Sophos Group plc
Results for the year-ended 31 March 2018

Billings up 22%, with revenue growth of 21%;
adjusted operating profit up 20%

Oxford, 17 May 2018. Sophos Group plc (the "Group" / LSE: SOPH), a leading provider of cloud-enabled enduser and network cybersecurity solutions, today issues its audited results for the year-ended 31 March 2018 ("FY18").

Financial highlights

- Billings[1] grew by 22% to $769 million, an increase of 18% at constant currency
- Revenue increased by 21% to $641 million, reflecting constant currency growth of 18%, driven by 26% growth in subscription revenue in the period
- Cloud subscription billings continued to grow strongly, with Sophos Central up 112% to $186 million, from $88 million in FY17
- Total subscription renewal base has now surpassed the $1 billion milestone
- Net renewal rate, including cross-sell and upsell, improved to 140% from 129% in FY17
- Adjusted operating profit[2] increased by 20% to $46 million, from $38 million in the prior-year
- Loss before taxation increased to $52 million, from $49 million, despite the increase in adjusted operating profit, after the negative impact of financing foreign exchange losses
- Strong growth in new business with over 300,000 customers at the end of the year, from 260,000 in FY17
- Final dividend of 3.5 cents per share, an increase of 6.1% over the prior year; total dividend for the year of 4.9 cents, an increase of 6.5%

Financial summary

	FY18	FY17	Growth
	$M	$M	%
Billings	768.6	632.1	21.6
Revenue	640.7	529.7	21.0
Cash EBITDA[3]	193.7	150.1	29.0
Loss before taxation	(52.3)	(49.3)	6.1
Unlevered free cash flow[4]	139.6	133.4	4.6
Net cash flow from operating activities	147.7	118.5	24.6

FY19 and medium-term guidance

In the current year, we expect mid-teens per cent billings growth, including a c.200bps currency benefit, and growth in margin consistent with our medium term outlook. We remain confident in our goal of delivering annual billings of c.$1 billion, unlevered free cash flow of $220-240 million and adjusted operating profit greater than $100 million for FY20.

Chief Executive Officer, Kris Hagerman, commented:
"FY18 was a strong year for Sophos. Cybersecurity has never been more important for enterprises of all sizes, and the demand environment for our solutions has never been stronger. We continue to take share in the market, as we execute a differentiated strategy of delivering advanced and highly-effective cybersecurity solutions designed to be simple to use, managed in the cloud, and sold 100% through our channel partners. We have a massive market opportunity in front of us, and our strong and growing subscription base and growth in new customers, combined with our next-generation technology in endpoint and firewall and our Sophos Central cloud platform, position us well for FY19 and beyond."

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 300,000 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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Conference call and webcast
Sophos management will be hosting an analyst and investor meeting to discuss the FY18 results at 09:30 BST today. Please register your attendance at CHorner@tulchangroup.com.

This event is also accessible via conference call and audio-webcast, for registered participants. A replay of the audio-webcast will be also accessible via the Sophos investor website following the presentation. To register for the webcast and access the presentation materials please visit:

https://investors.sophos.com/events-and-presentations

Please dial into the conference call 5-10 minutes prior to the start time using the number/conference ID below:

Telephone:
+44 (0) 330 336 9411 (UK) / 0800 279 7204 (toll free)
+1 929 477 0353 (US) / 800 289 0438 (toll free)
Conference call confirmation code: 3858382

Participants are advised to visit the website at least 15 minutes prior to the commencement of the call in order to register and, for those accessing the webcast, in order to download and install any audio software that may be required.

NB: Conference call participants will be able to ask questions during the Q&A session, but those on the webcast will be in a listen-only mode.

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. Billings does not equate to statutory revenue.
2. Adjusted operating profit represents the Group’s operating profit / (loss) adjusted for amortisation charges, share option charges and exceptional items.
3. Cash earnings before interest, taxation, depreciation and amortisation (“Cash EBITDA”) is defined as the Group’s operating profit/ (loss) 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.
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.

Chief Executive Officer's Review

For the fiscal year 2018 Sophos delivered another successful result. Among the highlights, the Group delivered 22 per cent growth in billings, a 21 per cent increase in revenue, a 20 per cent increase in adjusted operating profit, a 25 per cent increase in cash flow, and a reduction in the operating loss. Loss before taxation increased to $52 million, despite the improvement in operating loss, largely a consequence of currency losses on debt revaluation.

A key driver of billings growth was Sophos Central, the company's integrated cloud-based management platform, which grew 112 per cent to $186 million. Sophos Central has experienced dramatic growth from $1 million in FY14 through $9 million, $27 million, and $88 million, to be $186 million in FY18. We posted industry-leading retention rates and reached the significant milestone of our subscription renewal base now exceeding $1 billion. Sophos also saw healthy growth in new customers as well, with our total customer count now exceeding 300,000 customers, growing by approximately 10,000 net new customers per quarter.

Sophos is a recognized leader in the large and growing IT security market, where we continue to post billings and revenue growth rates that exceed the overall market growth rate. We have a highly differentiated strategy to deliver advanced, innovative, and highly-effective cybersecurity solutions that at the same time are simple and easy to manage by enterprises of any size, and entirely sold through our global ecosystem of channel partners.

The need for businesses to secure their IT infrastructure and data has never been greater, and the well-publicized cyber-attacks of the past twelve months have further raised awareness and strengthened demand. This was particularly notable in the first half of our fiscal year when the WannaCry and NotPetya attacks, among others, brought into sharp focus the significance of the threat posed to organizations by ransomware. Consequently, customers have become especially focused on securing their endpoints against these sorts of threats, and our Enduser security business and particularly our next-generation endpoint solution, Intercept X, have seen strong growth as a result.

Technology and innovation

Our focus on innovation continues to fuel our growth and enabled us to deliver some of the most advanced cybersecurity technology available in the industry, consistent with our company mission statement: "To be the best in the world at delivering innovative, simple, and highly-effective cybersecurity solutions to IT professionals and the channel that serves them". In particular, we focused on four key pillars that drive our billings performance and security effectiveness: endpoint, firewall, Sophos Central, and synchronized security.

In FY18 we saw the first full-year contribution from Intercept X, our next-generation endpoint solution which is highly effective in protecting customers against ransomware, exploits, and zero-day threats. We recently integrated the deep-learning neural network technology that the Group gained as part of our acquisition of Invincea into the latest release of Intercept X, providing customers with advanced artificial intelligence for unmatched detection of previously unknown malware. Amongst next-generation endpoint vendors, Sophos is in a unique position to leverage industry-leading data science capabilities from Invincea with the expertise and knowledge built over decades within our SophosLabs threat research group, in order to deliver best-in-class detection rates combined with amongst the lowest false positive rates in the industry. As a result, we are positioned very attractively to be a leader in the dynamic and high-growth market for next-generation endpoint solutions.

In October 2017 we launched Sophos XG Firewall version 17, a major new release offering enhanced performance and usability and numerous new features and security improvements, including Synchronized App Control, an industry first that leverages the endpoint and firewall working together to dramatically improve network traffic visibility, reducing the security risks associated with unidentified traffic.

We continued to invest in Sophos Central, a highly differentiated platform that enables both more effective security while simplifying management for our partners as well as our end user customers. Sophos Central allows individual Sophos security components including endpoint, mobile, server, encryption, firewall, web, email, and Wi-Fi to automatically communicate relevant information with each other to form the foundation of what we call synchronized security. Enhancements to Sophos Central during the period include: management of Intercept X; deeper integration of XG Firewall; management of Sophos Mobile, Phish Threat, and device encryption; role-based administration; improved integration with Microsoft Azure; and Security Heartbeat for Linux servers. During the year, we saw further strong adoption of Sophos Central by both new and existing customers, with more than 66,000 customers using the platform today. Customers see immediate benefits from the ease of use and efficiency that Sophos Central brings, enabling them to seamlessly manage all of their Sophos products through a single cloud interface. Our channel partners leverage Sophos Central not only as a differentiated offering to attract brand new customers, but also to cross-sell and upsell existing customers. In addition, a growing number of partners are utilising the Sophos Central platform to offer managed security services.

Among other notable new products and features, we added CryptoGuard within Sophos Server Protection, enabling signature-less detection capabilities as another layer of protection to combat ransomware. Additionally, our synchronized security capabilities on Sophos Central Server Protection Advanced now enable IT administrators to leverage the Sophos XG Firewall to automatically isolate infected servers and endpoints and respond to potential compromises more rapidly.

Channel progress

One of our continuing strategic priorities is to invest in developing and supporting our partner channel, building on our "Channel First" go-to-market strategy, which is a key differentiator compared to other IT security vendors that may have mixed, unclear, and conflicting routes to market. Sophos sells entirely through our channel partners, which allows us to expand our reach and rapidly scale our business globally in a cost-effective manner. Our overriding commitment to our channel partners and their long-term success has been validated not just by our billings growth and our growth in our channel ecosystem, but also by numerous global awards, where Sophos is recognized as the premier channel-focused cybersecurity vendor.

We successfully grew our overall number of partners to more than 39,000 partners, compared to 30,000 a year ago. Encouragingly, the number of "blue chip" Sophos partners, our most active and productive partners who conducted five or more transactions in the prior six months, rose to over 7,000, from 6,100 a year ago.

The success of our channel strategy is reflected in our rapid growth in new end user customers. Today, more than 300,000 organizations around the world are protected by Sophos cybersecurity solutions, compared to 260,000 at the end of March 2017. This impressive growth in our customer base is strategically important to our business over the longer term. When paired with our best-in-class renewal rates, this steadily growing group of new customers builds upon our future subscription renewal base and the deferred revenue on our balance sheet, increasing the visibility we have over billings and revenues. In turn, this also enables us to better plan our investment in innovation and expansion, while also improving margins.

We continue to make progress in our ongoing efforts to enhance cross-sell and upsell, while we in parallel add new customers. We ended the year with more than 11 per cent of customers using both our UTM and Endpoint solutions, up from under 10 per cent a year ago; and today more than 24 per cent of our customers have more than one Sophos product, versus 21 per cent in FY17. Customers with more than one product benefit from Sophos synchronized security, which enables layers of protection and automation as Sophos products actively share real-time contextual information. The success of this strategy is also evident from our best-in-class renewal rates, including cross-sell and upsell, which rose to 140 per cent in the period, from 129 per cent in FY17.

Future priorities

Sophos has grown rapidly in recent years, and we plan to continue prioritizing investment in technology and innovation to deliver future expansion in line with our objectives. We have a robust pipeline of exciting new product innovation, especially in our strategic pillars of next-generation endpoint, next-generation firewall, Sophos Central, and synchronized security. Likewise, we continue to invest in our channel-driven go-to-market strategy, with new channel programs, systems, and marketing initiatives to enhance Sophos' brand awareness and visibility. From an operational perspective, a key ongoing priority is to ensure that we efficiently scale our business as we continue to grow through appropriate investment in our people, products, and channel.

Outlook

FY18 was a strong year for Sophos. Cybersecurity has never been more important for enterprises of all sizes, and the demand environment for our solutions has never been stronger. We continue to take share in the market, as we execute a differentiated strategy of delivering advanced and highly-effective cybersecurity solutions designed to be simple to use, managed in the cloud, and sold 100 per cent through our channel partners. We have a massive market opportunity in front of us. Our strong and growing subscription base, our growth in new customers, our next-generation technology in endpoint and firewall combined with our Sophos Central cloud platform position us well for FY19, and beyond.

Our continued growth and success are only possible through the dedication and teamwork of our global team of employees and partners, who work tirelessly every day to support and protect our customers. Thank you for all you do to make the world a safer place.

Kris Hagerman
Chief Executive Officer
16 May 2018

Financial Review

Billings momentum was strong in the financial year-ended 31 March 2018 ("FY18"), reflecting an acceleration in the first-half and a return to trend in the second-half of the year at constant currency. Revenue growth accelerated, as expected, driven by deferred revenue as prior-period subscription billings were recognised as revenue. Cash generation remained strong, with cash flow from operations up 24.6 per cent for the year.

Billings at reported exchange rates increased by 21.6 per cent to $768.6 million, within which subscription billings grew 25.6 per cent to $644.2 million. Reported revenue grew 21.0 per cent with subscription revenue growing at 25.5 per cent.

The loss before taxation increased to $52.3 million, from $49.3 million in the prior-year, being particularly impacted by foreign exchange losses that amounted to $16.5 million, compared to a net gain in the prior-year of $3.0 million, resulting from the strengthening of both sterling and the Euro against the US Dollar. The Group's loss for the year increased by $19.6 million to $66.3 million in the year-ended 31 March 2018 due to changes in both current and deferred tax, resulting in a net charge in the current-year as opposed to a net credit in the prior-year.

The deferred revenue balance at 31 March 2018 of $755.7 million compared to $581.0 million at the end of the prior-year, with the increase primarily reflecting growth in subscription billings as well as a foreign exchange benefit of $46.8 million, following the strengthening of sterling and the Euro against the US Dollar year-over-year. The growth in deferred revenue provides visibility over future revenues, with $423.9 million of the balance due to be recognised in less than one year, an increase of 28.2 per cent over the prior-year.

The table below presents the Group's financial highlights on a reported basis:

	FY18	**FY17**	**Change**
	$M	**$M**	**%**
Billings	768.6	632.1	21.6
Revenue	640.7	529.7	21.0
Cash EBITDA	193.7	150.1	29.0
Loss before taxation	(52.3)	(49.3)	6.1
Unlevered free cash flow	139.6	133.4	4.6
Net cash flow from operating activities	147.7	118.5	24.6

Definitions and reconciliations of non-GAAP measures are included in note 3 of the financial statements

Billings

The Group's reported billings increased by $136.5 million from $632.1 million in the year-ended 31 March 2017 to $768.6 million in the year-ended 31 March 2018, with continued growth in all regions and products, as detailed in the table below. This represented a 21.6 per cent reported growth rate or 18.5 per cent growth rate on a constant currency ("CC") basis.

	FY18	**FY17**	**Growth**	**Growth**
	$M	**$M**	**%**	**%**
	(Reported)	(Reported)	(Reported)	(CC)
Billings by Region:				
- Americas	270.0	217.6	24.1	24.0
- EMEA	395.1	319.5	23.7	18.0
- APJ	103.5	95.0	8.9	7.5
	768.6	632.1	21.6	18.5
Billings by Product:				
- Network	353.4	311.5	13.5	9.8
- Enduser	383.2	289.7	32.3	29.6
- Other	32.0	30.9	3.6	2.3
	768.6	632.1	21.6	18.5
Billings by Type:				
- Subscription	644.2	513.1	25.6	22.5
- Hardware	113.7	105.7	7.6	3.7
- Other	10.7	13.3	(19.5)	(20.8)
	768.6	632.1	21.6	18.5

Billings by region

Americas

Americas billings increased by $52.4 million to $270.0 million in the year-ended 31 March 2018, representing 24.1 per cent growth on a reported basis and 24.0 per cent on a constant currency basis, driven by Enduser, including continued adoption of the Sophos Central platform.

EMEA

EMEA billings increased by $75.6 million to $395.1 million in the year-ended 31 March 2018, representing 23.7 per cent growth on a reported basis and 18.0 per cent growth on a constant currency basis. We continued to see rapid adoption of the Sophos Central platform in the region and customer demand for next-generation endpoint was particularly strong which, along with growth in Network, contributed to the year-over-year increase.

APJ

APJ billings increased by $8.5 million to $103.5 million in the year-ended 31 March 2018, representing 8.9 per cent growth on a reported basis and 7.5 per cent growth on a constant currency basis, growth in the region being more balanced between Enduser and Network products.

Billings by product

Network products

The Group's billings attributable to Network products increased by $41.9 million to $353.4 million in the year-ended 31 March 2018, representing 13.5 per cent growth on a reported basis and 9.8 per cent on a constant currency basis, driven by UTM and Wireless.

Enduser products

The Group's billings attributable to Enduser products increased by $93.5 million to $383.2 million in the year-ended 31 March 2018, representing 32.3 per cent growth on a reported basis and 29.6 per cent growth on a constant currency basis. The continued adoption of Intercept X, the Group's next-generation endpoint solution, and the Sophos Central platform by new customers has supported the Enduser year-over-year billings growth, which benefited in the first half of the year from the worldwide impact of various high-profile ransomware attacks.

Billings by type

Subscription billings increased by $131.1 million to $644.2 million in the year-ended 31 March 2018, representing a 25.6 per cent growth on a reported basis and 22.5 per cent growth on a constant currency basis. Sophos Central billings were a key driver for this growth with billings of $185.6 million, more than doubling on the prior year, and increasing to 28.8 per cent of all subscription billings. Hardware billings increased by 7.6 per cent to $113.7 million and consequently, following the strong growth in subscription-billings, declined marginally as a proportion of total Group billings.

Key billings metrics

Billings from new customers

Billings from new customers, excluding OEM, remained broadly consistent at 24 per cent of total billings (FY17: 25 per cent) with a growth of 23 per cent on a reported basis.

Retention and renewal rates

The Group's net retention and renewal rates include the impact of cross-selling and upselling, which helps the Group evaluate the success of its strategy to broaden the sales of its product portfolio to existing customers. The Group's net retention rate improved in the period from 106.3 per cent in the year-ended 31 March 2017 to 109.2 per cent in the year-ended 31 March 2018. The Group's renewal rate increased to 139.7 per cent from 128.9 per cent, driven by Enduser products, and Intercept X cross-sell in particular, with demand further benefiting from high-profile ransomware attacks in the first half of the financial year.

Billings by size

Sophos' products are designed for the Group's target market, specifically mid-market enterprises with fewer than 5,000 employees, although the products are frequently also bought by larger enterprises. In the current year, the proportion of billings derived from the mid-market increased to 85 per cent from 83 per cent.

Billings by length of contract

Subscription agreements sold by the Group are of differing durations, with the majority of contracts typically of one to three years duration. The last twelve months weighted average contract length, which provides an indication of the period over which future revenue will be recognised, was 27.6 months for the year-ended 31 March 2018, a small decrease on the 28.1 months for the year-ended 31 March 2017. The reduction was principally due to a material longer-term contract with an existing customer reported in the prior-period.

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

(Constant currency)	**FY18**	**FY17**
	%	**%**
Under one year	34.4	34.3
One to two years	7.0	7.5
Two to three years	47.9	46.0
Greater than three years	10.7	12.2

Cross-sell and upsell opportunities

As the threat landscape evolves, and the Group continues to innovate, there is an opportunity to cross-sell additional products and services, or to upsell enhanced versions of products or additional end user licences to existing customers.

The Group saw a further improvement in the percentage of customers who own both a Sophos Endpoint and UTM product. At 31 March 2018, approximately 11.2 per cent of the Group's more than 300,000 customers had both a UTM product and an Endpoint product; this compares to 9.6 per cent of the Group's 260,000 customers at 31 March 2017, or around an additional 9,000 customers with both products in the year.

Revenue and deferred revenue

The Group's revenue increased by $111.0 million, or 21.0 per cent, to $640.7 million in the year-ended 31 March 2018. In constant currency, revenue grew by 18.2 per cent, excluding the benefit derived from the strengthening of sterling and the Euro against the US Dollar in the year.

	FY18	FY17	Growth	Growth
	$M	$M	%	%
	(Reported)	(Reported)	(Reported)	(CC)
Revenue by Region:				
- Americas	225.1	186.9	20.4	20.2
- EMEA	324.5	263.1	23.3	18.2
- APJ	91.1	79.7	14.3	13.3
	640.7	529.7	21.0	18.2
Revenue by Product:				
- Network	315.6	271.2	16.4	12.9
- Enduser	294.7	231.6	27.2	25.0
- Other	30.4	26.9	13.0	12.3
	640.7	529.7	21.0	18.2
Revenue by Type:				
- Subscription	515.3	410.7	25.5	22.9
- Hardware	114.2	106.7	7.0	3.2
- Other	11.2	12.3	(8.9)	(10.7)
	640.7	529.7	21.0	18.2

The majority of the Group's billings relate to subscription products (FY18: 83.8 per cent; FY17: 81.2 per cent), with revenue deferred and recognised over the lifetime of the contract. Revenue in the period of $640.7 million comprised $341.5 million from the recognition of prior-period deferred revenues and $299.2 million from in-period billings. The deferred revenue balance at the end of the year of $755.7 million increased by 30.1 per cent, or $174.7 million. This was due to a net deferral of billings over the year of $127.9 million and a net currency revaluation of $46.8 million, as a consequence of the strengthening of the Euro and sterling against the US Dollar.

Revenue in the Americas increased by 20.4 per cent to $225.1 million in the year-ended 31 March 2018 due to growth in Enduser, which has continued to benefit from the growth in the Sophos Central platform.

EMEA revenue increased by 23.3 per cent to $324.5 million in the year-ended 31 March 2018, with growth in both Enduser and Network revenue, the former particularly benefiting from uptake of the Sophos Central platform.

APJ revenue increased by 14.3 per cent to $91.1 million in the year-ended 31 March 2018, growth being balanced between both Enduser and Network products.

Cost of sales

The Group's cost of sales increased by $22.0 million, or 18.1 per cent, to $143.3 million in the year-ended 31 March 2018. Growth in cost of sales is substantially driven by growth in sales of Network products, which have a hardware component, and natural growth in other costs associated with supporting the Group's products and services, which grow as the Group grows, albeit at a slower rate.

Sales and marketing

The Group's sales and marketing expenses increased by $38.4 million, or 18.2 per cent, to $249.0 million in the year-ended 31 March 2018. Sales and marketing expenses are targeted to increase at below the rate of billings growth to enable them to continue to support the business and channel whilst also allowing for growth in profitability as the Group continues to expand.

Research and development

The Group's research and development expenses increased by $28.0 million, or 23.8 per cent, to $145.8 million in the year-ended 31 March 2018. The Group continues to focus on enhancing its products to address the evolving threat landscape and the significant market opportunity that exists. This strategic focus is further supported by targeted technology acquisitions. Research and development expenditure is broadly expected to grow at the rate of billings.

General finance and administration

The Group's general finance and administration expenses, excluding exceptional items, foreign exchange and the amortisation of intangible assets, increased by $17.4 million, or 24.2 per cent, to $89.2 million in the year-ended 31 March 2018. The increase was partially due to a higher share-based payment expense, which increased by $9.8 million to $42.3 million, as the run-rate continued to stabilise in the three-year period post the initial public offering of the Company's shares and as a consequence of the impact on cash-settled schemes of a higher share price. The balance of the increase was due to underlying general finance and administration expenses which increased by 19.3 per cent to $46.9 million, marginally decreasing as a proportion of billings.

The Group's exceptional items, included within general finance and administration expenses, decreased by $18.2 million to $13.2 million in the year-ended 31 March 2018. Current-year exceptional items relate primarily to restructuring and integration costs. Prior-year exceptional items predominantly related to expenses incurred in connection with the defence of certain claims brought against the Group in relation to the intellectual property litigation case brought by Finjan Inc.

Amortisation of intangible assets

The Group's amortisation of intangible assets increased by $5.3 million, or 26.6 per cent, to $25.2 million in the year-ended 31 March 2018. The increase was due to the amortisation of intangibles added as part of the acquisition of Invincea, Inc, which completed on 21 March 2017.

Currency movements and impact

The Group's foreign exchange loss was $6.9 million in the year-ended 31 March 2018, compared with a loss of $1.2 million in the year-ended 31 March 2017. The loss was due to the strengthening of the Euro and sterling against the US Dollar.

Cash EBITDA

Cash EBITDA increased by 29.0 per cent to $193.7 million in the year-ended 31 March 2018. Cash EBITDA margins increased year-over-year to 25.2 per cent from 23.7 per cent in the prior year due to both the growth of billings and the planned management of sales and marketing costs. The reconciliation of Cash EBITDA to operating loss is included in note 3 of the Financial Statements.

Adjusted operating profit

Adjusted operating profit increased by $7.8 million to $46.1 million in the year-ended 31 March 2018. The increase was driven by strong revenue growth, as prior-period billings were recognised as revenue and operating leverage as the business continues to scale. This was partially offset by a $5.7 million increase in the foreign exchange loss, reflecting the strengthening of sterling and Euro in the year. The reconciliation of adjusted operating profit to operating loss is included in note 3 of the Financial Statements.

Operating loss

The Group's operating loss improved to $31.9 million in the year-ended 31 March 2018, compared to a loss of $44.3 million in the prior year. This improvement was achieved because of strong revenue growth, as noted above, and the decrease in exceptional costs being partly offset by increases in amortisation, share-based payment expenses, and foreign exchange.

Net finance costs

The Group's net finance costs increased by $15.4 million to $20.4 million in the year due to foreign exchange losses on Euro denominated debt following the weakening of the US Dollar in the period, resulting in a $9.6 million loss compared to a $4.2 million gain in the prior year. Underlying net interest charges increased to $8.7 million from $7.8 million in the prior-year, in part due to the increase in the drawn portion of the revolving credit facility entered into at the end of the prior-year, which has been fully repaid during the current year.

Income taxation

The Group's tax charge for the year was $14.0 million (FY17: $2.6 million credit) with an effective taxation rate of -26.8 per cent (FY17: 5.3 per cent). The charge arises against a reported loss for the Group and includes $5.4 million arising on the enactment of the US Tax Cuts and Jobs Act rate change being applied to deferred tax assets on the balance sheet.

Loss before taxation and loss for the period

The loss before taxation increased to $52.3 million from $49.3 million in the prior-year, whilst the Group's loss for the year increased by $19.6 million, from a loss of $46.7 million in the year-ended 31 March 2017, to a loss of $66.3 million in the year-ended 31 March 2018. This principally reflects the increase in net finance costs, operating foreign exchange differences and taxation charge noted above.

Cash flow

Net cash flow from operating activities increased to $147.7 million from $118.5 million in the prior year. This strong performance benefited from a number of factors, including the growth in billings, planned cost control, a decrease in exceptional items and a continued focus on working capital management. Unlevered free cash flow increased modestly on the prior year, in line with the Board's expectation, as working capital levels normalised.

	FY18	FY17
	$M	$M
Cash EBITDA(1)	**193.7**	**150.1**
Net deferral of revenue	(127.9)	(102.4)
Foreign exchange	(8.1)	-
Depreciation	(11.6)	(9.4)
Adjusted operating profit	**46.1**	**38.3**
Net deferral of revenue	127.9	102.4
Exceptional items(2)	(13.0)	(31.4)
Depreciation	11.6	9.4
Foreign exchange	8.1	-
Change in working capital(1)	(10.9)	19.0
Corporation tax paid(1)	(22.1)	(19.2)
Net cash flow from operating activities	**147.7**	**118.5**
Exceptional items(2)	13.0	31.4
Net capital expenditure(1)	(21.1)	(16.5)
Unlevered free cash flow	**139.6**	**133.4**

(1) Unlevered free cash flow is represented by the sum of the marked rows and has been presented to enhance understanding of the Group's cash generation capability.

(2) Excludes $0.2 million non-cash fair-value adjustment on contingent consideration

Changes in working capital

Working capital is closely monitored by the Group, the year-on-year change results from timing of payment of payable balances offset by a decrease in debtor days outstanding to 41 days (FY17: 42 days), despite the growth in billings.

Capital expenditure

Capital expenditure primarily comprises property, plant and equipment as well as intangible assets. In the year-ended 31 March 2018, net capital expenditure increased by $4.6 million, mainly as a consequence of investment in the purchase of intellectual property to strengthen the Group's network products.

Cash taxation

Cash tax remains payable as a consequence of profits in local subsidiaries. Corporation tax paid of $22.1 million is higher than in the prior-year (FY17 $19.2 million) due to the increasing profits in local subsidiaries and in light of changes in the global tax environment. The Group receives the benefit of research and development expense credits of $5.1 million in the UK, US and Canada (FY17 $5.4 million).

Financing

In the prior-year the Group agreed an additional $40.0 million revolving credit facility with its existing lenders, which at the end of the prior year was fully drawn along with $10.0 million from the original revolving credit facility. These drawings were made to partially finance the acquisition of Invincea, Inc. at the end of March 2017. During the current-year both revolving credit facilities have been fully repaid.

Dividends

The Directors propose to pay a final dividend in respect of the year-ended 31 March 2018 of 3.5 US Cents per share (FY17: 3.3 US Cents). This, combined with the interim dividend, gives a total dividend for the year of 4.9 US Cents (FY17: 4.6 US Cents). Subject to shareholder approval the final dividend will be paid on 12 October 2018 to all shareholders on the register on 21 September 2018.

Nick Bray
Chief Financial Officer
16 May 2018

Consolidated statement of profit or loss
For the year-ended 31 March 2018

	Note	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
Revenue		**640.7**	529.7
Cost of sales		**(143.3)**	(121.3)
Gross profit		**497.4**	408.4
Sales and marketing		**(249.0)**	(210.6)
Research and development		**(145.8)**	(117.8)
General finance and administration:		**(134.5)**	(124.3)
- Underlying		**(46.9)**	(39.3)
- Share-based payments	5	**(42.3)**	(32.5)
- Exceptional items	6	**(13.2)**	(31.4)
- Amortisation of intangible assets		**(25.2)**	(19.9)
- Foreign exchange loss		**(6.9)**	(1.2)
Operating loss		**(31.9)**	(44.3)
Finance income	7	**0.3**	0.1
Finance expense	7	**(20.7)**	(5.1)
Loss before taxation		**(52.3)**	(49.3)
Income tax (charge)/credit	8	**(14.0)**	2.6
Loss for the year		**(66.3)**	(46.7)
Earnings per share ($ Cents)			
Basic and diluted EPS	9	**(14.4)**	(10.3)
Adjusted operating EPS	9	**10.0**	8.5
Diluted adjusted operating EPS	9	**9.5**	8.1

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

Consolidated statement of comprehensive income
For the year-ended 31 March 2018

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Loss for the year	**(66.3)**	(46.7)
Other comprehensive gains/(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	**(4.0)**	2.8
Total other comprehensive (losses)/gains	**(4.0)**	2.8
Comprehensive loss for the year	**(70.3)**	(43.9)

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 2018

Company registered number: 09608658	Note	**31 March 2018 $M**	31 March 2017 $M
Non-current assets			
Intangible assets	11	**869.9**	856.0
Property, plant and equipment	12	**25.4**	23.4
Deferred tax asset		**125.8**	105.3
Other receivables		**1.3**	1.3
		1,022.4	986.0
Current assets			
Tax assets		**8.2**	7.7
Inventories		**16.0**	16.2
Trade and other receivables		**177.8**	145.2
Cash and cash equivalents		**120.0**	68.1
		322.0	237.2
Total assets		**1,344.4**	1,223.2
Current liabilities			
Trade and other payables		**134.1**	107.3
Deferred revenue	13	**423.9**	330.6
Tax liabilities		**23.0**	21.0
Financial liabilities	14	**17.4**	71.1
Provisions		**-**	0.4
		598.4	530.4
Non-current liabilities			
Trade and other payables		**8.2**	3.9
Deferred revenue	13	**331.8**	250.4
Financial liabilities	14	**306.8**	296.3
Provisions		**1.4**	1.1
Deferred tax liabilities		**6.0**	14.4
		654.2	566.1
Total liabilities		**1,252.6**	1,096.5
Net assets		**91.8**	126.7
Represented by:			
Share capital		**22.0**	21.6
Share premium		**122.3**	118.4
Merger reserve		**(200.9)**	(200.9)
Retained earnings		**60.0**	148.1
Share-based payment reserve		**121.8**	68.9
Translation reserve		**(33.4)**	(29.4)
Total equity		**91.8**	126.7

Consolidated statement of changes in equity
For the year-ended 31 March 2018

	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 31 March 2016	21.3	115.9	(200.9)	(0.1)	205.7	36.2	(32.2)	145.9
Loss for the period:	-	-	-	-	(46.7)	-	-	(46.7)
Other comprehensive profit or loss:	-	-	-	-	-	-	2.8	2.8
Total comprehensive loss	-	-	-	-	(46.7)	-	2.8	(43.9)
Share options exercised	0.3	2.5	-	-	-	-	-	2.8
Disposal of EBT treasury shares	-	-	-	0.1	-	-	-	0.1
Share-based payments expense	-	-	-	-	-	31.3	-	31.3
Share-based payments deferred tax	-	-	-	-	-	1.4	-	1.4
Cash dividends (note 10)	-	-	-	-	(10.9)	-	-	(10.9)
At 31 March 2017	21.6	118.4	(200.9)	-	148.1	68.9	(29.4)	126.7
Loss for the period:	**-**	**-**	**-**	**-**	**(66.3)**	**-**	**-**	**(66.3)**
Other comprehensive profit or loss:	**-**	**-**	**-**	**-**	**-**	**-**	**(4.0)**	**(4.0)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**(66.3)**	**-**	**(4.0)**	**(70.3)**
Share options exercised	**0.4**	**3.9**	**-**	**-**	**-**	**-**	**-**	**4.3**
Share-based payments expense	**-**	**-**	**-**	**-**	**-**	**39.6**	**-**	**39.6**
Share-based payments taxation	**-**	**-**	**-**	**-**	**-**	**13.3**	**-**	**13.3**
Cash dividends (note 10)	**-**	**-**	**-**	**-**	**(21.8)**	**-**	**-**	**(21.8)**
At 31 March 2018	**22.0**	**122.3**	**(200.9)**	**-**	**60.0**	**121.8**	**(33.4)**	**91.8**

[1] At 31 March 2018 other reserves comprise an insignificant number of own shares held in an Employment Benefit Trust.

Consolidated statement of cash flows
For the year-ended 31 March 2018

	Note	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Loss for the year		**(66.3)**	(46.7)
Adjusted for:			
Depreciation		**11.6**	9.4
Amortisation of intangible assets		**25.2**	19.9
Amortisation of fair value adjustment on deferred income		**1.0**	(1.0)
Fair value adjustment on contingent consideration		**0.2**	-
Foreign exchange expense		**8.1**	-
Share-based payments expense		**39.6**	31.3
Finance income		**(0.3)**	(0.1)
Finance expense		**20.7**	5.1
Income tax charge/(credit)		**14.0**	(2.6)
		53.8	15.3
Decrease in inventories		**1.7**	1.1
Increase in trade and other receivables		**(22.9)**	(20.5)
Increase in trade and other payables		**10.4**	37.1
Increase in deferred revenue		**127.0**	104.4
(Decrease) / increase in provisions		**(0.2)**	0.3
Cash generated from continuing operations		**169.8**	137.7
Income taxes paid		**(22.1)**	(19.2)
Net cash flow from operating activities		**147.7**	118.5
Investing activities			
Purchase of property, plant and equipment		**(10.0)**	(11.4)
Acquisition of subsidiaries net of cash acquired	15	**(4.9)**	(101.7)
Purchase of intangible assets		**(11.1)**	(5.1)
Finance income		**0.3**	0.1
Net cash flow from investing activities		**(25.7)**	(118.1)
Financing activities			
Proceeds from issue of shares		**4.2**	2.8
Transaction costs related to the issue of shares		**-**	-
Dividends paid		**(21.8)**	(10.9)
Proceeds from borrowings	15	**-**	50.0
Repayment of borrowings	15	**(50.0)**	(25.0)
Transaction costs related to borrowings	15	**(0.1)**	(0.9)
Finance lease payments		**(0.1)**	(0.1)
Finance costs		**(9.1)**	(8.8)
Net cash flow from financing activities		**(76.9)**	7.1
Increase in cash and cash equivalents		**45.1**	7.5
Net foreign exchange differences		**6.8**	(6.2)
Cash and cash equivalents at the start of the period		**68.1**	66.8
Cash and cash equivalents at the end of the period		**120.0**	68.1

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 2018 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.

Statutory accounts for the Company for the year-ended 31 March 2017 were approved by the Board of Directors on 16 May 2017 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 2018 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 2018 were approved by the Board of Directors on 16 May 2018.

2. Basis of preparation

The Consolidated Financial Statements have been prepared using International Financial Reporting Standards as adopted by the European Union ("EU") as they apply to the Group. In addition to complying with its legal obligation to apply IFRSs as adopted by the EU, the Group has also applied IFRSs as issued by the International Accounting Standards Board; collectively "IFRS".

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 2017. New standards effective for the Group for the year-ended 31 March 2018 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. After excluding short-term deferred revenue from current liabilities, the Group has net current assets including significant cash balances and despite the loss-making position, given the cash generative nature of the Group's operations and the visibility of future renewals, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual Consolidated Financial Statements.

3 Alternative performance measures ("APM's")

The Group uses certain financial measures that are not defined or recognised under IFRS. The Directors believe that these non-GAAP measures supplement GAAP measures to help in providing a further understanding of the results of the Group and are used as key performance indicators within the business to aid in evaluating its current business performance. The measures can also aid in comparability with other companies, particularly in the cybersecurity industry, who use similar metrics. However as the measures are not defined by IFRS, other companies may calculate them differently or may use such measures for different purposes to the Group. Constant currency measures have limitations, particularly as the currency effects that are eliminated may constitute a significant element of the Group's revenue and expenses and could materially impact the Group's performance. The Directors do not evaluate the Group's results and performance on a constant currency basis without also evaluating the Group's financial information prepared at actual foreign exchange rates in accordance with IFRS.

The definition of non-GAAP measures in the year-ended 31 March 2018 is consistent with those presented for the year-ended 31 March 2017. The reconciliation of non-GAAP measures to GAAP measures is set out below.

Billings

Billings represent 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. Billings do not equate to statutory revenue.

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Revenue	**640.7**	529.7
Net deferral of revenue	**127.9**	102.4
Billings	**768.6**	632.1
Currency revaluation	**(30.2)**	(8.8)
Constant currency billings	**738.4**	623.3

Adjusted operating profit and cash EBITDA

Adjusted operating profit provides a supplemental measure of earnings that facilitates review of operating performance on a period-to-period basis by excluding non-recurring and other items that are not indicative of the Group's underlying operating performance.

Adjusted operating profit is a key profit measure used by the Board to assess the underlying financial performance of the Group. Adjusted operating profit is stated before the following items for the following reasons

- Exceptional items, as set out in Note 6, are one of the items that in the Director's judgment should be disclosed separately by virtue of their size, nature or incidence, in order to show the underlying business performance of the Group.
- Charges for the amortisation of acquired intangibles are excluded from the calculation of adjusted operating profit. This is because these charges are based on judgments about their value and economic life, are the result of the application of acquisition accounting rather than core operations, and whilst revenue recognised in the income statement does benefit from the underlying technology that has been acquired, the amortisation costs bear no relation to the Group's underlying ongoing operational performance. In addition, amortisation of acquired intangibles is not included in the analysis of segment performance used by the chief operating decision maker.
- Share-based payment charges are similarly excluded from the calculation of adjusted operating profit because these represent a non-cash accounting charge for transactions that could otherwise have been settled in cash or not be limited to employee compensation. These charges also represent long-term incentives designed for long-term employee retention, rather than reflecting the short-term underlying operations of the Group's business. The Directors acknowledge that there is an ongoing professional debate on the add-back of share-based payment charges but believe that as they are not included in the analysis of segment performance used by the chief operating decision maker and their add-back is consistent with metrics used by a number of other companies in the global cybersecurity industry, that this treatment remains appropriate.

Cash earnings before interest, taxation, depreciation and amortisation ("Cash EBITDA") is defined as the Group's operating profit / (loss) 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 (on the basis that they are non-cash income and expenses) and exceptional items, with billings replacing recognised revenue. The unrealised foreign exchange differences are included within the foreign exchange loss of $6.9M disclosed on the face of the consolidated statement of profit or loss. The Directors consider this metric a useful supplemental measure of earnings that provides visibility on actual cash earned in the year. The replacement of revenue with billings adjusts for the net deferral of revenue, whereas the weighted average contract term is around 28 months, a more material adjustment is generated than for the short-term working capital variations derived from the application of the accruals concept. Therefore, whilst Cash EBITDA is not a pure cash flow metric, it represents a closer approximation to cash earned in the period from the trading that has taken place. Depreciation and unrealised foreign exchange differences are adjusted as they do not represent cash costs of the business.

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Operating loss	**(31.9)**	(44.3)
Amortisation of intangible purchased assets	**25.2**	19.9
Share-based payments expense	**39.6**	31.3
Exceptional items	**13.2**	31.4
Adjusted operating profit	**46.1**	38.3
Depreciation	**11.6**	9.4
Unrealised foreign exchange loss	**8.1**	-
Net deferral of revenue	**127.9**	102.4
Cash EBITDA	**193.7**	150.1
Billings	**768.6**	632.1
Revenue	**(640.7)**	(529.7)
Net deferral of revenue	**127.9**	102.4

Unlevered free cash flow

Unlevered free cash flow represents net cash flow from operating activities adjusted for exceptional items and net capital expenditure. Unlevered free cash flow provides an understanding of the Group's cash generation and is a supplemental measure of liquidity in respect of the Group's operations without the distortions of exceptional and other non-operating items.

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Net cash flow from operating activities	**147.7**	118.5
Exceptional items – cash settled	**13.0**	31.4
Net capital expenditure	**(21.1)**	(16.5)
Unlevered free cash flow	**139.6**	133.4

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Cash EBITDA	**193.7**	150.1
Net capital expenditure	**(21.1)**	(16.5)
Change in working capital	**(10.9)**	19.0
Corporation tax paid	**(22.1)**	(19.2)
Unlevered free cash flow	**139.6**	133.4

4 Segment information

For internal management reporting purposes, the operating segments are 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 operating segment based on product 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").

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.

The following tables present billings and expenditure information regarding the Group's geographical segments for the year-ended 31 March 2018 and 31 March 2017.

Year-ended 31 March 2018	**Americas $M**	**EMEA $M**	**APJ $M**	**Total $M**
Billings	**270.0**	**395.1**	**103.5**	**768.6**
Regional cost of sales	**(14.7)**	**(38.1)**	**(16.2)**	**(69.0)**
Regional gross margin	**255.3**	**357.0**	**87.3**	**699.6**
Regional sales and marketing expense	**(76.7)**	**(79.0)**	**(32.0)**	**(187.7)**
Regional operating profit	**178.6**	**278.0**	**55.3**	**511.9**
Revenue deferral				**(127.9)**
Central costs				**(379.1)**
Amortisation				**(25.2)**
Depreciation				**(11.6)**
Operating loss				**(31.9)**

Year-ended 31 March 2017	Americas $M	EMEA $M	APJ $M	Total $M
Billings	217.6	319.5	95.0	632.1
Regional cost of sales	(16.2)	(36.5)	(15.2)	(67.9)
Regional gross margin	201.4	283.0	79.8	564.2
Regional sales and marketing expense	(64.2)	(69.0)	(29.5)	(162.7)
Regional operating profit	137.2	214.0	50.3	401.5
Revenue deferral				(102.4)
Central costs				(314.1)
Amortisation				(19.9)
Depreciation				(9.4)
Operating loss				(44.3)

Revenue from external customers by country	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
UK	**74.0**	58.7
USA	**203.9**	169.3
Germany	**127.4**	103.1
Other countries	**235.4**	198.6
Total	**640.7**	529.7

Revenue from external customers by type	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
Subscription	**515.3**	410.7
Hardware	**114.2**	106.7
Other	**11.2**	12.3
Total	**640.7**	529.7

5 Share-based payments

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

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Cash-settled transactions	**2.7**	1.2
Equity-settled transactions	**39.6**	31.3
Total share-based payment expense	**42.3**	32.5

The Group has made awards under its share-based payment plans with a weighted average share price ("WASP") on grant date as follows:

		Year-ended 31 March 2018		Year-ended 31 March 2017
	Number 000's	**WASP £ pence**	Number 000's	WASP £ pence
RSU's	**6,337**	**453.14**	10,930	187.00
PSU's	**1,719**	**440.50**	4,090	186.75
SAYE – Options	**1,667**	**317.20**	1,725	162.00

6 Exceptional items

Exceptional items are those that in the judgment of the Directors 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. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the Consolidated Statement of Profit or Loss.

During the year-ended 31 March 2018, restructuring and integration costs of $10.2M (2017: ($0.4M)) and costs incurred in relation to the defence of certain intellectual property ("IP") litigation of $3.0M (2017: $24.6M) were incurred. In the prior year intellectual property litigation costs included an omnibus agreement entered into with Finjan Inc. on 30 March 2017 resolving all the parties' disputes. Additionally, in the prior year, acquisition related expenses of $7.2M, including earn-outs from acquisitions in earlier periods, were incurred. This resulted in total exceptional items of $13.2M (2017: $31.4M). Tax relief on these exceptional items amounted to $2.6M (2017: $4.8M).

7 Finance income and expense

Finance income	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
Interest on bank deposits	**0.3**	0.1

Finance expense	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
Interest expense on loans and borrowings	**8.7**	7.8
Other interest and bank charges	**0.3**	0.4
	9.0	8.2
Accretion on contingent consideration	**0.9**	0.2
Foreign exchange loss / (gain) on borrowings	**9.6**	(4.2)
Amortisation of facility fees	**1.2**	0.9
Total finance expense	**20.7**	5.1

8 Taxation

UK corporation tax for the year-ended 31 March 2018 is calculated at 19% (2017: 20%) of the estimated assessable loss for the period.

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Current income tax:		
UK corporation tax	**(2.5)**	(4.0)
Adjustments in respect of previous years UK tax	**0.3**	(1.1)
Overseas tax before exceptional items	**23.0**	22.5
Overseas tax on exceptional items	**-**	0.1
Adjustment in respect of previous years	**11.1**	4.1
Total current tax charge	**31.9**	21.6
Deferred tax:		
Origination and reversal of temporary differences	**(19.8)**	(18.9)
Origination and reversal of temporary differences on exceptional items	**-**	(5.0)
Impact of changes in US tax rate	**5.4**	-
Adjustment in respect of previous years	**(3.5)**	(0.3)
Total deferred tax credit	**(17.9)**	(24.2)
Total income tax charge / (credit)	**14.0**	(2.6)

The charge for the year can be reconciled to the loss for the year before taxation per the consolidated statement of profit or loss as follows:

	Year-ended 31 March 2018 $M	Year-ended 31 March 2017 $M
Loss for the year before taxation	**(52.3)**	(49.3)
Loss for the year before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	**(9.9)**	(9.9)
Effects of:		
Adjustments in respect of previous years	**7.9**	2.7
Change in tax rate during the year	**3.7**	1.6
Expenses not deductible for tax purposes	**9.4**	(1.8)
Losses not recognised	**-**	1.8
Higher tax rates on overseas earnings	**3.8**	6.5
Research and development and other tax credits	**(5.1)**	(5.4)
Impact of US tax reform on deferred tax	**5.4**	-
Other movements	**(1.2)**	1.9
Charge / (credit) for taxation on loss for the year	**14.0**	(2.6)

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 operating EPS is calculated by dividing the adjusted operating profit 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 2018 $M	Year-ended 31 March 2017 $M
Loss for the period attributable to the equity holders of the Company	**(66.3)**	**(46.7)**
Adjusted operating profit for the period attributable to the equity holders of the Company (note 3)	**46.1**	**38.3**

	Year-ended 31 March 2018	Year-ended 31 March 2017
Weighted average number of shares (000's):	**459,969**	452,338
Effects of dilution from:		
Share options	**11,475**	11,434
Restricted share units	**17,125**	10,589
Diluted weighted average number of shares (000's):	**488,569**	474,361

	Year-ended 31 March 2018 $ Cents	Year-ended 31 March 2017 $ Cents
Basic and diluted EPS	**(14.4)**	(10.3)
Adjusted operating EPS	**10.0**	8.5
Diluted adjusted operating EPS	**9.5**	8.1

10 Distributions made and proposed

Cash dividends on ordinary shares declared and paid	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
Final dividend for the year-ended 31 March 2016 at $0.011 per share	**-**	5.0
Interim dividend for the year-ended 31 March 2017 at $0.013 per share	**-**	5.9
Final dividend for the year-ended 31 March 2017 at $0.033 per share	**15.3**	-
Interim dividend for the year-ended 31 March 2018 at $0.014 per share	**6.5**	-
Total cash dividends paid	**21.8**	10.9

The Directors have proposed that the Company will pay a full-year dividend for the year-ended 31 March 2018 amounting to 3.5 US Cents per share. Proposed final dividends on ordinary shares are subject to approval at the Annual General Meeting to be held on 30 August 2018, and are not recognised as a liability at 31 March 2018

11 Intangible assets

Net Book Value	Goodwill $M	Intellectual Property $M	Software $M	Others $M	Total $M
At 1 April 2017	809.3	26.7	11.8	8.2	856.0
Additions	-	14.8	6.1	-	20.9
Charge for the year	-	(13.4)	(8.1)	(3.7)	(25.2)
Exchange movements	16.7	0.1	1.3	0.1	18.2
At 31 March 2018	**826.0**	**28.2**	**11.1**	**4.6**	**869.9**

Net Book Value	Goodwill $M	Intellectual Property $M	Software $M	Others $M	Total $M
At 1 April 2016	716.1	12.6	15.3	12.6	756.6
Additions	-	-	5.1	-	5.1
Acquired through business combinations	99.8	21.6	-	1.2	122.6
Charge for the year	-	(7.4)	(7.0)	(5.5)	(19.9)
Exchange movements	(6.6)	(0.1)	(1.6)	(0.1)	(8.4)
At 31 March 2017	**809.3**	**26.7**	**11.8**	**8.2**	**856.0**

12 Property, plant and equipment

Net Book Value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 1 April 2017	6.8	13.9	2.7	23.4
Additions	0.9	7.8	1.3	10.0
Charge for the year	(2.6)	(8.1)	(0.9)	(11.6)
Disposals	-	(0.1)	-	(0.1)
Exchange movements	2.3	1.2	0.2	3.7
At 31 March 2018	**7.4**	**14.7**	**3.3**	**25.4**

Net Book Value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 1 April 2016	11.7	10.5	2.7	24.9
Additions	0.9	9.8	0.7	11.4
Acquired through business combinations	-	0.1	0.1	0.2
Charge for the year	(2.7)	(6.0)	(0.7)	(9.4)
Exchange movements	(3.1)	(0.5)	(0.1)	(3.7)
At 31 March 2017	**6.8**	**13.9**	**2.7**	**23.4**

13 Deferred revenue

	31 March 2018 $M	31 March 2017 $M
Current	**330.6**	286.5
Non-current	**250.4**	212.2
At 1 April	**581.0**	498.7
Billings deferred during the year	**768.6**	632.1
Revenue released to the consolidated statement of profit or loss	**(640.7)**	(529.7)
Net deferral	**127.9**	102.4
Acquired through business combinations	**-**	4.1
Translation and other adjustments	**46.8**	(24.2)
Current	**423.9**	330.6
Non-current	**331.8**	250.4
At 31 March	**755.7**	581.0

14 Financial liabilities

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

	31 March 2018 $M	31 March 2017 $M
Current instalments due on finance leases	**-**	0.1
Current instalments due on bank loans	**-**	50.0
Contingent consideration	**17.4**	21.0
Total current financial liabilities	**17.4**	71.1
Non-current instalments due on bank loans	**308.8**	299.2
Contingent consideration	**0.5**	0.7
Unamortised facility fees	**(2.5)**	(3.6)
Total non-current financial liabilities	**306.8**	296.3
Total financial liabilities	**324.2**	367.4

Included in borrowings are bank loans of $308.8M (2017: $349.2M) 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 2018 $M	31 March 2017 $M
Current instalments due on bank loans	**-**	50.0
Non-current instalments due on bank loans	**308.8**	299.2
Total bank loans	**308.8**	349.2

The bank loans are repayable as follows:

	31 March 2018 $M	31 March 2017 $M
Due within one year	**-**	50.0
Due between two and five years	**308.8**	299.2
Total bank loans	**308.8**	349.2

The Group entered into an amended Senior Facilities agreement on 6 February 2017, whereby an additional Revolving Credit Facility was added to the existing agreement. Following the amendment, the following terms apply to the bank loans outstanding at 31 March 2018:

Facility	Interest	Margin	Principal M	Principal $ M
Facility - A	Libor	1.50%	**$ 235.0**	**235.0**
Facility - B	Euribor	1.50%	**€ 60.0**	**73.8**
Revolving Credit Facility 1	Libor	1.25%	**-**	**-**
Revolving Credit Facility 2	Libor	2.25%	**-**	**-**
				308.8

Repayment and maturity:

Facility A ($235.0M), Facility B (€60.0M), Revolving Credit Facility 1 (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. Revolving Credit Facility 2 (multicurrency up to $40.0M) is repayable in full on the termination date on 2 July 2020.

Any utilisation of a 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 assets of certain Group companies including businesses, undertakings, securities, properties, revenues or rights of every description.

15 Notes to the consolidated statement of cash flows

Acquisition of subsidiaries net of cash acquired	**Year-ended 31 March 2018 $M**	Year-ended 31 March 2017 $M
Consideration paid, satisfied in cash:		
- Invincea, Inc.	**3.7**	95.9
- Intellectual Property - Silent Break Security	**-**	3.0
- Barricade Security Systems Limited	**-**	1.9
- Reflexion Networks Inc.	**1.2**	1.2
Net cash purchased	**-**	(0.3)
Acquisition of subsidiaries net of cash	**4.9**	101.7

Movement in net debt	31 March 2017 $M	Cash flow $M	Non-cash movements $M	Effect of movements in exchange rates $M	**31 March 2018 $M**
Cash at bank and in hand	(62.3)	1.1	-	(6.1)	**(67.3)**
Short-term deposits	(5.8)	(46.3)	-	(0.7)	**(52.8)**
Cash and cash equivalents	(68.1)	(45.2)	-	(6.8)	**(120.1)**
Obligations under finance leases	0.1	(0.1)	-	-	**-**
Bank loans	345.6	(50.1)	1.1	9.7	**306.3**
Gross debt	345.7	(50.2)	1.1	9.7	**306.3**
Net debt	277.6	(95.4)	1.1	2.9	**186.2**

Movement in net debt	31 March 2016 $M	Cash flow $M	Non-cash movements $M	Effect of movements in exchange rates $M	31 March 2017 $M
Cash at bank and in hand	(49.7)	(16.2)	-	3.6	(62.3)
Short-term deposits	(17.1)	8.7	-	2.6	(5.8)
Cash and cash equivalents	(66.8)	(7.5)	-	6.2	(68.1)
Obligations under finance leases	0.2	(0.1)	-	-	0.1
Bank loans	324.7	24.1	0.9	(4.1)	345.6
Gross debt	324.9	24.0	0.9	(4.1)	345.7
Net debt	258.1	16.5	0.9	2.1	277.6

16 Events after the reporting period

There are no material events after the reporting period which require disclosure under IAS10.

Principal risks and risk management

Principal risks are identified through a business wide risk assessment process. The risk review process encompasses the identification, management and monitoring of risks in each area of the business. This process includes an assessment of risks to determine the likelihood of occurrence, potential impact and the adequacy of the mitigation or controls already in place. A review is then undertaken by the Risk & Compliance Committee ("RCC"), which evaluates the principal risks of the Group with reference to its strategy and the operating environment.

The Audit & Risk Committee monitors and challenges these processes, reviewing the Group's Consolidated Risk Register and reporting material risks to the Board. There may be other risks or uncertainties that could emerge in the future, however the Group's ongoing commitment to risk management will seek to address and mitigate the future risks, as and when they become apparent.

The Directors consider the following matters to be the principal risks and uncertainties (in no specific order) affecting the Group:

Risk	How it impacts us	What we are doing
Recruitment and retention of key personnel	The ongoing success of Sophos is dependent on attracting and retaining global high-quality employees at all levels in the business who can effectively implement the Group's strategy. Failure to attract, retain or develop high quality employees across the business could limit the Group's ability to deliver its business plan.	Making Sophos a great place to work is central to the Group's strategy. Sophos is increasing its commitment to diversity and inclusion by introducing new programs to attract and develop women in technology. Sophos is committed to strong recruitment processes supported by robust remuneration programs which are benchmarked appropriately. Additionally, Sophos has a commitment to all levels of training and development throughout the organisation. Reward schemes are continuously evaluated to drive and reward performance and ensure retention of key talent. Annual employee engagement surveys enable progress of the Group's people actions to be monitored, areas of improvement identified, and necessary actions performed.
Defects or vulnerabilities in products or services	The Group's 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 the Group's 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, the Group may fail to identify and update its threat intelligence or other virus databases in time to protect its end customers' networks and devices. As a result, actual or perceived defects or vulnerabilities in the Group's products or services, the failure of the Group's products or services to	Sophos is committed to extensive test cycles and quality procedures which are subject to continuous improvement. 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. The Group encourages a healthy collaboration with the security research community, as described in the Responsible Disclosure Policy: www.sophos.com/security. Sophos continues to run a Bug Bounty program to leverage the skills of thousands of individuals to help make its products and web properties more secure. The Group sees good activity from the research community, allowing it to resolve software defects before they can be exploited by

	prevent a security threat could harm the Group's reputation and divert the Group's resources.	attackers. This and other measures have allowed the Group to slightly reduce this risk. Further, Sophos protects the privacy and security of its customers worldwide through its pledge to never engineer backdoors into its products as described here: www.sophos.com/nobackdoors.
False detection of threats	The Group's products may falsely detect threats or malware that do not actually exist in applications or content based on the Group's 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 Group's products and may therefore adversely impact market acceptance of the Group's products. If the Group'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 the Group's reputation, loss of end customers and sales, increased costs to remedy any problem and risk of litigation, any of which could materially adversely affect the Group's financial condition and operating results.	Sophos strives for continuous improvement in its world class SophosLabs threat research operation. The Group invests in ongoing staff training and process optimisation, as well as enhancements to testing and quality systems and procedures. In 2017, Sophos developed and launched a new reputation-based false positive suppression system to complement the introduction of its "Deep Learning" artificial intelligence predictive modules in its products. Additionally, there is 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. 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 minimise the impact on the Group's customers.
IT security and cyber risk	As a provider of IT security products, the Group is a natural cyber-attack target. The Group's networks and products may have vulnerabilities that have from time to time been, and may in the future be, targeted by attacks specifically designed to disrupt the Group's business and harm the Group's reputation. If an actual or perceived breach of security occurs in the Group's internal systems, it could adversely affect the market perception of the Group's products. In addition, a security breach could affect the Group's ability to operate its business, including the Group's ability to provide support services to end customers.	Sophos has a dedicated cybersecurity team focused on identifying risks related to cyber-attack and planning appropriate protection, detection, response and recovery mechanisms. The Group is focused on day-to-day active monitoring and hunting for threats, improving response processes and implementing continual improvements to governance, technology and education and awareness programs. Sophos continues to increase its investment in cybersecurity.
Product portfolio management	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. Failure to manage the product portfolio adequately could result in inappropriate investment focus in relation to research and product innovation. This could result in products that do not meet the requirements of customers	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. 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.

	or partners and the risk they will look to alternative solutions, resulting in the potential loss of both new and existing revenue streams. Failure to protect the Group's intellectual property could adversely affect the ability of the Group to operate in its markets. Additionally, insufficient focus on key research and innovation projects may damage the long-term growth prospects of the Group.	Sophos is working to bring all products under a single cloud management platform to deliver a common management experience for the portfolio and a comprehensive solution that will encourage existing customers using on premise products to migrate to cloud management. The Group is also working on the portability of the cloud infrastructure in order to address any privacy or data sovereignty issues that its customers/partners might face. Additionally, during the current financial year, Sophos have consolidated the Network Security Group (NSG), Enduser Security Group (ESG) and the Central Platform Group (CPG) under single leadership in order to improve synchronized security, cross business unit interlock and investment efficiencies. The Group takes all appropriate opportunities to protect its intellectual property and brands. Sophos customer and partner communities continue to be invaluable resources in guiding portfolio management decisions. They provide immediate and constant feedback on how well Sophos is meeting its requirements, improvements that Sophos can make to its current offerings and opportunities for portfolio consolidation or expansion.
Disruption to day-to-day group operations	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. A failure in the operation of the Group's key systems or infrastructure on which the Group relies could cause a failure of service to its customers and negatively impact the Sophos brand.	Incident management procedures and escalation processes are in place as well as maintaining security, business continuity and disaster recovery plans. Whilst Sophos continues to make significant investments in the technology and infrastructure of the Group the risk has increased due to the growing demand and reliance on cloud delivery for the Group's products.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements
The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law. As explained in note 3 to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the EU, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB"). Under company law the Directors have elected to prepare the parent company financial statements in accordance with UK accounting standards, 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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Financial Report
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board,

Chloe Barry
Company Secretary
16 May 2018