchronized Security, cross business unit interlock and investment efficiencies.</p>

Sophos Limited

Strategic report for the year-ended 31 March 2017 (continued)

Principal risks and uncertainties (continued)

<b>Product Portfolio Management (cont)</b>		Sophos customer and partner community continue to be invaluable resources in guiding portfolio management decisions. They provide immediate and constant feedback on how well Sophos are meeting their requirements, improvements that Sophos can make to its current offerings and opportunities for portfolio consolidation or expansion.
<b>Recruitment and Retention of Key Personnel</b>	<p>The ongoing success of Sophos is dependent on attracting and retaining high quality employees at all levels in the business who can effectively implement the Sophos strategy.</p> <p>Failure to attract, retain or develop high quality employees across the business could limit Sophos' ability to deliver its business plan commitments.</p>	<p>Making Sophos a great place to work is central to the Sophos strategy.</p> <p>Sophos are committed to strong recruitment processes supported by robust remuneration programs which are benchmarked appropriately.</p> <p>Additionally, Sophos has a commitment to all levels of training throughout the organisation.</p> <p>Reward schemes are continuously evaluated to drive and reward performance and ensure retention of key talent.</p> <p>Annual employee engagement surveys enable progress of our people actions to be monitored, areas of improvement identified, and necessary actions performed.</p>

**Going concern basis**

The Directors expect that the Company will continue to transact business as a world leader in IT security in the coming year. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements. Further details regarding the adoption of the going concern basis can be found in the statement of significant accounting policies in Note 3 of the Company financial statements.

Approval

By order of the board



Ali Kennedy  
Director

Date: 22 December 2017

**Sophos Limited**

**Director's report for the year-ended 31 March 2017**

**Director's report**

The Directors of Sophos Limited present their annual report with the audited, financial statements of Sophos Limited for the financial year-ended March 31, 2017.

**Board of Directors**

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

Nicholas Bray  
Jenny Onslow  
Stuart Fillingham

On 20 September 2016, Alison Kennedy was appointed to the Board of Directors.

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

**Proposed Dividends**

Proposed and paid dividends for the year-ended 31 March 2017 are £Nil (2016: £Nil).

Dividends of £5,786k were received in the year from the Company's subsidiaries (2016: £10,006k).

**Disclosure of relevant information to auditor**

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

**Auditors**

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

On behalf of the Board



Ali Kennedy  
Director  
The Pentagon  
Abingdon Science Park  
Abingdon  
OX14 3YP

Date: 22 December 2017

## **Sophos Limited**

### **Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements for the year-ended 31 March 2017**

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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



KPMG LLP  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

### **Independent Auditor's Report to the Members of Sophos Limited**

We have audited the financial statements of Sophos Limited for the year-ended 31 March 2017 set out on pages 10 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

Arlington Business Park  
Theale  
Reading  
RG7 4SD

Date: 22 December 2017

## Sophos Limited

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

For the year-ended 31 March 2017

	Note	2017	2016
		£'000	£'000
Turnover	5	197,314	144,721
Cost of sales		(52,025)	(32,827)
<b>Gross profit</b>		<b>145,289</b>	<b>111,894</b>
Administrative Expenses		(208,599)	(154,690)
<b>Operating loss</b>	4	<b>(63,310)</b>	<b>(42,796)</b>
Income from shares in Group undertakings		5,786	10,006
Interest receivable and similar income	9	159	62
Interest payable and similar expenses	9	(234)	(121)
<b>Loss before taxation</b>		<b>(57,599)</b>	<b>(32,849)</b>
Tax credit	10	14,808	8,948
<b>Loss for the financial year</b>		<b>(42,791)</b>	<b>(23,901)</b>

#### Other Comprehensive Income for the year-ended 31 March 2017

There is no other comprehensive income other than the loss after tax of £42,791k attributable to shareholders for the year-ended to 31 March 2017. Total comprehensive income for the year-ended 31 March 2017 is therefore £nil.

All results relate to continuing operations.

The notes on pages 13 to 27 form an integral part of these accounts.

**Sophos Limited**

**Statement of financial position**

At 31 March 2017

Company registered number: 2096520

	Note	2017	2016
		£'000	£'000
<b>Fixed assets</b>			
Intangible assets	11	11,987	12,647
Property plant and equipment	12	20,029	19,774
Investments	13	319,045	285,718
		<b>351,061</b>	<b>318,139</b>
<b>Current assets</b>			
Inventories	14	6,904	8,353
Debtors	15	267,384	150,933
Cash at bank and in hand		14,720	17,380
		<b>289,008</b>	<b>176,666</b>
Creditors: amounts falling due within one year	17	(338,265)	(279,575)
Provisions for liabilities	18	(981)	(209)
Net current liabilities		<b>(50,238)</b>	<b>(103,118)</b>
Total assets less current liabilities		<b>300,823</b>	<b>215,021</b>
Creditors: amounts falling due after more than one year	17	(192,739)	(83,062)
Net assets		<b>108,084</b>	<b>131,959</b>
<b>Capital and reserves</b>			
Called-up share capital	19	1,069	1,069
Share premium		69,994	69,994
Other reserves		(65,498)	(84,414)
Profit and loss account		102,519	145,310
Shareholder's funds		<b>108,084</b>	<b>131,959</b>

These Financial Statements were approved by the Board of Directors on 22 December, 2017 and were signed on its behalf by:



Ali Kennedy  
Director

The notes on pages 13 to 27 form an integral part of these accounts.

## Sophos Limited

### Statement of changes in equity

At 31 March 2017

	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Retained Earnings £'000	Total £'000
At 1 April 2015	1,069	69,994	(91,400)	169,211	148,874
Loss for the period:	-	-	-	(23,901)	(23,901)
<b>Total comprehensive loss</b>	-	-	-	<b>(23,901)</b>	<b>(23,901)</b>
Conversion of preference shares to ordinary shares	-	-	-	-	-
Share-based payments expense	-	-	6,751	-	6,751
Deferred tax on share-based payments	-	-	235	-	235
<b>At 31 March 2016</b>	<b>1,069</b>	<b>69,994</b>	<b>(84,414)</b>	<b>145,310</b>	<b>131,959</b>
Loss for the period:	-	-	-	(42,791)	(42,791)
<b>Total comprehensive loss</b>	-	-	-	<b>(42,791)</b>	<b>(42,791)</b>
Share-based payments expense	-	-	18,684	-	18,684
Deferred tax on share-based payments	-	-	232	-	232
<b>At 31 March 2017</b>	<b>1,069</b>	<b>69,994</b>	<b>(65,498)</b>	<b>102,519</b>	<b>108,084</b>

The notes on pages 13 to 27 form part of these financial statements.

# Sophos Limited

## Notes to the Company financial statements

### 1 General information

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

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

### 2 Compliance with accounting standards

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

### 3 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 for the first time in these financial statements. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 21.

#### Basis of preparation

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

#### Exemptions for qualifying entities

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

- Under the exemption within FRS 102 paragraph 33.1A, transactions with wholly owned Group companies are not disclosed. All transactions with non-wholly owned Group companies are made in the ordinary course of business and are arms length transactions;
- The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows and related notes; and
- The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(e), from disclosing key management personnel compensation.

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

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

## Sophos Limited

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

#### Going concern

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Included within the current liabilities balance is a non-cash liability in the form of deferred revenue of £172,135k (2016: £152,556k), thus the Company continues to adopt the going concern basis in preparing the annual financial statements.

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

#### Turnover

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

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

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

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

##### *Fixed-term contracts*

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

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

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

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

##### *Perpetual licenses*

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

## Sophos Limited

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

#### Sale of goods

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

#### Investments held as fixed assets

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

#### Intangible fixed assets and amortization

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

Intellectual property	-	Between 20% and 40% per annum
Software	-	<u>33.33%</u> per annum

#### Property plant and equipment and depreciation

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

Freehold buildings	-	<u>4%</u> per annum
Leasehold improvements	-	over the life of the lease
Computer equipment	-	<u>33.33%</u> per annum
Other plant and equipment	-	<u>20%</u> per annum
Motor vehicles	-	<u>25%</u> per annum
Fixtures and fittings	-	<u>15%</u> per annum

No depreciation is provided on freehold land.

#### Foreign exchange

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the Statement of Financial Position date and the gains or losses on translation are included in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currencies are stated at historical foreign exchange rates.

#### Leases

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



## Sophos Limited

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

#### Long-term intercompany loans

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

#### Research and development expenditure

Expenditure on research activities is expensed as incurred.

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

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

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

#### Inventories

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

#### Taxation

##### **Current tax**

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

##### **Deferred tax**

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

Deferred tax assets and liabilities are not discounted.

#### Share based payment transactions

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

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

## Sophos Limited

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

#### Dividends

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

#### Pension Scheme

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

#### 4 Operating loss

Operating loss is stated after charging:	2017 £'000	2016 £'000
Operating lease rentals	180	152
Depreciation	3,202	2,827
Amortisation	7,692	9,844
Research and development	29,339	21,724
Pension scheme contributions	1,068	919
Net foreign currency differences	15,389	9,874
Auditor's remuneration	5	5
Total share options charge (equity and cash settled)	<u>3,749</u>	<u>7,159</u>

#### 5 Analysis of turnover

	2017 £'000	2016 £'000
<b><i>By activity</i></b>		
Sale of goods	3,449	2,708
Rendering of services	<u>193,865</u>	<u>142,013</u>
	<b><u>197,314</u></b>	<b><u>144,721</u></b>
<b><i>By geography</i></b>		
UK	29,717	27,634
North America	33,919	31,712
Rest of Europe	100,526	64,594
Rest of the World	<u>33,152</u>	<u>20,781</u>
	<b><u>197,314</u></b>	<b><u>144,721</u></b>

## Sophos Limited

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

#### 6 Staff costs

	2017	2016
	£'000	£'000
Wages and salaries	37,842	29,916
Social security costs	3,963	3,145
Pension costs	1,068	919
Other costs	3,079	2,155
Share based payments charge (equity and cash settled)	19,578	7,159
	<u>65,530</u>	<u>43,294</u>

#### 7 Employee information

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

	2017	2016
Technical	206	182
Sales and Marketing	133	115
Administration	206	186
	<u>545</u>	<u>483</u>

#### 8 Directors' emoluments

	2017	2016
	£'000	£'000
Directors emoluments	707	2,055
Aggregate contributions to pensions schemes	17	26
	<u>724</u>	<u>2,081</u>

Group CFO Director emoluments are incurred within Sophos Group PLC

Total emoluments paid to the highest paid Director during the year were £328k (2016: £1,578k)

## Sophos Limited

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

#### 9 Interest Income/(expense)

	2017 £'000	2016 £'000
Interest income on loans to related parties	<u>159</u>	<u>62</u>
Accretion on contingent consideration	(32)	-
Interest expense on loans from related parties	<u>(202)</u>	<u>(121)</u>
	<u>(234)</u>	<u>(121)</u>

#### 10 Tax on profit on ordinary activities

	2017 £'000	2016 £'000
<b>Current tax:</b>		
Current year tax credit @ 20% (FY15: 21%)	(2,968)	(1,500)
Adjustments in respect of prior years	<u>(775)</u>	<u>(2,089)</u>
<b>Total current tax charge/(credit)</b>	<u><u>(3,743)</u></u>	<u><u>(3,589)</u></u>
	2017	2016
	£'000	£'000
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(11,102)	(6,351)
Adjustments in respect of prior years	(793)	824
Impact of rate change	<u>830</u>	<u>168</u>
<b>Deferred tax credit on ordinary activities</b>	<u><u>(11,065)</u></u>	<u><u>(5,359)</u></u>
<b>Total tax credit on ordinary activities</b>	<u><u>(14,808)</u></u>	<u><u>(8,948)</u></u>

#### Reconciliation to total tax credit:

The tax assessed for the year is lower than the standard effective rate of corporation tax in the UK for the year-ended 31 March 2017 of 20% (2016: 20%). The differences are explained below:

## Sophos Limited

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

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

	2017	2016
	£'000	£'000
<b>Loss on ordinary activities before tax</b>	<b>(57,599)</b>	<b>(32,849)</b>
Loss on ordinary activities multiplied by standard rate in the UK of 20% (2016: 20%)	(11,524)	(6,570)
<u>Effects of:</u>		
Expenses not deductible for tax purposes	1,432	1,037
Dividend received (exempt under section 931)	(1,157)	(2,001)
R&D tax credits	(3,743)	(3,589)
Share options adjustment	147	1,183
Adjustments in respect of previous years	(793)	824
Change in tax rate during the year	830	168
<b>Total tax credit on ordinary activities for the year</b>	<b>(14,808)</b>	<b>(8,948)</b>

The aggregate current and deferred tax relating to items that are recognised as items in equity is (£232k) (2016: £236k).

#### Factors affecting future tax charges

The Finance (No.2) Act 2015 determined that the main rate of UK corporation tax would be reduced from 20% to 19% with effect from 1 April 2017 and Finance Act 2016 determined that the rate will be reduced from 19% to 17% with effect from 1st April 2020. The decreases to 19% from 1 April 2017 and 17% from 1 April 2020 has therefore been fully enacted.

At the balance sheet date the company has unused tax losses of £79,058k (2016: £32,101k) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses as it is considered probable that there will be future profits available in the company.

## Sophos Limited

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

#### 11 Intangible Assets

	Software	DP/Silent Break Intellectual Property	Mojave Intellectu al Property	ActiveStat e Intellectu al Property	Endforce Intellectu al Property	Cyberoam Intellectu al Property	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>							
At April 1, 2016	21,352	593	6,391	7,166	4,036	3,020	42,558
Additions	3,598	3,434	-	-	-	-	7,032
<b>At March 31, 2017</b>	<b>24,950</b>	<b>4,027</b>	<b>6,391</b>	<b>7,166</b>	<b>4,036</b>	<b>3,020</b>	<b>49,590</b>
<b>Amortization</b>							
At April 1, 2016	11,692	475	4,808	7,166	4,036	1,734	29,911
Charge for the year	4,890	778	1,148	-	-	876	7,692
<b>At March 31, 2017</b>	<b>16,582</b>	<b>1,253</b>	<b>5,956</b>	<b>7,166</b>	<b>4,036</b>	<b>2,610</b>	<b>37,603</b>
<b>Net book value</b>							
At April 1, 2016	9,660	118	1,583	-	-	1,286	12,647
<b>At March 31, 2017</b>	<b>8,368</b>	<b>2,774</b>	<b>435</b>	<b>-</b>	<b>-</b>	<b>410</b>	<b>11,987</b>

#### 12 Property plant and equipment

	Freehold land and buildings	Plant and machinery	Motor Vehicle s	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At April 1, 2016	33,056	8,980	73	1,027	43,136
Additions	168	3,173	-	116	3,457
<b>At March 31, 2017</b>	<b>33,224</b>	<b>12,153</b>	<b>73</b>	<b>1,143</b>	<b>46,593</b>
<b>Depreciation</b>					
At April 1, 2016	16,528	6,442	73	319	23,362
Charge for the year	1,291	1,759	-	152	3,202
<b>At March 31, 2017</b>	<b>17,819</b>	<b>8,201</b>	<b>73</b>	<b>471</b>	<b>26,564</b>
<b>Net book value</b>					
At April 1, 2016	16,528	2,538	-	708	19,774
<b>At March 31, 2017</b>	<b>15,405</b>	<b>3,952</b>	<b>-</b>	<b>672</b>	<b>20,029</b>

At March 31 2017, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £164k (2016: £14k).

Within freehold land and buildings the gross cost which is depreciable is £31,856k (2016: £31,856k).

## Sophos Limited

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

#### 13 Investments

	£'000
At April 1, 2016	285,718
Increase	33,327
<b>At March 31, 2017</b>	<b>319,045</b>

The increase in investments during the year-ended 31 March 2017 relates to the following:

- £1,476k relates to capitalisation of Sophos Security Technology Ltd Ireland and Sophos Turkey, new subsidiaries formed during the current year
- £18,496k relates to capital investment in Sophos B.V. in order for that Sophos Group entity to acquire Surfright B.V. and Threatstar Holdings B.V. during the current year.
- (£2,474k) capital reduction in Sophos Sarl
- £15,829k relates to push down of equity-settled share based payment expense to subsidiary

#### 14 Inventories

	2017 £'000	2016 £'000
Finished goods (and goods for resale)	6,904	8,353

#### 15 Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Trade debtors	21,852	19,658
Amounts owed by Group undertakings	113,535	80,527
Other debtors	33	147
Deferred tax asset	21,253	9,955
Prepayments	6,703	7,722
Corporation tax debtor	2,968	3,589
	<b>166,344</b>	<b>121,598</b>
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	101,040	29,335
<b>Total debtors</b>	<b>267,384</b>	<b>150,933</b>

## Sophos Limited

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

#### 16 Deferred tax

	2017 £'000	2016 £'000
<b>The deferred tax in the debtors note above comprises:</b>		
Capital allowances in excess of depreciation	3,712	2,610
Short term timing differences	1,993	1,010
Losses	14,553	6,099
Share based payments	995	236
<b>Total</b>	<b>21,253</b>	<b>9,955</b>

The net deferred tax asset expected to reverse in FY17 is £2,247k. This relates to the reversal of timing differences on depreciation in excess of capital allowances of £1,384k and the reversal of other timing differences offset by expected tax deductions of £863k.

#### 17 Creditors

	2017 £'000	2016 £'000
<b>Amounts falling due within one year:</b>		
Trade creditors	(13,760)	(7,329)
Amounts due to Group undertakings	(133,906)	(106,068)
Social security and other taxes	(3,436)	(2,043)
Other creditors	(1,258)	(605)
Accruals	(13,770)	(10,974)
Deferred revenue	(172,135)	(152,556)
	<b>(338,265)</b>	<b>(279,575)</b>
<b>Amounts falling due after more than one year:</b>		
Amounts due to Group undertakings	(60,022)	(9,945)
Deferred revenue	(132,717)	(73,117)
	<b>(192,739)</b>	<b>(83,062)</b>
<b>Total creditors</b>	<b>(531,004)</b>	<b>(362,637)</b>



## Sophos Limited

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

#### 18 Provisions for liabilities

	Restructuring	Other/ Contingent Consideration	Total
	£'000	£'000	£'000
At April 1, 2016	(72)	(137)	(209)
Arising during the year	-	(981)	-
Utilized during the year	72	137	209
<b>At March 31, 2017</b>	<b>-</b>	<b>(981)</b>	<b>(981)</b>

The opening Restructuring provision related to vacant properties which are surplus to the company's requirements and are due to be either disposed of or sublet. This full opening provision has been utilised during the year.

The Other provision arising in the year relates to contingent consideration:

As part of the purchase agreement with the previous owners of the "PhishThreat" technology, a contingent consideration has been agreed. The consideration is dependent on the billings of the "PhishThreat" product range for three annual periods commencing 1 March 2017 and ending 28 February 2020 with a maximum payout of \$2.0m. The fair value of the contingent consideration at the acquisition date was estimated at \$1.2m. The contingent consideration is due for measurement and payment to the sellers on 28 February 2018, 2019 and 2020 respectively.

#### 19 Called-up share capital

*Allotted, called-up and fully paid shares*

	Ordinary shares		Total	
	Thousands	£'000	Thousands	£'000
At April 1, 2016	2,674,725	1,069	2,674,725	1,069
<b>At March 31, 2017</b>	<b>2,674,725</b>	<b>1,069</b>	<b>2,674,725</b>	<b>1,069</b>

#### 20 Operating leases

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

	2017	2016
	£'000	£'000
Within one year	99	114
In the second to fifth years inclusive	81	38
<b>Net rent expense for the period</b>	<b>180</b>	<b>152</b>

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

## Sophos Limited

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

#### 21 Ultimate parent undertaking

The Company's parent company is Sophos Holdings Limited, a company registered in England and Wales, registered office being: The Pentagon Abingdon Science Park, Abingdon, Oxford, Oxfordshire, OX14 3YP. The largest group within which these Company financial statements are consolidated is headed by Sophos Group plc, a company incorporated in England and Wales. The consolidated financial statements of the group are available to the public and may be obtained from <https://investors.sophos.com/>.

Country of incorporation	Subsidiary undertaking	Principal activity / registered address	Class of shares held	Percentage of shares held
Australia	Sophos Pty Ltd <sup>3</sup>	Selling IT security solutions Level 11, 1 Elizabeth Plaza, North Sydney, NSW 2060, Australia	Ordinary	100%
Canada	Sophos Inc <sup>3</sup>	Selling IT security solutions 3400, 350-7th Ave SW, Calgary AB T2P 3N9, Canada	Common	100%
France	Sophos Sarl <sup>3</sup>	Selling IT security solutions River Ouest, 80 Quai Voltaire, 95870 Bezons, France	Ordinary	100%
Germany	Sophos Holdings GmbH <sup>3</sup>	Holding Company	Ordinary	100%
	Sophos GmbH <sup>4</sup>	Selling IT security solutions Gustav-Stresemann-Ring 1, 65189 Wiesbaden, Germany	Ordinary	100%
	Sophos Technology GmbH <sup>4</sup>	Research and Development Amalienbadstr. 41/ Bau 52 76227 Karlsruhe, Germany	Ordinary	100%
Hong Kong	Sophos Hong Kong Co Ltd <sup>3</sup>	Selling IT security solutions Unit K, 12/F., MG Tower, No. 133 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong	Ordinary	100%
Hungary	Sophos Hungary Kft <sup>3</sup>	Research and Development Aliz Utca, 1 Office Garden, Irodahaz A Epulet, 1117 Budapest, Hungary	Ordinary	100%
India	Sophos Technology Private Ltd <sup>10</sup>	Selling IT security solutions Sophos House, Saigulshan Complex, Beside White House, Panchwati Cross Road, Ahmedabad 380006, Gujarat, India	Ordinary	100%
Italy	Sophos Italia Srl <sup>3</sup>	Selling IT security solutions Via Tonale 26, CAP 20125 Milano (MI), Italy	Ordinary	100%
Japan	Sophos KK <sup>3</sup>	Selling IT security solutions Izumi Garden Tower 10F, 1-6-1 Roppongi, Minato-ku Tokyo 106-6010 Japan	Ordinary	100%
Luxembourg	Aspen Finance Co Sarl <sup>2</sup>	Financing Company 1-3, Boulevard de la Foire, L-1528, Luxembourg	Ordinary	100%
Netherlands	Sophos BV <sup>3</sup>	Selling IT security solutions Hoeverstein 11B, 4903 SE Oosterhout NB, Netherlands	Ordinary	100%
	Threatstar Holding BV <sup>8</sup>	Holding Company	Ordinary	100%
	Threatstar BV <sup>9</sup>	Research and Development	Ordinary	100%
	SurfRight BV <sup>8</sup>	Selling IT security solutions Lansinkesweg 4, 7553 AE Hengelo, Netherlands	Ordinary	100%
Singapore	Sophos Computer Security Pte Ltd <sup>3</sup>	Selling IT security solutions 60 Paya Lebar Road, #08-13 Paya Lebar Square, Singapore 409051	Ordinary	100%
Spain	Sophos Iberia Srl <sup>3</sup>	Selling IT security solutions Calle Orense 81, 28020 Madrid, Spain	Ordinary	100%

## Sophos Limited

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

Country of incorporation	Subsidiary undertaking	Principal activity / registered address	Class of shares held	Percentage of shares held
Sweden	Sophos AB <sup>3</sup>	Selling IT security solutions Färögatan 33, 164 51 Kista, Stockholms län, Sweden	Ordinary	100%
Switzerland	Sophos Schweiz AG <sup>3</sup>	Selling IT security solutions Bernstrasse 388, 8953 Dietikon, Switzerland	Ordinary	100%
	Astaro Trading AG <sup>5</sup>	Historical purchasing entity Blumenastr. 28, 8200 Schaffhausen, Switzerland	Ordinary	100%
Taiwan	Sophos Taiwan Ltd <sup>3</sup>	Services Company 5F-4, No. 57, Sec. 1 Chongqing S. Road, Zhongzheng Dist., Taipei City 100 Taiwan (R.O.C.)	Ordinary	100%
Turkey	Sophos Turkey Technoji Ltd Sirketi <sup>3</sup>	Services Company 19 Mayıs Mah. Turaboğlu Sok., Hamdiye Yazgan, İş M. Apt. No: 4 / 2 Kadıköy /Istanbul, Turkey	Ordinary	100%
UK	Sophos Holdings Ltd <sup>1</sup>	Holding Company	Ordinary	100%
	Sophos Treasury Ltd <sup>2</sup>	Financing Company	Ordinary	100%
	Sophos Limited <sup>2</sup>	Selling IT security solutions	Ordinary	100%
	Sophos Overseas Limited <sup>3</sup>	Services Company	Ordinary	100%
	Sophos Nominees Limited <sup>3</sup>	Share nominee company The Pentagon, Abingdon Science Park, Abingdon, OX14 3YP, UK	Ordinary	100%
USA	Sophos Inc <sup>3</sup>	Selling IT security solutions 3 Van de Graaff Drive, 2nd Floor, Burlington, MA 01803, USA	Ordinary	100%
	Cyberoam Inc <sup>6</sup>	Services Company 10 Schalks Crossing Road, Suite 501-329, Plainsboro, NJ 08536, USA	Ordinary	100%
	Reflexion Networks Inc <sup>7</sup>	Selling IT security solutions 1209 Orange St, Wilmington, County of New Castle DE 19801, USA	Ordinary	100%
	Invincea, Inc <sup>7</sup>	Selling IT security solutions	Ordinary	100%
	Sandboxie Holdings, LLC <sup>11</sup>	Services Company 2711 Centerville Rd Suite 400, Wilmington, New Castle, DE 19808, USA	Ordinary	100%

#### Shares held by:

1	Sophos Group Plc	5	Sophos Technology GmbH	9	Threatstar Holding BV
2	Sophos Holding Ltd	6	Sophos Technology Private Ltd	10	Sophos Ltd & Sophos
3	Sophos Ltd	7	Sophos Inc		Nominees Ltd
4	Sophos Holdings GmbH	8	Sophos BV	11	Invincea, Inc

## **Sophos Limited**

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

#### **22 Functional currency**

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

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

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