Sophos Group plc
Results for the year-ended 31 March 2017

FY17 results ahead of expectations, unlevered free cash flow of $133 million
Strong momentum across all regions and products
Company issues medium-term guidance

Oxford, 17 May 2017 Sophos Group plc (the "Group" / LSE: SOPH), a leading provider of cloud enabled enduser and network security solutions, today issues its audited results for the year-ended 31 March 2017 ("FY17").

Business highlights

- FY17 reported billings grew 18.2% to $632.1 million, or by 19.9% at constant currency, with strong momentum across all regions and products, in new business and renewals
- Cash flow growth exceptionally strong, with unlevered free cash flow almost tripling to $133.4 million
- Very strong performance from Sophos Central, growing 220% to $87.7 million from $27.4 million in the prior year; now representing 17.1% of subscription billings (FY16: 6.5%)
- Enduser security increased by 24.4% to $298.5 million and network security grew by 17.8% to $319.1 million at constant currency, reflecting continued market share gains
- Operating loss increased over prior-year, primarily as a consequence of cost increases associated with the strong growth in billings, whilst the majority of revenue is deferred and recognised over time
- Deferred revenue grew 16.5%, growing $82.3 million to $581.0 million, increasing visibility of future revenue growth
- Cash EBITDA margin increase by 110 basis points to 23.7%
- Net renewal rate (including cross-sell and upsell) increased to 106% (FY16: 102%) with UTM/endpoint cross-sell at 9.6% (FY16: 7.4%)
- Launch in September of Intercept X, a next-generation endpoint protection application, featuring signature-less anti-exploit and anti-ransomware capabilities, already with more than 8,000 customers
- Integration of Invincea's machine learning technology progressing well, with new endpoint protection solution expected to be available in Sophos Central in 2017
- Final dividend of 3.3 US Cents per share, an increase of 200%; total dividend for the year of 4.6 US Cents, an increase of 156% over the prior year

Financial highlights

	FY17	**FY16**	*Increase/ (decrease) (reported)*
GAAP measures	**$M**	**$M**	*%*
Revenue	529.7	478.2	10.8
Operating loss	(44.3)	(32.7)	35.5
Net cash flow from operating activities	118.5	21.3	456.3
Non GAAP measures			
Billings[1]	632.1	534.9	18.2
Cash EBITDA[2]	150.1	120.9	24.2
Adjusted operating profit[3]	38.3	53.4	(28.3)
Unlevered free cash flow[4]	133.4	46.4	187.5

FY18 and medium term guidance

For FY18, we expect mid to high-teens billings growth, a 50-100 basis point improvement in the cash EBITDA margin and unlevered free cash flow coming from a high base in FY17, broadly unchanged. For the medium-term, we anticipate achieving billings of c.$1 billion, unlevered free cash flow in the range of $220 million to $240 million and around a 100-150 basis point cash EBITDA margin improvement per annum giving adjusted operating profit of $100+ million by FY20.

Kris Hagerman, Chief Executive Officer, commented:
"FY17 was another strong year for Sophos, in which we made significant progress against our strategic goals, and delivered operational and financial performance above our expectations. We have a differentiated strategy of delivering innovative, simple, and highly effective cybersecurity solutions for mid-market enterprises, synchronizing across enduser and network security – all in partnership with our channel. Encouragingly, the strong momentum at the heart of this performance was manifest across all major regions and products, and in both new business and renewals. We have issued a medium term outlook as a sign of our confidence in delivering sustainable growth in billings and profitability over the longer-term."

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' experience in enterprise security and has built a portfolio of products that protects over 260,000 organisations and more than 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 meeting to discuss the FY17 results at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS at 09:30 GMT 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. 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.

Conference calls dial in details:
UK: 020 3427 1904 / 0800 279 4992
US: 1 646 254 3366 / 1 877 280 2342

Confirmation code: 4176535

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. 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.
3. Adjusted operating profit represents the Group's operating profit/(loss) adjusted for amortisation charges, share option charges and exceptional items.
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

FY17 was another strong year for Sophos, in which we made significant progress against our strategic goals, and delivered operational and financial performance above our expectations. Among the many highlights, the Group saw an 18.2 percent increase in total reported billings to $632.1 million, underpinned by 21.4 percent subscription billings growth to $513.1 million, as we again delivered growth in excess of the market in both network and enduser security. Encouragingly, the strong momentum at the heart of this performance was manifest across all major regions and products, and in both new business and renewals, and accelerated in the second half of the year. Sophos Central remained a core driver of our business, delivering growth of 220 percent and an expanding opportunity for cross-sell and upsell momentum. Our cash generation was very strong, with unlevered free cash flow almost tripling to $133.4 million, from $46.4 million in the prior-year.

Strategic progress
Sophos made significant progress in FY17, consolidating its position as the leading vendor of innovative, simple, and highly effective cybersecurity solutions for mid-market enterprises. A number of factors have helped to deliver this success which will continue to drive Sophos forward in the years ahead, including:

- World-class products and innovation that provide leading enterprise-grade protection validated by numerous third parties, that at the same time are easy to deploy, use, and manage
- Cloud-enabled security solutions that include a single, integrated cloud-based management console and cloud delivery of multiple security capabilities
- Synchronized security product strategy, in which network, endpoint, and all the key offerings in our product portfolio actively share threat intelligence information to deliver better protection that is also easier to manage
- 100% channel sales model
- Deepening and expanding our relationship with our partners and customers, to drive upsell and cross-sell

A fast-growing channel and customer base
The number of Sophos partners grew to more than 30,000, up from 20,000 a year ago, and the number of 'blue-chip' partners rose from 4,700 to 6,100. In FY17 we added more than 40,000 new customers, with more than 260,000 organisations now using one or more Sophos IT security products. With more than 60 million small and mid-market enterprises around the world who could benefit from Sophos' industry-leading security portfolio, integrated and managed through a single, easy-to-use cloud-based platform, and sold entirely through the channel, our opportunity to continue to grow our market share remains significant.

Sophos Central
A robust, comprehensive commitment to the cloud has provided Sophos with a growing competitive advantage. Sophos Central is a single, integrated cloud-based management and reporting platform that has become a meaningful driver of the Group's software subscriptions. Sophos Central represents 17.1 percent of subscription billings, having grown by 220 percent in the period. Leveraging the power of the cloud also allows us to deliver compelling cross-sell and upsell opportunities for partners, and many are now building additional services businesses around the Sophos partner portal, which enables them to manage, update and configure their customers' solutions remotely.

The Group expanded and enhanced Sophos Central throughout the year, with new endpoint, server and mobile security solutions, as well as additional partner and managed service provider (MSP) features. In addition, Sophos made a number of applications available on the platform for the first time, including email, encryption, wireless, and web security. September 2016 saw the launch of Intercept X, an exciting next-generation endpoint protection application, featuring signature-less anti-exploit, anti-ransomware and root cause analytics capabilities. Intercept X has resonated extremely well with partners and customers. In just two quarters since its launch, more than 8,000 customers have purchased Intercept X on the Sophos Central cloud-management platform.

World-class products and innovation

A commitment to industry-leading innovation, focused on our target customer, combined with a strong demand backdrop and an increasingly powerful channel ecosystem enabled Sophos to continue to gain market share, outpacing market growth rates in both enduser and network security.

In addition to the launch of Intercept X, there was an enthusiastic response to the newest release of the Sophos XG Firewall, helping the Group achieve 17.8 percent growth in network security billings for the year, at constant currency. With version 16.0 launched in October 2016, customers are benefiting from over 100 new features and significant enhancements to the user experience, particularly navigation, policy management and logging, as well as additional synchronized security features linking the XG firewall with endpoint, encryption, mobile, and other security offerings. Sophos is already a leader in the emerging cloud-based infrastructure market for security, a growing opportunity as enterprises adopt infrastructure as a service via the cloud. XG Firewall version 16.0 introduced support for the Microsoft Azure cloud platform in addition to the existing support for Amazon Web Services.

Acquisitions

In February 2017 Sophos announced the acquisition of Invincea, Inc., a leading developer of advanced next-generation malware protection, consistently ranked as among the best performing signature-less, next-generation endpoint technologies in third-party testing, rated highly both for high detection and low false-positive rates. The Invincea endpoint security portfolio prevents, detects, and remediates zero-day and sophisticated attacks, and combines neural-network based machine learning and behavioural monitoring to enhance detection through artificial intelligence and stop evasive malware before damage occurs.

Invincea complements and enhances Sophos' existing presence in next-generation endpoint protection, a dynamic new segment that is serving to increase meaningfully the size and growth rate of the multi-billion dollar endpoint security market as a whole. Invincea's advanced machine learning technology is a critical element in the broad array of advanced endpoint technology components that customers will require in order to protect themselves effectively against the growing number and sophistication of cyber threats that face organisations of all sizes. The integration of the Invincea technology into the Sophos Central endpoint product line is progressing well, with the first Sophos products incorporating Invincea's machine learning technology expected to be available and sold via our global channel of over 30,000 partners in 2017, bringing immediate value to customers.

Deepening the relationship with our customers

We further increased the amount of cross-sell and upsell business with existing customers, a key element of the Group's growth strategy. Our net renewal rate achieved on our subscription business was over 106 percent in the year, including cross-sell and upsell, versus 102 percent a year ago. Furthermore, the proportion of customers purchasing both the Sophos endpoint and unified threat management (UTM) products was just under 10 percent at the end of the period, up from 7 percent a year ago. The continued improvement in these areas demonstrates the Group's success in leveraging its product portfolio and the benefits that both partners and customers are gaining from an integrated, synchronised approach to IT security.

Industry leadership

During the year, leading industry analysts including Gartner and Forrester once again endorsed Sophos as a leader for products in both enduser and network security. In addition, Sophos won numerous channel awards, including 2016 Endpoint Security Innovation winner (CRN US), 2016 Data Security winner (CRN US), 2016 Network Security winner (CRN US), 2016 Security Vendor of the Year (CRN UK), and 2016 Channel Excellence Award winner - Security Hardware (Channel Partner DACH). Furthermore, in February 2017, five senior Sophos executives were named in CRN's prestigious list of 2017 Channel Chiefs, which represents top leaders in the IT channel who excel at driving growth and revenue in their organisations through channel partners.

Outlook

Visibility in the Group's future business has increased, underpinned by a growing renewal book of subscription contracts, itself fuelled by the acceleration in new business seen in recent years and industry-leading (and growing) renewal rates. For FY18, we expect mid to high-teens billings growth, a 50-100 basis point improvement in the Cash EBITDA margin and unlevered free cash flow, coming from a high base in FY17, broadly unchanged. For the medium-term, we anticipate achieving billings of c.$1 billion, unlevered free cash flow in the range of $220 million to $240 million and around a 100-150 basis point Cash EBITDA margin improvement per annum giving adjusted operating profit of $100+ million by FY20.

While we are pleased with the scale, growth, and momentum we have established, we firmly believe we are just getting started. Security continues to be a mission-critical, board-level priority for organisations of every size that only rises in importance with each passing year. Delivering true enterprise-grade protection to mid-market enterprises, in a way that is integrated and simple to deploy and manage, all sold through the channel, provides Sophos with a substantial market opportunity. Our company mission is 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. We believe we are uniquely positioned to successfully execute against that mission, and as we do so, our opportunities to continue to grow and succeed, both operationally and financially, are dramatic.

Sophos' success is only possible through the commitment and hard work of our global team of employees and partners, and I would like to extend my personal thanks to them for all they do to support and protect hundreds of thousands of organisations around the world each day.

Kris Hagerman
Chief Executive Officer
16 May 2017

Chief Financial Officer's review

The Group finished the year strongly and is increasingly well positioned to achieve growth from both new and existing customers in FY18 and beyond. The key metrics of billings, cash EBITDA and cash flow were all strong in the year. The Group expected cash flow to show very strong growth in the year, yet the Directors were particularly encouraged that unlevered free cash flow almost trebled to $133.4 million.

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

	FY17	FY16	Increase/ (decrease)
	$M	$M	%
Billings	632.1	534.9	18.2
Revenue	529.7	478.2	10.8
Cash EBITDA	150.1	120.9	24.2
Adjusted operating profit	38.3	53.4	(28.3)
Operating loss	(44.3)	(32.7)	35.5
Unlevered free cash flow	133.4	46.4	187.5
Net cash flow from operating activities	118.5	21.3	456.3

Reported billings grew by 18.2 percent to $632.1 million, while billings in constant currency grew at 19.9 percent to $648.7 million, revenue grew 12.3 percent on the same basis to $542.1 million, within which subscription revenue grew 14.4 percent to $420.4 million.

Adjusted operating profit and operating loss were both impacted by the fact that the majority of billings are subscription contracts where the revenue is deferred to future periods; however, the level of spending is driven by billings growth and is recognised immediately in the profit and loss account. Accordingly, a strong billings performance is very positive for the long-term health of the business and cash generation yet the full benefit to the profit and loss account is in future periods. Deferred revenues increased by $82.3 million in the period further underpinning the confidence in future revenue growth. The Group finished the year with $581.0 million (FY16: $498.7 million) of deferred revenue, $330.6 million (FY16: $286.5 million) of which is due for release in the year ahead.

Billings

The Group's reported billings increased by $97.2 million from $534.9 million in the year-ended 31 March 2016 to $632.1 million in the year-ended 31 March 2017, with growth in all regions, products and types as detailed below. This represented 18.2 percent reported growth or 19.9 percent growth on a constant currency ("CC") basis. The reconciliation of billings to revenue is included in note 4 of the Financial Statements.

	FY17	FY16	Growth	Growth
	$M	$M	%	%
	(Reported)	(Reported)	(Reported)	(CC)
Billings by Region:				
- Americas	217.6	187.9	15.8	15.9
- EMEA	319.5	264.0	21.0	25.6
- APJ	95.0	83.0	14.5	11.0
	632.1	534.9	18.2	19.9
Billings by Product:				
- Network	311.5	266.7	16.8	17.8
- Enduser	289.7	238.2	21.6	24.4
- Other	30.9	30.0	3.0	2.6
	632.1	534.9	18.2	19.9
Billings by Type:				
- Subscription	513.1	422.8	21.4	23.3
- Hardware	105.7	99.0	6.8	7.6
- Other	13.3	13.1	1.5	2.3
	632.1	534.9	18.2	19.9

Subscription agreements comprised 81 percent of the Group's billings in FY17, an increase from 79 percent in the prior-year. Subscription agreements are paid in full upfront with revenue being recognised on a deferred basis over the life of the agreements, which mainly range from one to three years in duration, resulting in a highly visible and predictable future revenue stream.

Billings by region

Americas
Billings attributable to the Americas increased by $29.7 million to $217.6 million in the year-ended 31 March 2017, representing 15.8 percent growth on a reported basis and 15.9 percent on a constant currency basis. Network products and sustained adoption of the Sophos Central platform, including strong sales of new next-generation endpoint products drove the year-on-year growth.

EMEA
Billings attributable to EMEA increased by $55.5 million to $319.5 million in the year-ended 31 March 2017, representing 21.0 percent growth on a reported basis and 25.6 percent growth on a constant currency basis, reflecting the impact of the strengthening US Dollar against both Sterling and Euro. Enduser growth in the region was particularly strong, supported by a substantial increase in the adoption of the Sophos Central platform and the contribution from a material contract with an existing customer in the UK in the first quarter of the year.

APJ
Billings attributable to APJ increased by $12.0 million to $95.0 million in the year-ended 31 March 2017, representing 14.5 percent growth on a reported basis and 11.0 percent growth on a constant currency basis. Growth in the region was driven by Enduser billings; Network billings in the prior-year were assisted by a very strong performance in Japan leading to a tough comparative.

Billings by product

Network products
The Group's billings attributable to Network products increased by $44.8 million to $311.5 million in the year-ended 31 March 2017, representing 16.8 percent growth on a reported basis and 17.8 percent growth on a constant currency basis, despite a strong prior-year comparative from larger deals in Japan. This growth was balanced across UTM, Email and Web products.

Enduser products
The Group's billings attributable to Enduser products increased by $51.5 million to $289.7 million in the year-ended 31 March 2017, representing 21.6 percent growth on a reported basis and 24.4 percent growth at constant currency. Sophos Central, incorporating the new next-generation endpoint product, Intercept X, was a key driver for Enduser billings growth. Growth was also assisted by the contribution from a material contract during the first quarter of the year with an existing customer in the UK.

Billings by type
Subscription billings increased by $90.3 million to $513.1 million in the year-ended 31 March 2017, representing 21.4 percent growth on a reported basis and 23.3 percent growth on a constant currency basis. Encouragingly, Sophos Central billings were $87.7 million in the year, increasing from $27.4 million in the prior period and now represent 17.1 percent of subscription billings up from 6.5 percent in the prior period. Hardware billings increased by 6.8 percent on a reported basis, 7.6 percent growth on a constant currency basis, to $105.7 million primarily due to a tough comparative from the strong hardware sales in Japan. The share of subscription billings of total billings increased marginally in the year as Sophos Central continued to gain momentum.

Key billings metrics

Billings from new customers
Billings, at constant currency and excluding acquisitions, from new customers remained consistent at 25 percent of total billings and grew 21.3 percent year over year.

Retention rates
The Group's results are substantially driven by billings generated from subscriptions for its products and services. The Group's net retention rates include the impact of cross-selling and upselling, which helps the Group evaluate its success in fully leveraging its broad product portfolio throughout its installed customer base. The Group's net retention rate, excluding acquisitions, for the year-ended 31 March 2017 improved to 106.3 percent from 101.9 percent in the year-ended 31 March 2016.

Billings by size
Sophos' products are designed for the Group's target market, mid-market enterprises, typically with less than 5,000 employees. In FY17 the proportion of billings to the Group's customers with less than 5,000 employees increased marginally YOY to 83 percent.

Billings by length of contract
Subscription agreements sold by the Group are of differing durations, most typically being one to three years in length. The weighted average contract length for the year-ended 31 March 2017 was 28.1 months, a small increase on the 27.8 months[(1)] for the year-ended 31 March 2016, mainly due to the material contract with an existing customer in the first quarter.

The billings analysis of contracts by subscription length for each year [(1)] is as follows:

(Constant Currency)	**FY17**	**FY16**
	%	**%**
Under one year	34.3	34.7
One to two years	7.5	8.1
Two to three years	46.0	45.9
Greater than three years	12.2	11.3

(1) Comparatives were previously presented excluding Cyberoam and have now been re-stated to be on a total Group basis

Cross-sell and upsell opportunities
The Group continued to demonstrate to its existing customers the benefits of cross-ownership. A measure of this success is the percentage of all customers who own both a Sophos Endpoint and UTM product (being the primary products of the Enduser and Network families, respectively). The Group expects this metric to steadily improve as customers take advantage of the benefits of synchronized security. At 31 March 2017, approximately 9.6 percent of customers had both a UTM product and an Endpoint product compared to 7.4 percent of customers at 31 March 2016.

Revenue
The Group's revenue increased by $51.5 million, or 10.8 percent, to $529.7 million in the year-ended 31 March 2017. Revenue at reported rates was impacted throughout the year by currency headwinds, most notable a weakening against the US Dollar of Sterling and the Euro. Accordingly, revenue growth for the year on a constant currency basis was higher at 12.3 percent, following an increasing trend through the year which generated Q4 constant currency revenue growth of 14.7 percent.

	FY17	FY16	Growth	Growth
	$M	$M	%	%
	(Reported)	(Reported)	(Reported)	(CC)
Revenue by Region:				
- Americas	186.9	166.1	12.5	12.6
- EMEA	263.1	239.5	9.9	13.8
- APJ	79.7	72.6	9.8	6.4
	529.7	478.2	10.8	12.3
Revenue by Product:				
- Network	271.2	239.0	13.5	14.6
- Enduser	231.6	211.9	9.3	11.4
- Other	26.9	27.3	(1.5)	(1.8)
	529.7	478.2	10.8	12.3
Revenue by Type:				
- Subscription	410.7	364.7	12.6	14.4
- Hardware	106.7	100.9	5.7	6.3
- Other	12.3	12.6	(2.4)	(0.8)
	529.7	478.2	10.8	12.3

The majority of the Group's billings relate to subscriptions (FY17: 81.2 percent; FY16: 79.0 percent), and hence the benefit from increased billings is spread over a number of years based on the subsequent recognition of deferred revenue. Revenue of $529.7 million comprised $277.8 million (FY16: $251.4 million) from recognition of prior-year deferred revenues and $251.9 million (FY16: $226.8 million) from new billings. The deferred revenue balance at the end of the year of $581.0 million increased $82.3 million from the end of the prior year, an increase of 16.5 percent despite a negative translation impact of $24.2 million resulting from the devaluation of Sterling against the US Dollar.

Revenue in the Americas increased by 12.5 percent to $186.9 million in the year-ended 31 March 2017 due to growth in both Network and Enduser sales.

EMEA revenue increased by 9.9 percent to $263.1 million in the year-ended 31 March 2017, primarily due to growth in UTM billings as much of the benefit of increased subscription billings is deferred into future periods.

APJ revenue increased by 9.8 percent to $79.7 million in the year-ended 31 March 2017, predominantly due to strong growth in Enduser billings, with lower Network growth due to a tough compare in Japan.

Cost of sales
The Group's cost of sales increased by $16.9 million to $121.3 million in the year-ended 31 March 2017. This was primarily due to the continued growth of Network product billings, many of which have a hardware component, the growth in Sophos Central products which are hosted by the Group and higher costs in the support function which are increasing, albeit at a rate lower than billings thereby delivering operational leverage.

Sales and marketing
The Group's sales and marketing expenses increased by $26.6 million or 14.5 percent, to $210.6 million in the year-ended 31 March 2017. Sales and marketing investments are targeted to drive billings growth. The Group achieved a growth rate in sales and marketing costs that was below the rate of growth in billings, contributing to the anticipated leverage as the business scales, which is expected to continue.

Research and development
The Group's research and development expenses increased by $18.2 million, or 18.3 percent, to $117.8 million in the year-ended 31 March 2017. This reflects the significant investment made in new and enhanced products released in the period and an ongoing focus on product development. Research and development investments are broadly targeted 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 $19.8 million, or 38.1 percent, to $71.8 million in the year-ended 31 March 2017. The increase was substantially due to the share-based payment expense, which increased by $16.2 million to $32.5 million representing the first full-year charge following the issue of new equity awards at the time of the Initial Public Offering of the Company's shares in the prior-year. Underlying general finance and administration expenses have increased by 10.1 percent YOY and have decreased as a proportion of billings as the Group continued to leverage its strong back office function.

The Group's exceptional items, included within general finance and administration expenses, decreased by $10.5 million to $31.4 million in the year-ended 31 March 2017. Current-year exceptional items relate predominantly to expenses incurred connected with the defence of certain claims brought against the Group in relation to the previously announced intellectual property litigation case brought by Finjan Inc., including both the costs of an omnibus agreement entered into with Finjan Inc. on 30 March 2017 resolving all the parties' disputes and associated legal costs. It also includes acquisition costs incurred in relation to material acquisitions in the year. Prior-year exceptional items included $17.8 million incurred during the Initial Public Offering of the Company's shares, as well as acquisition costs and expenses incurred in relation to the defence or settlement of claims brought against a number of the Group's employees by their former employer and certain intellectual property litigation cases.

Amortisation of intangible assets
The Group's amortisation of intangible assets decreased by $9.3 million, or 31.8 percent, to $19.9 million in the year-ended 31 March 2017. The decrease was due to the Group's policy of amortising acquired intangibles on a reducing balance basis. In the current year, the Group's largest acquisition, Invincea, Inc. was completed at the very end of the year, therefore limiting amortisation in the period.

Currency movements and impact
The Group's foreign exchange loss was $1.2 million in the year-ended 31 March 2017, compared with a gain of $0.2 million in the year-ended 31 March 2016. The loss arises as a result of the weakening of Sterling and the Euro against the US Dollar in the year, an impact which is mostly mitigated by the Group's largely naturally-hedged position.

Cash EBITDA
The reconciliation of cash EBITDA to operating loss is included in note 4 of the Financial Statements.

On a reported basis, cash EBITDA increased by 24.2 percent to $150.1 million in the year-ended 31 March 2017. The Cash EBITDA margin increased YOY to 23.7 percent from 22.6 percent in the prior year mainly as the Group leveraged sales, marketing and back office investments.

Adjusted operating profit
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. The Directors have chosen to disclose this alternative performance measure in order to not only allow a focus on underlying operating performance but also to aid comparability with other companies that disclose the same measure. The reconciliation of adjusted operating loss to operating loss is included in note 4 of the Financial Statements.

Adjusted operating profit decreased by $15.1 million to $38.3 million in the year-ended 31 March 2017. The Group continues to invest to drive billings growth. The majority of billings are from subscription contracts with the revenue benefit from increased subscription billings being deferred into future periods. Accordingly, strong subscription billings growth, whilst very positive for the long-term health of the business and cash generation, can actually show as a detriment to the short-term income statement with most of the revenues deferred whilst all spending is recognised as incurred. For this reason, the Group primarily focuses on billings, cash EBITDA and cash flow as the key leading indicators and primary operating metrics of the business.

Operating loss
The Group's operating loss was $44.3 million in the year-ended 31 March 2017, compared to a loss of $32.7 million in the prior year. The increase was mainly due to an increased share-based payment expense, following the issue of equity instruments at the time of the Initial Public Offering, though this increase was partially offset by decreases in exceptional costs and amortisation.

Net finance costs
The Group's net finance costs decreased by $30.7 million to $5.0 million in the year due to both the repayment in the prior year of the amounts due to the previous parent company and, at the time of the Company's Initial Public Offering of shares, an $87.7 million repayment of bank debt. In addition, foreign exchange losses on borrowings in the prior year have become gains in the current year as the US Dollar has strengthened and the prior year included a $5.9 million write-off of un-amortised finance fees that arose on the repaid external debt facility.

Income tax
The Group's tax credit for the year was $2.6 million (FY16: $3.5 million charge) with an effective tax rate of 5.3 percent (FY16: -5.1 percent). The tax credit arises against a reported loss for the Group, however cash tax remains payable as a consequence of taxable profits in local subsidiaries. The Group also benefited from participation in the UK research and development expense credit regime percent.

Loss for the year
The Group's loss for the year decreased by $25.2 million, from a loss of $71.9 million in the year-ended 31 March 2016 to a loss of $46.7 million in the year-ended 31 March 2017, predominantly reflecting the reduction in finance expenses.

Cash flow
Net cash flow from operating activities significantly increased YOY to $118.5 million from $21.3 million in the prior year. The increase was due to billings growth, leverage of operating expenses and management of working capital.

	FY17	FY16
	$M	$M
Cash EBITDA *	**150.1**	**120.9**
Net deferral of revenue	(102.4)	(56.7)
Foreign exchange	-	(2.4)
Depreciation	(9.4)	(8.4)
Adjusted operating profit	**38.3**	**53.4**
Net deferral of revenue	102.4	56.7
Exceptional items	(31.4)	(41.9)
Depreciation	9.4	8.4
Foreign exchange	-	2.4
Change in working capital *	19.0	(32.5)
Corporation tax paid *	(19.2)	(25.2)
Net cash flow from operating activities	**118.5**	**21.3**
Exceptional items	31.4	41.9
Net capital expenditure *	(16.5)	(16.8)
Unlevered free cash flow	**133.4**	**46.4**

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

Unlevered free cash flow increased threefold over the prior-year to $133.4 million due to billings growth, significant movements in working capital, reduced year-over-year cash tax payments and flat net capital expenditure.

Changes in working capital

Working capital movements result from an increase in creditors for activity in the final month of the year while debtor days outstanding has decreased in the year to 42 days (FY16: 44 days). Prior-year working capital changes included outflows for significant accrued and payable amounts expensed in FY15.

Capital expenditure

The Group's capital expenditure primarily comprises property, plant and equipment as well as intangible assets. In the year-ended 31 March 2017, net cash capital expenditure decreased marginally by $0.3 million on the prior-year.

Cash taxation

Corporation tax paid is lower than in the comparative year due to the receipt of a research and development expense credit of $5.5 million in the UK.

Financing

In the first half of FY17, the Group repaid its revolving credit facility which had been drawn to partially finance the acquisition of SurfRight in December FY16. In the second half of FY17, the Group agreed an additional revolving credit facility with its existing lenders in the amount of $40 million which at year-end was fully drawn along with $10 million from the original revolving credit facility in order to partially finance the acquisition of Invincea, Inc. At 31 March 2017 the ratio of net debt to cash EBITDA was 1.9 times, a decrease from 2.1 times as at 31 March 2016; reflecting the cash-generative nature of the Group.

Brexit
Following the decision by the UK population to exit, in due course, from the European Union ("Brexit"), the Directors have considered whether or not this will manifest itself as an additional risk to the Group. The Group's operations are globally diverse with only 11 percent of the Group's revenue being sourced from the UK and as the recent devaluation of the Sterling exchange rates has a minor benefit to the Group, given more sterling denominated costs than revenues in a US Dollar denominated functional currency Group. As such, Brexit is not considered a principal risk for the Group.

Dividends
The Directors propose to pay a final dividend for the year-ending 31 March 2017 of 3.3 US Cents per share (FY16: 1.1 US Cents), giving a total dividend for the year of 4.6 US Cents per share (FY16: 1.8 US Cents). The final dividend, subject to shareholder approval, will be paid on 13 October 2017 to all shareholders on the register on 15 September 2017. The Directors continue to adopt a progressive dividend policy, reflecting the cash-generative nature of the Group; and accordingly intend to target continued dividend growth for the financial year-ending 31 March 2018.

Nick Bray
Chief Financial Officer
16 May 2017

Consolidated statement of profit or loss
For the year-ended 31 March 2017

	Note	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
Revenue		**529.7**	478.2
Cost of sales		**(121.3)**	(104.4)
Gross profit		**408.4**	373.8
Sales and marketing		**(210.6)**	(184.0)
Research and development		**(117.8)**	(99.6)
General finance and administration:		**(124.3)**	(122.9)
- Underlying		**(39.3)**	(35.7)
- Share-based payments	5	**(32.5)**	(16.3)
- Exceptional items	6	**(31.4)**	(41.9)
- Amortisation of intangible assets		**(19.9)**	(29.2)
- Foreign exchange (loss)/gain		**(1.2)**	0.2
Operating loss		**(44.3)**	(32.7)
Finance income	7	**0.1**	0.7
Finance expense	7	**(5.1)**	(36.4)
Loss before taxation		**(49.3)**	(68.4)
Income tax credit/(charge)	8	**2.6**	(3.5)
Loss for the period		**(46.7)**	(71.9)
Earnings per share ($ Cents)			
Basic and diluted EPS	9	**(10.3)**	(16.4)
Adjusted EPS	9	**8.5**	12.1
Diluted adjusted EPS	9	**8.1**	11.6

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

Consolidated statement of comprehensive income
For the year-ended 31 March 2017

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Loss for the period	**(46.7)**	(71.9)
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	**2.8**	(2.9)
Total other comprehensive gains/(losses)	**2.8**	(2.9)
Comprehensive loss for the year	**(43.9)**	(74.8)

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 2017

Company registered number: 09608658	Note	**31 March 2017 $M**	31 March 2016 $M
Non-current assets			
Intangible assets	11	**856.0**	756.6
Property, plant and equipment	12	**23.4**	24.9
Deferred tax asset		**105.3**	73.9
Other receivables		**1.3**	0.8
		986.0	856.2
Current assets			
Investments		-	-
Tax assets		**7.7**	-
Inventories		**16.2**	18.7
Trade and other receivables		**145.2**	129.8
Cash and cash equivalents		**68.1**	66.8
		237.2	215.3
Total assets		**1,223.2**	1,071.5
Current liabilities			
Trade and other payables		**107.3**	76.4
Deferred revenue	14	**330.6**	286.5
Tax liabilities		**21.0**	11.2
Financial liabilities	15	**71.1**	26.2
Provisions		**0.4**	0.3
		530.4	400.6
Non-current liabilities			
Trade and other payables		**3.9**	0.8
Deferred revenue	14	**250.4**	212.2
Financial liabilities	15	**296.3**	300.9
Provisions		**1.1**	1.0
Deferred tax liabilities		**14.4**	10.1
		566.1	525.0
Total liabilities		**1,096.5**	925.6
Net assets		**126.7**	145.9
Represented by:			
Share capital		**21.6**	21.3
Share premium		**118.4**	115.9
Merger reserve		**(200.9)**	(200.9)
Other reserves		**-**	(0.1)
Retained earnings		**148.1**	205.7
Share-based payment reserve		**68.9**	36.2
Translation reserve		**(29.4)**	(32.2)
Total equity		**126.7**	145.9

Consolidated statement of changes in equity
For the year-ended 31 March 2017

	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 2015[2]	552.6	-	(200.9)	10.4	(750.0)	11.4	(29.3)	(405.8)
Loss for the period:	-	-	-	-	(71.9)	-	-	(71.9)
Other comprehensive profit or loss:	-	-	-	-	-	-	(2.9)	(2.9)
Total comprehensive loss	-	-	-	-	(71.9)	-	(2.9)	(74.8)
Shares issued[3]	-	485.3	-	-	-	-	-	485.3
Capital reduction[4]	(533.1)	(485.2)	-	(10.4)	1,030.8	-	-	2.1
EBT treasury shares	-	-	-	(0.2)	-	-	-	(0.2)
Primary proceeds	1.7	123.3	-	-	-	-	-	125.0
Share issue expenses	-	(8.6)	-	-	-	-	-	(8.6)
Share options exercised	0.1	1.1	-	-	-	-	-	1.2
Disposal of EBT treasury shares	-	-	-	0.1	(0.1)	-	-	-
Share-based payments expense	-	-	-	-	-	15.0	-	15.0
Share-based payments deferred tax	-	-	-	-	-	9.8	-	9.8
Cash dividend (note 10)	-	-	-	-	(3.1)	-	-	(3.1)
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**

[1] At 31 March 2017 other reserves comprise an insignificant number of own shares held in an Employment Benefit Trust.

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

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

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

Consolidated statement of cash flows
For the year-ended 31 March 2017

	Note	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Loss for the year		**(46.7)**	(71.9)
Adjusted for:			
Depreciation		**9.4**	8.4
Amortisation of intangible assets		**19.9**	29.2
Amortisation of fair value adjustment on deferred income		**(1.0)**	(1.8)
Foreign exchange		**-**	2.4
Share-based payments		**31.3**	15.0
Finance income		**(0.1)**	(0.7)
Finance costs		**5.1**	36.4
Income tax (credit)/charge		**(2.6)**	3.5
		15.3	20.5
Decrease/(increase) in inventories		**1.1**	(6.7)
Increase in trade and other receivables		**(20.5)**	(16.1)
Increase/(decrease) in trade and other payables		**37.1**	(10.9)
Increase in deferred revenue		**104.4**	59.4
Increase in provisions		**0.3**	0.3
Cash generated from continuing operations		**137.7**	46.5
Income taxes paid		**(19.2)**	(25.2)
Net cash flow from operating activities		**118.5**	21.3
Investing activities			
Purchase of property, plant and equipment		**(11.4)**	(8.5)
Acquisition of subsidiaries net of cash acquired	16	**(101.7)**	(46.0)
Purchase of intangible assets - software		**(5.1)**	(8.3)
Finance income		**0.1**	0.7
Net cash flow from investing activities		**(118.1)**	(62.1)
Financing activities			
Proceeds from issue of shares		**2.8**	126.2
Transaction costs related to the issue of shares		**-**	(8.6)
Dividends paid		**(10.9)**	(3.1)
Proceeds from borrowings	16	**50.0**	326.9
Repayment of borrowings	16	**(25.0)**	(389.6)
Transaction costs related to borrowings	16	**(0.9)**	(4.4)
Finance lease payments		**(0.1)**	(0.1)
Finance costs		**(8.8)**	(12.9)
Net cash flow from financing activities		**7.1**	34.4
Increase / (decrease) in cash and cash equivalents		**7.5**	(6.4)
Net foreign exchange differences		**(6.2)**	0.6
Cash and cash equivalents at the start of period		**66.8**	72.6
Cash and cash equivalents at the end of period		**68.1**	66.8

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 2017 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 2016 were approved by the Board of Directors on 25 May 2016 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 2017 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 2017 were approved by the Board of Directors on 16 May 2017.

2. Basis of preparation

The consolidated financial statements of the Group for the year-ended 31 March 2017 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and under the historical cost convention. The accounting policies adopted in preparation of the consolidated financial statements are consistent with those used to prepare the Group's consolidated financial statements for the year-ended 31 March 2016. New standards effective for the Group for the year-ended 31 March 2017 did not have an impact on the results or disclosures shown in the consolidated financial statements.

The Group has considerable financial resources together with contracts with a large number of customers and across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully and has adopted the going concern basis in preparing the consolidated financial statements.

3 Segment information

For internal management reporting purposes, the primary segment reporting format is determined to be geographic segments as the Group's risks and rates of return are affected predominantly by the different economic environments. This is consistent with the information provided to the Chief Operating Decision Maker. The Group has only one secondary business segment on the basis that the products and services offered to external customers are very similar and therefore do not result in different risks and rates of return for the Group.

The Group's geographical segments are based on the location of the Group's operations consisting of Europe, Middle East and Africa ("EMEA"), The Americas and Asia Pacific and Japan ("APJ").

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

Billings are classified by the geographic location of direct customers, OEMs and the distributors which purchase our products. The geographic location of OEMs or distributors may be different from that of the end customers. A disclosure of revenue by region is included in the Financial Review.

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

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

The following tables present billings and expenditure regarding the Group's geographical segments for the period ended 31 March 2017 and 31 March 2016.

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)**

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

Revenue from external customers by country	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
UK	**58.7**	58.9
USA	**169.3**	151.3
Germany	**103.1**	89.3
Other countries	**198.6**	178.7
Total	**529.7**	478.2

Revenue from external customers by type	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
Subscription	**410.7**	364.7
Hardware	**106.7**	100.9
Other	**12.3**	12.6
Total	**529.7**	478.2

4 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 enable a better 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. As the measures are not defined by IFRS other companies may calculate them differently or may use such measures for different purposes than the Group does, limiting the usefulness of such measures as a comparative. 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 2017 is consistent with those presented for the year-ended 31 March 2016. However, to ensure such measures remain relevant, the Group regularly reviews their usage and is now proposing a change to the non-GAAP measures that it publishes. The Directors have updated the key metrics used in the year to enable greater comparability while retaining the key aspects of measures that provide visibility into the fundamental underlying performance of the Group. Hence in the current year, as explained in the sections below, both the previous and future metrics have been presented to provide some consistency, whilst in future annual reports only details of the revised metrics in use in that period will be disclosed.

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 does not equate to statutory revenue.

In previous periods the Group has also reported like-for-like billings which represent billings on a constant currency basis excluding disposals and including acquisitions from the point of acquisition plus the pre-acquisition billings of any acquired companies on a reported basis. To aid comparability with peer companies the Group will only be using actual rate and constant currency billings in the future. As like-for-like billings growth has been previously disclosed, and in accordance with best practice for a transition in metric disclosures, the figures for the current and comparative periods are, on this occasion, shown below.

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Revenue	**529.7**	478.2
Net deferral of revenue	**102.4**	56.7
Billings	**632.1**	534.9
Currency revaluation	**16.6**	6.2
Constant currency billings	**648.7**	541.1
Pre-acquisition billings[1]	**-**	3.4
Like-for-like billings	**648.7**	544.5

1- Invincea was acquired on 21 March 2017 and contributed $0.3M of billings in the year-ended 31 March 2017, as a result pre-acquisition billings for Invincea are excluded from the like-for-like calculation.

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 those items that in the Directors judgment should be disclosed separately by virtue of their size, nature or incidence, in order to show the underlying business performance of the Group more accurately.
- Charges for the amortisation of acquired intangibles are excluded from the calculation of adjusted operating profit 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 bear no relation to the Group's underlying ongoing performance.
- Share-based payment charges are similarly excluded from the calculation of adjusted operating profit because these represent a non-cash accounting charge for long term incentives to senior management rather than the underlying operations of the Group's business.

On an ongoing basis, the Group will be reporting on adjusted operating profit as it believes that it will improve comparability of the Group's results, while also giving insight into the Group's underlying trading performance.

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 and is a useful supplemental measure of earnings that provides visibility on actual cash earned in the year. Depreciation and unrealised foreign exchange differences are adjusted as they do not represent cash costs of the business.

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Operating loss	**(44.3)**	(32.7)
Amortisation of intangible purchased assets	**19.9**	29.2
Share-based payments expense	**31.3**	15.0
Exceptional items	**31.4**	41.9
Adjusted operating profit	**38.3**	53.4
Depreciation	**9.4**	8.4
Foreign exchange loss / (gain)	**-**	2.4
Net deferral of revenue	**102.4**	56.7
Cash EBITDA	**150.1**	120.9
Billings	**632.1**	534.9
Revenue	**(529.7)**	(478.2)
Net deferral of revenue (note 14)	**102.4**	56.7

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 2017 $M	Year-ended 31 March 2016 $M
Net cash flow from operating activities	**118.5**	21.3
Exceptional items	**31.4**	41.9
Net capital expenditure	**(16.5)**	(16.8)
Unlevered free cash flow	**133.4**	46.4

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Cash EBITDA	**150.1**	120.9
Net capital expenditure	**(16.5)**	(16.8)
Change in working capital	**19.0**	(32.5)
Corporation tax paid	**(19.2)**	(25.2)
Unlevered free cash flow	**133.4**	46.4

5 Share-based payments

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

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Cash-settled transactions	**1.2**	1.3
Equity-settled transactions	**31.3**	15.0
Total share-based payment expense	**32.5**	16.3

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

	Number 000's	**Year-ended 31 March 2017 WASP**	Number 000's	Year-ended 31 March 2016 WASP
RSU's (£ pence)	**10,930**	**187.00**	9,630	264.75
PSU's (£ pence)	**4,090**	**186.75**	2,879	265.00
SAYE – Options ($ Cents)	**1,725**	**234.00**	-	-

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 more accurately. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the consolidated income statement within general finance and administration expenses.

During the year-ended 31 March 2017, acquisition related expenses of $7.2M (2016: $1.7M), restructuring and integration costs of ($0.4M) (2016: $2.6M) and costs incurred in relation to the defence and settlement of certain intellectual property ("IP") litigation of $24.6M (2016: $19.8M) were incurred. In the prior-year, Initial Public Offering ("IPO") costs of $17.8M were incurred. The current-year intellectual property litigation costs include an omnibus agreement entered into with Finjan Inc. on 30 March 2017 resolving all the parties' disputes.

This resulted in total exceptional items of $31.4M (2016: $41.9M). Tax relief on these exceptional items amounted to $4.8M (2016: $5.3M).

7 Finance income and expense

Finance income	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
Interest on bank deposits	**0.1**	0.7

Finance expense	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
Interest expense on loans and borrowings	**7.8**	11.0
Other interest, bank charges and swap settlements	**0.4**	0.5
	8.2	11.5
Accretion on Subordinated Preference Certificates	**-**	13.5
Accretion on contingent consideration	**0.2**	0.2
Foreign exchange (gain) / loss on borrowings	**(4.2)**	4.4
Amortisation of facility fees	**0.9**	0.9
Facility fees expensed on settlement of debt	**-**	5.9
Total finance expense	**5.1**	36.4

8 Taxation

UK corporation tax for the year-ended 31 March 2017 is calculated at 20% (2016: 20%) of the estimated assessable loss for the period.

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Current income tax:		
UK corporation tax	**(4.0)**	(2.0)
Adjustments in respect of previous years UK tax	**(1.1)**	(2.7)
Overseas tax before exceptional items	**22.5**	30.4
Overseas tax on exceptional items	**0.1**	(1.0)
Adjustment in respect of previous years	**4.1**	0.6
Total current tax charge	**21.6**	25.3
Deferred tax:		
Origination and reversal of temporary differences	**(18.9)**	(15.9)
Origination and reversal of temporary differences on exceptional items	**(5.0)**	(4.2)
Adjustment in respect of previous years	**(0.3)**	(1.7)
Total deferred tax credit	**(24.2)**	(21.8)
Total income tax (credit) / charge	**(2.6)**	3.5

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

	Year-ended 31 March 2017 $M	Year-ended 31 March 2016 $M
Loss for the year before taxation	**(49.3)**	(68.4)
Loss for the year before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	**(9.9)**	(13.7)
Effects of:		
Adjustments in respect of previous years	**2.7**	(4.2)
Change in tax rate during the year	**1.6**	1.1
Expenses not deductible for tax purposes	**(1.8)**	7.0
Losses not recognised	**1.8**	6.8
Higher tax rates on overseas earnings	**6.5**	8.7
Research and development and other tax credits	**(5.4)**	(3.2)
Other movements	**1.9**	1.0
(Credit) / charge for taxation on loss for the year	**(2.6)**	3.5

9 Earnings per share

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

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

Adjusted EPS is calculated by dividing the 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 the prior-year, adjusted EPS was calculated on the basis of cash EBITDA. In the current-year, the calculation has been made on the basis of adjusted operating profit, with an equivalent restatement of the comparative number. This change of basis has been made to ensure better comparability with other UK listed companies.

In each case, the weighted average number of shares take 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 2017 $M	Year-ended 31 March 2016 $M
Loss for the period attributable to the equity holders of the Company	**(46.7)**	(71.9)
Adjusted operating profit for the period attributable to the equity holders of the Company (note 4)	**38.3**	53.4

	Year-ended 31 March 2017	Year-ended 31 March 2016
Weighted average number of shares (000's):	**452,338**	438,640
Effects of dilution from:		
Share options	**11,434**	17,818
Restricted share units	**10,589**	3,992
Diluted weighted average number of shares (000's):	**474,361**	460,450

	Year-ended 31 March 2017 $ Cents	Year-ended 31 March 2016 $ Cents
Basic and diluted EPS	**(10.3)**	(16.4)
Adjusted EPS	**8.5**	12.1
Diluted adjusted EPS	**8.1**	11.6

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

10 Distributions made and proposed

Cash dividends on ordinary shares declared and paid	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
Interim dividend for the year-ended 31 March 2016 at $0.007 per share	**-**	**3.1**
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**	**-**
Total cash dividends paid	**10.9**	3.1

The Directors have proposed that the Company will pay a full-year dividend for the year-ending 31 March 2017 amounting to 3.3 US Cents per share. Proposed final dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 31 March 2017.

11 Intangible assets

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 period	-	(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**

Net Book Value	**Goodwill $M**	**Intellectual Property $M**	**Software $M**	**Others $M**	**Total $M**
At 1 April 2015	669.6	19.5	13.6	16.6	719.3
Additions	-	-	8.3	-	8.3
Acquired through business combinations	41.6	5.6	-	6.2	53.4
Charge for the period	-	(12.7)	(6.2)	(10.3)	(29.2)
Exchange movements	4.9	0.2	(0.4)	0.1	4.8
At 31 March 2016	716.1	12.6	15.3	12.6	756.6

12 Property, plant and equipment

Net Book Value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 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 period	(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**

Net Book Value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 1 April 2015	13.4	9.2	2.5	25.1
Additions	1.6	5.9	1.0	8.5
Acquired through business combinations	-	0.6	0.1	0.7
Charge for the period	(2.5)	(5.1)	(0.8)	(8.4)
Exchange movements	(0.8)	(0.1)	(0.1)	(1.0)
At 31 March 2016	11.7	10.5	2.7	24.9

13 Business combinations

Invincea, Inc.
On 21 March 2017, Sophos Inc. acquired for cash 100% of the share capital of Invincea, Inc., a company based in Fairfax, Virginia, United States. The acquisition will significantly strengthen the Group's industry leading next-generation endpoint protection product by adding Invincea, Inc.'s machine learning and artificial intelligence technology threats.

Acquisition-related expenses of $4.1M have been excluded from the consideration transferred and have been recognised as an expense within general finance and administration – exceptional items.

Assets acquired and liabilities assumed on the day of acquisition were as follows:

	Book value $M	Adjustment $M	Fair value $M
Non-current assets:			
Intangible assets			
Intellectual property	-	18.5	18.5
Customer relationships	-	1.2	1.2
Plant and equipment	0.2	-	0.2
Current assets:			
Trade and other receivables	1.3	-	1.3
Deferred tax asset	13.8	-	13.8
Cash and cash equivalents	0.3	-	0.3
Non-current liabilities:			
Deferred tax liability	-	8.7	8.7
Current liabilities:			
Deferred revenues	6.1	(2.0)	4.1
Trade and other payables	3.7	-	3.7
Lease obligations	-	-	-
Net assets recognised at the date of acquisition	**5.8**	**13.0**	**18.8**
Cash paid			95.9
Contingent consideration			19.3
Goodwill arising on acquisition - Invincea, Inc.			**96.4**

Prior to the acquisition, Invincea, Inc. operated in a complimentary market sector to the Group and, accordingly, the results of Invincea, Inc. are incremental to those of the Group. Revenue of $529.7M for the twelve-months to 31 March 2017 includes $0.2M in respect of Invincea, Inc. The impact of Invincea, Inc. on the operating loss of the Group for the period is insignificant. Had Invincea, Inc. been owned since 1 April 2016, revenue for the year-ended 31 March 2017 would have increased over the reported revenue by approximately $19.1M. The impact on the operating loss of the Group would have been $7.0M.

Intellectual property – Silent Break Security

On 18 November 2016, Sophos Limited entered into an agreement to buy for cash the trade and assets of Silent Break Security LLC and acquire the Intellectual Property of "PhishThreat", a phishing attack simulator used to train users to spot phishing attacks, dangerous attachments and bogus scripts. The Group also secured the ongoing services of certain key employees.

	Fair value $M
Assets acquired	3.1
Cash paid	3.0
Contingent consideration	1.2
Goodwill arising on asset acquisition from Silent Break Security LLC	**1.1**

Had the trade and assets of Silent Break Security LLC been owned since 1 April 2016, the impact on the operating loss of the Group would have been insignificant.

Barricade Security Systems Limited.
On 20 October 2016, Sophos Limited acquired for cash 100% of the share capital of Barricade Security Systems Limited, a company based in Cork, Ireland. The company is a start-up company providing cloud-based security analytics and the acquisition has strengthened the Group's machine learning and artificial intelligence expertise.

	Fair value $M
Non-current assets	0.1
Trade and other receivables	0.1
Trade and other payables	0.5
Net liabilities recognised at the date of acquisition	0.3
Cash paid	1.9
Goodwill arising on acquisition - Barricade Security Systems Limited	**2.2**

Prior to the acquisition, Barricade Security Systems Limited had immaterial revenues and all trading ceased on the day of acquisition. The impact of Barricade Security Systems Limited on the operating loss of the Group for the period is insignificant. Had Barricade Security Systems Limited been owned since 1 April 2016, the impact on the operating loss of the Group would have been insignificant.

14 Deferred revenue

	31 March 2017 $M	31 March 2016 $M
Current	**286.5**	251.4
Non-current	**212.2**	181.9
At 1 April	**498.7**	433.3
Billings deferred during the year	**632.1**	534.9
Revenue released to the statement of profit or loss	**(529.7)**	(478.2)
Net deferral	**102.4**	56.7
Acquired through business combinations	**4.1**	1.5
Translation and other adjustments	**(24.2)**	7.2
Current	**330.6**	286.5
Non-current	**250.4**	212.2
At 31 March	**581.0**	498.7

15 Financial liabilities

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

	31 March 2017 $M	31 March 2016 $M
Current instalments due on finance leases	**0.1**	0.1
Current instalments due on bank loans	**50.0**	25.0
Contingent consideration	**21.0**	1.1
Total current financial liabilities	**71.1**	26.2
Non-current instalments due on finance leases within 5 years	**-**	0.1
Non-current instalments due on bank loans	**299.2**	303.4
Contingent consideration	**0.7**	1.0
Unamortised facility fees	**(3.6)**	(3.6)
Total non-current financial liabilities	**296.3**	300.9
Total financial liabilities	**367.4**	327.1

Included in borrowings are bank loans of $349.2M (2016: $328.4M) 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 2017 $M	31 March 2016 $M
Current instalments due on bank loans	**50.0**	25.0
Non-current instalments due on bank loans	**299.2**	303.4
Total bank loans	**349.2**	328.4

The bank loans are repayable as follows:

	31 March 2017 $M	31 March 2016 $M
Due within one year	**50.0**	25.0
Due between two and five years	**299.2**	303.4
Total bank loans	**349.2**	328.4

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 2017:

Facility	**Interest**	**Margin**	**Principal M**	**Principal $ M**
Facility - A	Libor	1.75%	**$ 235.0**	**235.0**
Facility - B	Euribor	1.75%	**€ 60.0**	**64.2**
Revolving Credit Facility 1	Libor	1.50%	**$ 10.0**	**10.0**
Revolving Credit Facility 2	Libor	2.50%	**$ 40.0**	**40.0**
				349.2

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 trade and assets of certain Group companies.

16 Notes to the consolidated statement of cash flows

Acquisition of subsidiaries net of cash acquired	**Year-ended 31 March 2017 $M**	Year-ended 31 March 2016 $M
Consideration paid, satisfied in cash:		
- Invincea, Inc.	95.9	-
- Intellectual Property - Silent Break Security	3.0	-
- Barricade Security Systems Limited	1.9	-
- Surfright B.V. and Threatstar Holdings B.V.	-	31.8
- Reflexion Networks Inc.	1.2	15.0
Net cash purchased	(0.3)	(0.8)
Acquisition of subsidiaries net of cash	101.7	46.0

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**

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

17 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, along with an evaluation of the strategy and operating environment of the Group. The risk review process encompasses the identification, management and monitoring of risks in each area of the business and this process includes an assessment of the risks to determine the likelihood of occurrence, potential impact and the adequacy of the mitigation or controls already in place. A full review is then undertaken by the Risk and Compliance Committee, which evaluates the principal risks of the Group with reference to its strategy and the operating environment.

The Audit and 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 which 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 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 commitments.	Making Sophos a great place to work is central to the Group's strategy. Sophos are committed to strong recruitment processes supported by robust remuneration programs which are benchmarked appropriately. Additionally, Sophos has a commitment to all levels of training throughout the organisation. Reward schemes are continuously evaluated to drive and recognise performance and ensure retention of key talent. Annual employee engagement surveys enable the progress of our 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.	Sophos are 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. Sophos also encourages a healthy collaboration with the security research community, as described in the Responsible Disclosure Policy: www.sophos.com/security In FY17, Sophos took the additional step of introducing a Bug Bounty program to leverage the skills of thousands of

	As a result, actual or perceived defects or vulnerabilities in the Group's products or services and/or the failure of the Group's products or services to prevent a security threat could harm the Group's reputation and divert the Group's resources.	individuals to help make our products and web properties more secure. Further, the Group protects the privacy and security of its customers worldwide through the 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 customer and sale, 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 is committed to investment in its world class Virus Labs facility with emphasis placed on staff training, testing and quality procedures. Moreover, there is a 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. 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 its customers.
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 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 could increase the risk they will look	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. Sophos are working to bring all products under a single cloud management platform to deliver "parity" (of management features

	to alternative solutions, resulting in the potential loss of both new and existing revenue streams. Additionally, insufficient focus on key research and development projects may damage the long-term growth prospects of the Group.	and user experience) and "portability" (to address any privacy or data sovereignty issues that our partners/customers might face). Additionally, during the current financial year, Sophos have consolidated both Network and Enduser under single leadership in order to improve synchronized security, cross business unit interlock and investment efficiencies. 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 are meeting their requirements, improvements that Sophos can make to its current offerings and opportunities for portfolio consolidation or expansion. During the year-ended 31 March 2017, the Group strengthened its product portfolio through the acquisition of Invincea, Barricade and PhishThreat.
IT security and cyber risk	As a provider of IT security products, the Group is naturally a target and 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 that is focused on investigation and mitigation of risks related to cyber-attack. The team 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. Sophos continues to increase its investment in cybersecurity. The Sophos Group maintains its cyber insurance to transfer part of the risk of any deliberate attack to the insurer.
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.	Sophos has made significant investments in the technology and infrastructure of the Group to ensure it continues to support the growth of the organisation. 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.

Responsibility statement of the Directors in respect of the Annual Financial Report

The annual report and financial statements for the year-ended 31 March 2017 includes the following responsibility statement.

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.

By order of the Board,

Eleanor Lacey
Company Secretary
16 May 2017