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SOPHOS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
REGISTERED NUMBER: 2096520
FOR THE YEAR-ENDED 31 MARCH 2024

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SOPHOS LIMITED
CONTENTS

SOPHOS LIMITED
STRATEGIC REPORT
FOR THE YEAR-ENDED 31 MARCH 2024

The Directors of Sophos Limited have prepared this Strategic report for the year-ended 31 March 2024 to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

Incorporation and Principal activity

Sophos Limited is a wholly-owned subsidiary of Sophos Holdings Limited. The Company was incorporated on 4th February 1987. The Company's most senior parent undertaking in the European Economic Area, Sophos Intermediate I Limited, includes the Company in its consolidated financial statements.

Sophos is a global leader in innovating and delivering cybersecurity as a service with its Managed Detection and Response ("MDR") and Incident Response ("IR") services and broad portfolio of endpoint, network, email, and cloud security solutions. The company protects more than 580,000 organisations of all sizes in more than 150 countries from today's most advanced cyber threats. The threat landscape is constantly changing and transforming, driving a need for innovative security technologies, solutions, and services. Sophos' broad portfolio of solutions includes award-winning endpoint protection that harnesses the power of artificial intelligence ("AI") to reinforce defences against malware, exploits, and ransomware. In addition to endpoint protection, Sophos' network security solutions offer industry-leading protection, visibility, and response capabilities with high performance hardware appliances and virtual deployment options for cloud-based instances. Combining the power of AI and automation, Sophos offers an adaptive approach to cybersecurity which improves protection, detection and response, compliance, and governance for cloud-based and on-premises environments at small and medium sized enterprises.

Sophos Limited sells these cyber security products locally via a channel distribution model, whereby Sophos transacts with both distributors and partners, who will transact with the ultimate end user, and globally through a series of other Sophos Group affiliated entities, who similarly use a channel distribution model.

Key performance indicators and overview of financial performance for the year-ended 31 March 2024:

Revenue:

As the majority of the Company's billings booked during the year relate to subscriptions, a significant amount of these billings are deferred and recognised as revenue in future periods.

Revenue recognised during the year was £644m (2023: £611m) representing growth of 5.4% year-on-year, which was primarily driven by service revenue (see note 6).

Profit on Ordinary Activities:

Profit on ordinary activities during the year was £183.2m (2023: £100.1m). This was due to an increase in revenue of £32.9m, helped by a £11m decrease in cost of sales and a £28.1m decrease in administrative expenses which was driven by a reduction in exceptional expenses (see note 7) and an increase in other income of £11m.

One of the key developments during the year was the successful go-live of the Group's comprehensive Business Systems Transformation ("BST") project. This lead to cash systems project replaced old CRM, quoting, licensing, billing, and revenue systems with new state-of-the-art cloud-based systems, which provide for much better standardisation and scalability, and facilitate the development of new business models on a go-forward basis. Whilst there was some inevitable disruption during the go-live period, this was temporary as the Company has seen performance improvement of the systems since go-live in October and is now well positioned for the period ahead.

See note 7 for further details on operating profit.

Average staff numbers have decreased to 625 (2023: 707).

SOPHOS LIMITED
STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2024

Corporate responsibility

The Company complies with the following Sophos Group internal and external policies, details of which can be obtained from https://www.sophos.com:

- Sophos Data Privacy, including Sophos Group Privacy Notice
- Sophos' Modern Slavery Statement
- Anti-Corruption Policy
- Conflicts Minerals Policy
- Whistleblowing Policy
- Global Trade Compliance Policy
- Sophos Code of Conduct
- Diversity Policy

Going concern basis

The Directors expect that the Company will continue to transact business as a world leader in IT security in the coming year. Accordingly, the financial statements have been prepared on a going concern basis which has been assessed for the 12 months from the approval of these financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of significant accounting policies in note 4 of the Company financial statements.

Principal risks and uncertainties

Principal risks are identified through a business wide risk assessment process, along with an evaluation of the strategy and operating environment of Sophos.

The risk review process encompasses the identification, management and monitoring of risks in each area of the business. 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 review is then undertaken by a meeting of the Senior Management Team, which evaluates the principal risks of the Sophos with reference to its strategy and the operating environment.

The Audit Committee of the Board of Managers of Sophos Ultimate Parent, L.P. monitors and challenges these processes, reviewing the Sophos'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 Sophos's ongoing commitment to risk management will seek to address and mitigate the future risks, as and when they become apparent.

The group risks are mirrored within Sophos Limited as a result of Sophos Limited holding most group intellectual property, and the transfer pricing arrangement with each trading entity means wider group performances are reflected in the results of Sophos Limited.

SOPHOS LIMITED
STRATEGIC REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Principal risks and uncertainties (continued)

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

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
IT Security & Cyber Risk	As a provider of cybersecurity products, the Group is a higher profile cyber-attack target. The Group's infrastructure, services and products may have vulnerabilities that have from time to time been, and may in the future be, targeted by attacks which could result in the disruption of the Group's business, harm to the Group's reputation, and/or ability to provide services to customers.	Sophos has a dedicated cybersecurity team focused on identifying risks related to a cyber-attack that could impact our products and services as well as internal systems and on 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 & awareness programs reporting regularly to governing bodies for appropriate oversight. Sophos has significantly increased its investment in cybersecurity resources and technology over the past few years. In addition, Sophos collaborates with external industry experts for independent assessment, validation, and certification. The Group will continue to invest in cybersecurity over the coming years to manage this risk.	No change
Major False Detection of Threats	Incorrect response and or classification of threats by Sophos' products and services may lead to reputational damage, customer impact, dissatisfaction and decline in sales.	Sophos strives for continuous improvement in our world class Sophos Labs threat research operation. The Group invests in ongoing staff training and process optimization, as well as enhancements to testing and quality systems and procedures. Sophos has a reputation-based classification (false positive suppression) system to complement the "Deep Learning" artificial intelligence predictive modules in its products. Additionally, there is proactive focus on improvement of processes to enable early detection of an event, as well as applying a 'lessons learnt' approach through root cause analysis. The Group continues to make product enhancements to allow our partners and customers to manage occurrences of false positives on their own, enabling us and them to deal with those rare or even unique files that might evade our reputation and prevalence suppression techniques.	No change

SOPHOS LIMITED
STRATEGIC REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Defects or Vulnerabilities in Products or Services	The Group's products and services are complex and as such they 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. 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 prevent a security threat could harm the Group's reputation and divert the Group's resources.	Sophos is committed to extensive test cycles and quality procedures within the development of its products, actively seeking continuous improvement. Sophos employs combinations of internal and external quality reviews and testing of products comprised of processes and technology at multiple stages of the development process, including source code reviews, public and private 3rd party efficacy testing, automated code tests and various forms of penetration testing, to identify and respond to product vulnerabilities. Sophos performs continuous monitoring of the threat landscape and has developed a pipeline to help find defects earlier in the process. The Group practices transparency and engages in a healthy collaboration with the security research community, as described in our Trust Centre https:// trust.sophos.com. Sophos continues to run a Bug Bounty program to leverage the skills of thousands of individuals to help make our products and web properties more secure. The Group sees good activity from the research community, allowing us to resolve software defects before they can be exploited by attackers. This and other measures have allowed us to slightly reduce this risk. Further, Sophos protects the privacy and security of third-parties that it interacts with worldwide through application of a clear suite of policies as described here: https://www.sophos.com/en-us/legal/ sophos-group-privacy-notice.	No change
Supply Chain and Third-Party Management	There is a risk of global supply chain disruption or failure to manage supply chain requirements and third parties such as partners and vendors leading to a disruption in product delivery and reputational damage. This can manifest in either shortage of products for the customers or product price increases.	Sophos has in place a dedicated supply chain management team that monitors the inventory levels and business requirements for specific components and engages in a variety of remedial actions in the event delays or shortages are forecasted. The supply chain management team continues to monitor hardware component suppliers, ODMs, and engineering personnel shortages and work with Product Management and Engineering to identify alternative suppliers, components, or designs to mitigate hardware production delays due to potential component shortages or delays. The supply chain management team also monitors Geopolitical events like national border closures and the potential impact on product costs, potential freight cost increases and additional regulatory increases.	No change

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Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Product Portfolio Management	Failure to manage the product portfolio adequately could result in inadequate investment in the portfolio that could lead to Sophos lagging in the market over time in relation to research and product development and innovation that does not meet the requirements of customers or partners leading to potential loss of both new and existing revenue streams as customers and partners look to alternative solutions. Failure to protect the Group's intellectual property could adversely affect the ability of the Group to operate in its markets.	Sophos maintains a clear product portfolio strategy that involves acquisitions, partnerships or developing products in-house, managing all product development, product management, threat intelligence, and security operations (managed services) under a single organizational structure. Internal processes are run to identify opportunities for standardization and consistency across product lines to help eliminate redundancies, reduce development, and support costs, and improve partner and customer experiences through a more predictable and coherent product portfolio. All Sophos products are managed by a single cloud management platform, Sophos Central, delivering a common management and operating experience for the portfolio and a comprehensive solution that will encourage existing customers using on premise products to migrate to cloud management. Executive management continues to increase attention to Analyst reviews, marketing effectiveness and brand awareness working diligently to find paths to successful marketing outcomes that have relatively lower program costs. Sophos customers, our partner communities, and our Security Operations (managed services) team are 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. An IP strategy is in place and depends on factors including the amount of money available to invest. Patents are filed mainly in the US and Sophos actively tracks our patent and trademark assets.	No change
Product Outages	Product outage may consist of the loss of operations of Sophos Central, or any Sophos Labs production infrastructure that serves threat intelligence to products. Product outages may lead to loss of service to clients, reputational damage, and reduced billings.	Sophos recognizes how important this risk is to our customers. The majority of Sophos production infrastructure runs on multiple Amazon AWS regions and availability zones. Sophos therefore inherits the global resiliency provided by AWS. In addition, Sophos has redundant systems and microservices that can withstand any significant outages. Currently the service availability is at 99.9%+.	Reduced

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Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Business Continuity Management	Disruption to the business from natural disasters, Information Technology structure or practice errors, geopolitical and economic environment issue, threat actor activities etc. could lead to loss of service to clients, lost revenue, and reputational damage. Sophos is at risk of disruption to its day-to-day operations from a disaster or similar incident which may seriously impact our SaaS platform, employees, IT systems, access to office space and/or key suppliers. A significant impact to employees or failure in the operation of the Group's key systems, infrastructure, or suppliers on which the Group relies could cause a failure of service to its customers and negatively impact the Sophos brand and sales.	Sophos Management maintains a Business Continuity Policy and Practice. Incident management procedures and escalation processes are in place as well as maintaining security, business continuity and disaster recovery plans. The Sophos Disaster Recovery policy ensures testing of tier 1 and 2 IT applications on a regular basis. Sophos continues to invest in cloud technology that provides resilient infrastructure for the company.	No change
Currency Movements	An inadequate hedging programme for foreign exchange risk resulting in fluctuating financial results. The approach to hedging against foreign exchange risk may result in fluctuating financial results as a consequence of income and expenditure in particular territories not being entirely matched. Notable risk in Euro/USD currency pair where revenue significantly exceed costs.	Sophos continues to manage revenues and costs by currency to achieve the best possible matching and has always taken a proportion of the external debt in foreign currencies to help manage the exposures. A currency hedging program is considered on a periodic basis, usually around re-financing events.	No change
Recruitment & Retention of Key Personnel	Failure to recruit, retain or develop high quality employees across the business impairs our ability to deliver the strategic plan. 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 strategic plan.	Making Sophos a great place to work is central to the Group's strategy. Sophos maintains its commitment to diversity and inclusion by driving programs to attract and develop diversity of all types. Additionally, Sophos has a commitment to development throughout the organization. Reward schemes are continuously evaluated to drive and reward performance and ensure retention of key talent. Employee engagement surveys enable progress of the Group's people actions to be monitored, areas of improvement identified, and necessary actions performed. The cybersecurity industry continues to be a competitive marketplace for talent. As such, Sophos is increasing the commitment to strong recruitment processes supported by robust remuneration programs which are benchmarked appropriately.	No change

SOPHOS LIMITED
STRATEGIC REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Strategic Transformation	Failure to effectively execute the transformational activities to deliver on our strategy may lead to delays in executing new business models to grow revenue and not achieving expected leverage to scale the business more cost-effectively which could negatively affect business benefits from loss of business value and/or additional cost.	Sophos recognizes the importance of delivering our strategic transformation to our customers, our channel, our shareholders, and our staff and effectively executing that strategy to achieve the greatest overall benefits. Sophos has significant investment and robust governance structures in place dedicated to steering the transformation efforts and ensuring the Group executes at scale while managing risk associated with change. Specialized teams execute our organizational, product and digital transformation activities leveraging project management best practices (decision framework, project governance and communications, stakeholder management), that increase the probability of project success. This is supported by fast follow phases to key projects and project governance structures in which executive management actively participate. The Group has also established a Products Operating Model to transform the global product management approach.	Reduced
Competition	Major competitors offer additional product features due to their scale and pricing power leading to product price reductions to remain competitive or loss of market share.	Sophos recognizes that demands from customers in the market will continue to evolve and Sophos will need to evolve to keep up with market changes. Sophos uses a variety of Product Management and adjacent mechanisms to track leading and lagging indicators of customer satisfaction and product-market fit of our products and services, including but not limited to: customer and partner surveys and net promoter scores (NPS), industry analyst ratings, peer reviews, Support and Customer Success engagement metrics, gross and net renewal rates, an internal Market Intelligence team who tracks trends and our performance relative to the market, and continuous interfacing between our product teams and our internal customers, namely our internal IT organization who uses our products for corporate security, and our managed services teams who use our products to secure our rapidly growing population of Managed Detection and Response (MDR) customers. Sophos is integrating products and services within the portfolio in order to continue to provide unique value to clients. Particular focus is around innovation to stay in front of attackers and the market, and to maintain premium value and pricing opportunities.	No change

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Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Legal and Compliance	Non-compliance with key compliance policies that are legally required and guide employee conduct, including the risk of data leakage, may lead to monetary loss during operations, regulatory fines, and reputational damage.	Sophos has implemented several policies to ensure compliance with key laws and regulations, including Global Trade Compliance Policy, Global Privacy Policy, Anti-Corruption Policy, Whistleblowing Policy, Modern Slavery Policy, Conflict Minerals Policy, and a Data Retention Policy. After a Compliance Policy is approved by the Sophos Senior Management Team or the Sophos Board, the Sophos Compliance Regulatory Team executes on Policy requirements in many ways, including written Standard Operating Procedures, privacy notices, employee certifications, supply chain verifications, annual statements, and other specific protocols depending on the Policy. Several of these controls are executed in collaboration with cross-functional Teams, such as in Order Processing, Supply Chain, Sales, Marketing Operations, and IT. Compliance controls may include written supplier verification, awareness and company-wide training, campaigns that inform all Company Team Members, due diligence screening through international restricted party lists, embargoed countries, adverse media screening, partner adherence to Compliance Policies, vendor adherence to Compliance Policies, and validation during security and privacy incidents, should they occur. Global Trade Compliance also includes cross-functional geo-ip blocking of software downloads, feedback from 24/7 telemetry screening controls, and warnings, certifications, account blocking, device disabling, and termination of Partners found to have violated export control requirements. Further, Sophos has assigned dedicated subject matter experts in these regulatory practices who are responsible for keeping up- to- date with laws and regulations in their areas of responsibilities, including working closely with external law firms when required.	No change
		Sophos also conducts annual training on sensitive data handling and on how to secure reports and has instituted controls to reduce data visibility. Management also plans on moving the reporting from the operating system to the data warehouse which has additional controls. Lastly, the Sophos cybersecurity team conducts periodic exercises to assess the robustness of our access control mechanisms.	

SOPHOS LIMITED

STRATEGIC REPORT (continued)

FOR THE YEAR-ENDED 31 MARCH 2024

Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Taxation	The ability to optimize Group's tax position could be reduced due to legislative changes including the broadening of the tax base and the increase in tax rate leading to an increased tax bill. Increased scrutiny on tax compliance through both increased number of tax audits and through more aggressive tax authority positions could lead to assessments of additional tax. The tax team actively tracks tax positions that involve potential uncertainty.	Sophos ensures the tax team has the appropriate in-house and third-party resources to assess tax risk and take appropriate action to reduce or eliminate the risk. The tax team monitors tax legislative changes to ensure compliance and to adjust the tax operating model to reduce the impact of law or regulation changes on the company. In addition, the tax team is performing an increased number of internal tax audits across different geographies. The company tracks tax filings for timeliness and completeness through a third-party system from an internationally recognised accounting firm. The company actively defends its positions on tax audits and ensures tax decisions are made in a responsible way. The company is in the process of automating a number of workflows to both maximize the efficiency of the tax department and to ensure accurate calculations and filings. The tax team and its advisors regularly review the legal entity structure, the IP structure, and the tax operating structure to ensure compliance with tax requirements and to manage tax risk.	No change

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Principal risks and uncertainties (continued)

Risk	How it impacts the organisation	What the Group is doing	Risk movement since 2023
Environment, Social and Governance	Failure to meet regulatory and customer expectations with regard to environmental, social, and governance factors can lead to brand and reputational damage and lost sales opportunities. These are important in creating a sustainable growth and a positive corporate culture. In addition, failure to achieve this can lead to poor employment branding, which impacts recruitment and retention.	Sophos has implemented a Code of Conduct modelled on the Responsible Business Alliance (RBA) Code of Conduct and covers Labour, Health & Safety, Environmental, Ethical Business Practices, and Management Systems. Environmental: Pursuant to Sophos's Declaration to Responsible Business Alliance Code of Conduct 7.0 (2021), Sophos environmental responsibility is integral to producing world class products. Specifically, Sophos' Environmental Sustainability Policy identifies several key initiatives to reduce the Group's environmental footprint, which include, but are not limited to, improving product packaging, reducing air freight in favour of sea freight, and a program of office closures aligning with the Group's "remote first" policy; all of which will continue to be developed as a part of our 5-year sustainability road map. Social: Sophos has implemented a diversity and inclusion program which benchmarks and tracks progress to the organisation's goals. Further, Sophos consistently gives back to the communities where it does business, including voluntaryism and the donation of our company's products and services. Also, the company's Health & Safety Policy was published in the first quarter of fiscal year 2022. Governance: Sophos requires ethical and transparent business practices in the conduct of its employees, as well as management's relationship with employees and stakeholders. This can be seen in the company's Code of Conduct, Health & Safety Policy, RBA Declaration, Diversity & Inclusion Policy, Environmental Sustainability Policy, Data Retention Policy, SophosLabs Information Security Policy, Anti-Corruption Policy, Modern Slavery Policy, Conflict Minerals Policy, Whistleblowing Policy, Global Privacy Policy, Global Trade Policy, CEO Compliance Statement, Incident Response Plan, Group Tax Policy as well as the company's practices.	No change

Other Risks and Uncertainties

In concluding on the risks and uncertainties that are considered to be significant for Sophos, the Directors assess a wide range of issues, which included the following which are not considered to be principal risks:

Patent Infringement

The Directors asses the risk of claims of patent infringement against Sophos's products, which is considered to be a software industry-wide risk. The risk is not considered to be a standalone principal risk and is instead factored into the Directors' consideration of 'Product portfolio management', which is a principal risk.

Economic uncertainty as a consequence of geo-political conflicts

The Russia-Ukraine and Israel-Gaza conflicts have generated a significant amount of uncertainty from both a geo-political and world-wide economic perspective. There are no signs of a material reduction in demand at the date of this report and nor has there been a material impact on Sophos's ability to run the business. Nevertheless, Sophos continues to monitor markets and liaise with its customers closely.

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging its section 172 duties, the Company has regard to the factors set out above. The Company also has regard to other factors which consider relevant to the decision being made. The Company acknowledges that every decision it makes will not necessarily result in a positive outcome for all of its stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Company does, however, aim to make sure that its decisions are consistent and predictable. As is normal for large companies, the Company delegates authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing the execution of the business strategy and related policies. The Company reviews risk and compliance and legal matters at Board or Board Committee meetings.

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Section 172(1) statement (continued)

The Company also reviews other areas over the course of the financial year including the Company's financial and operational performance; stakeholder-related matters; diversity and inclusivity; and corporate responsibility matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board. The views and the impact of the Company's activities on the Company's stakeholders (including its workforce, customers and suppliers) are an important consideration for it when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both the stakeholders and the Sophos Group means that generally stakeholder engagement best takes place at an operational or group level. The Company finds that as well as being a more efficient and effective approach, this also helps it achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on some of the engagement that has taken place with the Company's stakeholders, so as to help the Directors to understand the issues to which they must have regard, and the impact of that feedback on decisions, please see clauses on Employee Engagement, Business Relationships, Enhancing Community, Protecting the environment and corporate governance standards in this Strategic Report of the Company.

During the year the Company received information to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, nonfinancial KPIs, risk, environmental, social and corporate governance matters and the outcomes of specific pieces of engagement. As a result of this, the Company has had an overview of engagement with stakeholders and other relevant factors which allows it to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the Company.

Approval

By order of the board:

sbd fillingham

Stuart Fillingham
Director

Date: 5 July 2024

SOPHOS LIMITED
DIRECTORS' REPORT
FOR THE YEAR-ENDED 31 MARCH 2024

The Directors of Sophos Limited present their annual report with the audited financial statements of Sophos Limited for the financial year-ended 31 March 2024.

Strategic Report

The Strategic Report, which also forms part of this report and is presented on pages 2 to 13 of this Annual Report, includes a review of the business and a description of the principal risks and uncertainties facing the Company.

Board of Directors

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

Stuart Fillingham
Jacqueline Denton

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

Proposed Dividends

Proposed and paid dividends for the year-ended 31 March 2024 are £69.9m (2023: £2.5m).

Dividends of £6.3m were received in the year from the Company's subsidiaries (2023: £1.7m).

SOPHOS LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Stakeholder Engagement

Communicating with key stakeholders is vital in helping to better understand their needs and requirements. Sophos conducted several engagement activities with the stakeholders throughout 2023/24, to encourage two-way dialogue with key stakeholder groups.

Key Stakeholders	Engagement Channels	Key activities in the year
Channel partners	• Channel 'best' commitment to offer the Group's partners industry-leading benefits and support • Competitive and profitable partner programme • Regional and sub-regional partner conferences and events • Dedicated partner portal and mobile app • Partner advisory councils • Webinars and live online events, including product and threat landscape training and how to position product and services to customers • Pre- and post-sales technical support	• Increased engagement with Managed Service Providers ("MSPs"), including platform integrations to facilitate user management • Virtual and on-site Partner conferences and events in the Americas, EMEA and APJ with the CEO and members of the Senior Management Team participating • Region-specific partner programmes with local experts and executives Partner advisory meetings in key markets
End customers	• Community and support forums • Social media engagement • Dedicated and targeted product communications • Sophos News, including industry and Company news updates • Threat intelligence and research provided by the Sophos X-Ops team of experts • Daily industry news service via the Sophos Naked Security news site • Free tools for home use • Virtual enduser events in key markets • Webinars and live online events	• Virtual customer events across Americas, EMEA and APJ markets to focus on next-generation security technologies and threat landscape advancements. • Region-specific customer events including in-person events.

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Stakeholder Engagement (continued)

Key Stakeholders	Engagement Channels	Key activities in the year
Employees	• Intranet site 'Sophos Hub' for collaboration, communication, and information • Annual employee survey • Access to online training tools and instructor-led training via Sophos Learning Hub and LinkedIn Learning • Regular CEO All Hands briefings • Microsoft Teams as a core collaboration medium • Manager Central on Sophos Hub for targeted line manager communications, guidance, and actions • Microsoft Stream update videos from senior management team members (e.g., IT Unplugged vlog from CIO)	• Corporate Events: ◦ Annual kick-off led by CEO ◦ Quarterly business updates ◦ Quarterly Sophos Values Award nominations and winners recognised by CEO • Social Events: ◦ Facilitated online and in-person social events globally and locally ◦ Regular office and team social events and celebrations to complement remote-first working environment. • Diversity & Inclusion: ◦ Promoted and supported initiatives from our five diversity and inclusion networks ◦ Recognized Pride, Transgender Awareness Week, Mental Health Awareness, International Women's Day, International Men's Day, Hispanic Heritage Month, Asian and Pacific Islander Heritage Month, NAIDOC Week, Military Veterans/ Remembrance Day, Juneteenth, International Day of the Girl, International Day of the World's Indigenous Peoples, Canadian and Australian Reconciliation Days, and Black History Month with global and local events • Employee Wellbeing: ◦ Continued support for employee wellbeing program with dedicated themed communications and supporting resources made available ◦ Wellbeing Central Hub, providing resources to support employee mental and physical health ◦ Provided four paid Sophos wellbeing days off work for all Sophos employees • Employee Volunteering: ◦ Continued an employee volunteering program offering forty working hours per calendar year or employees to volunteer for local activities individually or in teams • Employee Coaching: ◦ Extended the corporate coaching program to ensure full global coverage ◦ Ran a SWIT mentoring program

SOPHOS LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Stakeholder Engagement (continued)		
Key Stakeholders	**Engagement Channels**	**Key activities in the year**
Community	Employee driven charity and community actions in global offices, supported by senior management team and local management	Sophos dedicated employee volunteering hours and raised funds for numerous charities and community organizations in FY24, including: • Volunteering at food banks in Manchester and Oxfordshire, UK. • Several litter picks around public spaces in Abingdon and Manchester, UK. • Oxfordshire Wildlife Trust and the Wallingford Donkey Sanctuary volunteering. • Mentorship for students at Abingdon and Witney College, and support for work experience students from schools across Oxfordshire. • Volunteering at schools in the UK that support students with specialist needs, including the Mulberry Bush school, which provides therapeutic care and education to emotionally traumatised children, and Priors Court, who provide education and residential care for children and young adults with complex autism. • Supported mental health charities, including Root and Branch, and Abingdon Bridge. • Wrapped and delivered 150 presents to the elderly for Age UK, and supplied Christmas presents for 30 children who are young carers supported by the charity Be Free Young Carers. • A UK breakfast fundraiser in aid of women's charity Smart Works, which provides high quality interview clothes, styling advice and interview training to women in need.

SOPHOS LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Summary of general disclosures (incorporated in this Directors' Report)

The following information required to be disclosed in this Directors' Report is set out elsewhere in the financial statements on the pages listed below:

	Page Number
Employee engagement	16
Other stakeholder engagement including customers and suppliers	15-17

Future developments

The Company's growth strategy includes continued innovation within existing cybersecurity solutions as well as continued market expansion into adjacent solutions. The Company seeks to increase opportunities in the following areas:

1. Acquisition of new customers

   The Company's install base of endpoint, network, and managed service customers is large and growing, but Sophos sees opportunity to acquire thousands of new customers in the areas of: Managed Services; Endpoint Security; Network Security; and MSP.

2. Increasing Annual Recurring Revenue within existing customers

   Sophos has new innovations and integrations that will allow annual recurring revenue expansion through cross-sell, network security, and managed services.

3. Cybersecurity market expansion

   Sophos sees opportunity to expand services within our core cybersecurity market through partnerships, cybersecurity as a service, and cyber insurance.

SOPHOS LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

Research and development

The Group continues to undertake research and development activity relating to its principal activities.

In the year-ended 31 March 2024, the Group spent 18 per cent of its billings on research and development (2023: 19 per cent). Development expenditure is capitalised as an intangible asset once its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated. See note 4 Significant accounting polices for further details.

Policy on disability

Applications for employment from disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned, and any adjustments we could make to accommodate specific needs. In the event of an employee becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training and support are provided. It is the policy of the Company that the training, career development and promotion opportunities of disabled persons should, as far as possible, be identical to that of other employees.

Streamlined energy and carbon reporting ('SECR')

The company has claimed exemptions from SECR reporting as this has been covered in the parent's group report and is therefore not required to be covered by this annual report.

Sophos has considered and reported on climate-related financial disclosures at a Group level.

Further details can be found in Sophos Group Consolidated Accounts: Sophos Intermediate I Limited.

Financial instruments

Objectives of risk management of financial instruments

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

Liquidity risk

Preparation of annual budgets in advance enables operating cash flow requirements to be anticipated to ensure sufficient liquidity is available to meet foreseeable needs and obligations.

Credit risk

Credit risk is primarily attributable to trade receivables. In order to manage credit risk, the Directors set limits for customers based on a combination of payment history and third party references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history. Sophos has no significant concentration of credit risk in trade receivables.

Interest rate risk

The Company is exposed to interest rate risk primarily due to related party loans with floating interest rates.

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Financial instruments (continued)

Currency risk

The Company is exposed to transaction foreign exchange risk. Several other currencies in addition to the functional currency of sterling are used, including the euro and US dollar. The Company experiences currency exchange differences arising upon retranslation of monetary items (primarily short-term inter-company balances and long-term borrowings), which are recognised as an expense in the period the difference occurs.

Disclosure of relevant information to auditors

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

Auditors

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

On behalf of the Board

sbd fillingham

Stuart Fillingham
Director
The Pentagon
Abingdon Science Park
Abingdon OX14 3YP
Date: 5 July 2024

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SOPHOS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES OF SOPHOS LIMITED FOR THE YEAR-ENDED 31 MARCH 2024

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulation.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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 company and to prevent and detect fraud and other irregularities.

By order of the Board

sbd fillingham

Stuart Fillingham
Director

Date: 5 July 2024

SOPHOS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOPHOS LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sophos Limited (the 'Company') for the year ended 31 March 2024 which comprise the Statement of Profit or Loss, Statement of Other Comprehensive Income or Expense, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Other information (continued)

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those relating to the reporting framework (United Kingdom Generally Accepted Accounting Practice), compliance with the Companies Act 2006, the relevant direct and indirect tax compliance regulations, as well as relevant employment laws in the United Kingdom.

- We understood how Sophos Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures to understand how the Company maintains and communicates its policies and procedures to ensure compliance. We corroborated this through our review of Company's Board minutes and through enquiry of employees. We also reviewed correspondence with the relevant tax authorities regarding tax compliance.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. To address our fraud risk of management override of controls, given the limited number of transactions in the period, we substantively tested all material journal entries across the entire population of journals, including segregation of duties. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved had a focus on compliance with the accounting framework and Companies Act 2006 through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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Use of our report

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

DocuSigned by:
Ernst & Young LLP
11AF20EB83EB481...

Richard Harrison (Senior Statutory Auditor)
for and on behalf of Ernst & Young, LLP, Statutory Auditor
Reading

Date: 8 July 2024

SOPHOS LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR-ENDED 31 MARCH 2024

	Note	2024 £'000	2023 £'000
Turnover	6	**644,349**	611,469
Cost of sales		**(58,520)**	(69,590)
Gross profit		**585,829**	541,879
Administrative expenses		**(418,610)**	(446,723)
Operating profit	7	**167,219**	95,156
Income from shares in group undertakings		**6,306**	1,670
Finance income	11	**9,779**	3,362
Finance expense	11	**(79)**	(19)
Profit on ordinary activities before taxation		**183,225**	100,169
Tax on profit on ordinary activities	12	**5,922**	(1,814)
Profit for the financial year		**189,147**	98,355

All results relate to continuing operations.

STATEMENT OF OTHER COMPREHENSIVE INCOME OR EXPENSE
FOR THE YEAR-ENDED 31 MARCH 2024

There is no other comprehensive income or profit apart from the profit after tax of £189,147K (2023: £98,355k) attributable to the shareholders. Total comprehensive profit for the year-ended 31 March 2024 is therefore £189,147K (2023: £98,355k Profit).

The notes on pages 29 to 48 are an integral part of these financial statements.

SOPHOS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2024
COMPANY REGISTERED NUMBER: 2096520

	Note	2024 £'000	2023 £'000
Fixed assets			
Intangible assets	13	**24,761**	33,411
Tangible assets	14	**8,432**	10,135
Investments	15	**149,143**	149,394
		182,336	192,940
Current assets			
Inventory	16	**5,205**	8,091
Debtors	17	**953,168**	895,789
Cash at bank and in hand		**150,485**	102,773
		1,108,858	1,006,653
Creditors: amounts falling due within one year	18	**(559,531)**	(598,944)
Net current assets		**549,327**	407,709
Total assets less current liabilities		**731,663**	600,649
Creditors: amounts falling due after more than one year	18	**(223,788)**	(211,827)
Net assets		**507,875**	388,822
Capital and reserves			
Called-up share capital	19	**1,077**	1,069
Share premium		**69,986**	69,994
Share based payment reserve		**2,394**	2,618
Retained earnings		**434,418**	315,141
Shareholders' funds		**507,875**	388,822

These financial statements were approved by the Board of Directors on 5 July 2024 and were signed on its behalf by:

sbd fillingham

Stuart Fillingham
Director

The notes on pages 29 to 48 are an integral part of these financial statements.

SOPHOS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR-ENDED 31 MARCH 2024

	Called-up share capital	Share premium	Share based payment reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2022	**1,069**	**69,994**	**2,392**	**219,323**	**292,778**
Profit for the period:	–	–	–	98,355	98,355
Total comprehensive profit	–	–	–	**98,355**	**98,355**
Share-based payments expense	–	–	226	–	226
Dividend Paid	–	–	–	(2,537)	(2,537)
At 31 March 2023	**1,069**	**69,994**	**2,618**	**315,141**	**388,822**
Profit for the period:	–	–	–	189,145	189,145
Total comprehensive profit	–	–	–	**189,145**	**189,145**
Dividend Paid	–	–	–	(69,868)	(69,868)
Share-based payments expense		–	(224)	–	(224)
Reclassification	**8**	**(8)**	–	–	–
At 31 March 2024	**1,077**	**69,986**	**2,394**	**434,418**	**507,875**

Year-ending 31st March 2024 includes a reclassification of a rounding adjustment, to correct the number of shares and value of ordinary share capital in line with the Statement of Capital reported to Companies House.

The notes on pages 29 to 48 are an integral part of these financial statements.

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SOPHOS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED 31 MARCH 2024

1 General information

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

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

2 Compliance with accounting standards

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

3 Changes in accounting policies

There have been no changes in accounting policy during the year-ended 31 March 2024.

4 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company first adopted FRS 102 in the financial statements for the year-ended 31 March 2017.

4.1 Basis of preparation

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

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4.2 Exemptions for qualifying entities

The Company's most senior parent undertaking in the European Economic Area, Sophos Intermediate I Limited includes the Company in its consolidated financial statements. The Consolidated Financial Statements of Sophos Intermediate I Limited have been prepared using International Accounting Standards in compliance with the requirements of the Companies Act 2006 as they apply to that Group, are available to the public and may be obtained by writing to the Head Office: Sophos Intermediate I Limited, The Pentagon, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YP.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Under the exemption within FRS 102 paragraph 33.1A, transactions with wholly owned Sophos' companies are not separately disclosed. All transactions with non-wholly owned Sophos' companies are made in the ordinary course of business and are arms-length transactions; and,

- The Company has taken advantage of the exemptions, under FRS 102, from preparing

    - a statement of cash flows and related notes (paragraph 1.12(b)
    - a statement of financial instrument and related notes (paragraph 12.2)
    - a statement of share based payments and related notes (paragraph 26)
    - a statement of key management personnel compensation and related notes (paragraph 33.7)
    - a statement disclosing qualitative and quantitative information about its exposure to Pillar Two income taxes, as referenced IAS 12:88C and IAS 12:88D

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

4 Significant accounting policies (continued)

4.3 Going concern

The financial statements have been prepared on a going concern basis which has been assessed for the 12 months from the approval of these financial statements which the Directors consider to be appropriate based on the Company's considerable financial resources together with contracts with a large number of customers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Russia-Ukraine and Israel-Gaza conflicts have generated a significant amount of uncertainty from both a geo-political and world-wide economic perspective. There are no signs of a material reduction in demand at the date of this report and nor has there been a material impact on the Group's ability to run the business. Nevertheless, Sophos continues to monitor markets and liaise with its customers closely

After excluding non-cash short-term deferred revenue from current liabilities, the Company has net current assets of £549.3m including significant cash and cash equivalent balances of £150.5m.

The Company is an intrinsic part of the Sophos Group's structure and given that the company is the holder of most of the Group's intellectual property, the forecasts for the company are dependent on the results of the Sophos Group as a whole as income from other Sophos legal entities within the Group is dependent upon their performance.

The nature of the Group's subscription business is such that there is good visibility in the timing of cash inflows. Based on the Group's latest forecast and discussions with the Group's senior management, the Directors have considered the Group's current and future prospects, including the cash flows, the Directors expect that future cash flows will be sufficient to cover the Company's requirements.

The Directors have also considered reasonably possible downside scenarios in forming their assessment, which although are not expected to materialise, given the historic billings growth experienced by the Group, include a decrease in billings versus the base case cash flow forecasts. Under all scenarios, the Company is able to operate for a minimum of twelve months period from the date of approval of these financial statements.

Based on the above, the Directors have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern and have prepared the financial statements accordingly.

4.4 Revenue

Sophos Limited sells to third parties exclusively through a channel distribution model using a two-tier structure. Under this arrangement Sophos will contract with and invoice distributors, who will in turn transact with partners, who will ultimately transact with the end user. Consequently, in the judgement of the Directors, Sophos's customers are both distributors and partners under the model and sales contracts are therefore not with the end user, in all cases Sophos regards itself as a principal and not an agent.

In cases where support has been purchased, the responsibility for providing that support, and for all products providing maintenance and definition updates, remains with Sophos rather than with channel partner. The Directors do not consider this changes the nature of the relationship with the customer.

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4 Significant accounting policies (continued)

4.4 Revenue (continued)

Software licences sold by Sophos provide security protection amongst other things against ransomware, malware and malicious viruses.

The vast majority of Sophos' software licences include rights to support and frequent product updates, the access to which is granted at the point a licence is provided to the customer and continues through the term of the licence to which the customer has subscribed, resulting in the software licence service being performed over a period of time. As a result, for these right-of-access licences, Billings occur on day one whilst Revenue is recognised over time, because of the ongoing obligations to provide updates over the term of the licence.

Standard sales contracts do not include return rights; and in accordance with industry practice, customers only have a right of refund for undelivered product on the hardware or software licences that they have purchased. In a minority of cases, agreements do allow for some limited returns. These very limited return rights are taken into account when considering the appropriate recognition of Revenue.

Sophos does not recognise billings nor revenue until the criteria requiring delivery, and consequently transfer of control, of hardware or software licences to be completed have been met.

Revenue is therefore recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the transaction price of the consideration received, after discounts and rebates but excluding VAT and other sales taxes or duty.

The following specific recognition criteria must also be met before revenue is recognised: where there is a multi-element arrangement, if individual element's transaction price falls outside of the determined standalone selling price range, the consideration receivable is allocated to each performance obligation of the arrangement, and this is done on the basis of their relative standalone selling prices. In determining the standalone selling price range, the Directors have taken into account historical transaction prices for products or services sold standalone, whilst also considering multiple influencing factors including, but not limited to, pricing practices and geographies.

Revenue from software licences and service contracts

The Company sells software products under fixed-term contracts and under perpetual licences. Revenue on software licences and service contracts is recognised when the Company has met its obligation in relation to the product or services, which is on delivery of all relevant components for perpetual licences and over the life of the agreed licence for termed products. The Company considers perpetual licences as right-of-use licences, which are recognised at the time of Billing.

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4 Significant accounting policies (continued)

4.4 Revenue (continued)

Fixed-term contracts

Customers who receive software products at the start of the contract under a fixed-term licence are entitled to receive regular updates and upgrades for the duration of the licence term, which typically runs for periods ranging from 1 to 5 years. Revenue for these fixed-rate contracts is recognised rateably over the period that the contractual obligation exists. accrued and deferred revenue arising on long-term contracts is included in receivables as accrued income and creditors as deferred revenue, as appropriate.

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

Perpetual licences

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

Sale of goods

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

4.5 Investments held as fixed assets

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. When selling subsidiary undertakings to entities in a common control transaction, the transaction is accounted for using the cash-cost accounting approach.

4.6 Intangible fixed assets and amortization

Purchased intangible fixed assets are capitalized at their cost and amortized within administration expenses, over their estimated economic lives as follows:

Intellectual property	-	Between 5-7 years – reducing balance basis
Software	-	33.33% per annum – straight line basis

Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software, and incremental payroll and payroll-related costs arising from the assignment of employees to implementation projects. capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use.

4 Significant accounting policies (continued)

4.6 Intangible fixed assets and amortization (continued)

Software-as-a-Service ("SaaS") arrangements are service contracts providing Sophos with the right to access the cloud provider's application software over the contract period. The right to access the supplier's software does not give the Company the power to control the software or restrict others' access to future economic benefits and accordingly expenditure on SaaS projects is accounted for as follows: fees for the use of the application software are recognised as an operating expense over the term of the service contract, whilst configuration costs, data conversion and migration costs, testing and training costs are recognised as an operating expense as incurred.

4.7 Goodwill

Business combinations are accounted for under FRS102. Any excess of the cost of the business combination over the interest on the net fair value of assets is recognized as goodwill in the Statement of Financial Position. This is then subsequently amortised over a 5 year period using the straight line method.

4.8 Property plant and equipment and depreciation

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

Freehold buildings	–	4% per annum
Leasehold improvements	–	over the life of the lease
Computer equipment	–	33.33% per annum
Other plant and equipment	–	20% per annum

No depreciation is provided on freehold land.

4.9 Foreign exchange

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

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

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

4.10 Leases

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

4 Significant accounting policies (continued)

4.11 Research and development expenditure

Expenditure on research activities is expensed as incurred.

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

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

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

4.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. The cost of raw materials, consumables and goods for resale is based on the purchase cost. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

4.13 Taxation

The income tax charge represents the sum of current and deferred taxes. Current tax payable or recoverable is based on the taxable profit for the period. Taxable profit differs from profit reported in the Statement of Profit or Loss because some items of income or expense are taxable in different periods or may never be taxable or deductible. Sophos' liability for current tax is calculated using the UK rate and laws that have been enacted or substantively enacted by the reporting period date.

A current tax provision is recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. They are measured using one of the following methods, depending on which of the methods the Directors expect will better reflect the amount the Company will pay to the tax authority.

The single best estimate method is used where there is a single outcome that is more likely than not to occur. This will happen, for example, where the tax outcome is binary or the range of possible outcomes is limited. The most likely outcome may be that no tax is expected to be payable, in which case the provision is nil.

Alternatively, a probability weighted expected value is used where, on the balance of probabilities, something will be paid to the tax authority but the possible outcomes are widely dispersed with low individual probabilities (i.e. there is no single outcome more likely than not to occur). In this case, the provision is the sum of the probability-weighted amounts in the range. In assessing provisions against uncertain tax positions, management uses in-house tax experts, professional firms and previous experience of the taxing authority to evaluate the risk. However, it remains possible that uncertainties will ultimately be resolved at amounts greater or smaller than the liabilities provided.

4 Significant accounting policies (continued)

4.13 Taxation (continued)

Sophos' current tax provision relates to the Directors' estimate of the amount of tax payable on open tax computations where the liabilities remain to be agreed with authorities. The uncertain tax items for which provision is made, relate to the interpretation of tax legislation impacting arrangements entered into in the ordinary course of business. Due to the uncertainty associated with such items, it is possible that at a future date, on conclusion of open tax matters, the final outcome may vary. The Company reports cross-border transactions undertaken between Sophos subsidiaries on an arm's-length basis in tax returns in accordance with OECD guidelines. However, transfer pricing relies on the making of estimates and it is frequently possible for there to be a range of legitimate and reasonable views. This means that it is impossible to be certain that the tax returns basis will be sustained on examination. Discussions with tax authorities relating to cross-border transactions and other matters are ongoing in several of the Company's major trading jurisdictions. Although the timing and amount of final resolution of these uncertain tax positions cannot be reliably predicted, no significant impact on the profitability of the Company is expected to result.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The rate is based on tax rates that have been enacted or substantively enacted by the reporting period date. Deferred tax is charged or credited in the Statement of Profit or Loss, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is dealt with in other comprehensive income or in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the income taxes levied in the same taxation authority on either the same entity or on different taxable entities which intend to settle the current tax assets and liabilities on a net basis.

In December 2021, the OECD released Pillar Two Model Rules, which include a minimum 15% tax rate by jurisdiction. Pillar Two legislation was enacted in the UK, where the company operates, and will be effective for the company's financial year beginning 1 April 2024. Since the Pillar Two legislation was not effective at the reporting date, the company has no related current tax exposure. The entity applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to Section 29 issued in July 2023.

4 Significant accounting policies (continued)

4.14 Share based payment transactions

Employees, including senior executives, of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). The Group also grants cash-settled awards in certain jurisdictions in order to ensure compliance with tax, regulatory or legal country specific requirements.

Equity-settled transactions

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

The cost of equity-settled transactions is recognised in share-based payment expense, together with a corresponding increase in equity Share-Based Payment Reserve, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired, and the Directors best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognised in the Consolidated Statement of Profit or Loss, with a corresponding entry in equity.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest.

Cash-Settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially at grant and each subsequent reporting date up to and including the settlement date. The cost of cash-settled transactions is recognised in share-based payment expense over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). Any change in fair value is recognised over the period until the vesting date in employee benefits expense in the Consolidated Statement of Profit or Loss with a corresponding entry in liabilities. The approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions

Further details can be found in **Sophos Group Consolidated Accounts: Sophos Intermediate I Limited.**

4.15 Dividends

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

4.16 Pension scheme

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

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4 Significant accounting policies (continued)

4.17 Financial instruments

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

Trade receivables

Trade receivables, which generally have 30-90 day payment terms mainly depending on the jurisdiction, are carried at original invoice amount, including value added tax and other sales taxes, less an estimate made for doubtful receivables based on an expected credit loss model through a review of any outstanding amounts at the period-end. Provision for bad debts is made in the period in which they are identified.

Cash and cash equivalents

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

Trade payables

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

Classification of equity instruments as debt or equity

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

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

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs. Equity instruments are classified according to the substance of the contractual arrangements entered into.

Interest bearing loans and borrowings

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

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

Gains and losses arising on the re-purchase, settlement or other cancellation of liabilities are recognised respectively in finance income and finance expense.

4 Significant accounting policies (continued)

4.17 Financial instruments (continued)

Interest bearing loans and borrowings (continued)

Gains and losses arising on the revaluation of loans and borrowings denominated in currencies other than the entity's functional currency are recognised in finance expense.

Derivative financial instruments

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

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the reporting date. Changes in the fair values are recognised in the Consolidated Statement of Profit or Loss and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in the Consolidated Statement of Profit or Loss. Provided the conditions specified by FRS102 paragraph 12 are met; hedge accounting may be used to mitigate this volatility.

5 Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires Directors to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the period.

Judgments

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

Revenue

The Company sells software products under fixed term contracts and perpetual licences. Where there is a multi-element arrangement, the consideration receivable is allocated to each performance obligation of the arrangement and this is done on the basis of an estimate of their respective transaction price. In determining the standalone selling price of each performance obligation, Directors make reference to current prices of individual elements and adjust this by its relative share of discounts applied to the entire sale, regardless of any separate prices stated within the contract.

SOPHOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR-ENDED 31 MARCH 2024

5 Critical accounting judgements and key sources of estimation uncertainty (continued)

Classification of exceptional items

The Directors exercise their judgement in the classification of certain items as exceptional and outside of the Company's underlying results. The determination of whether an item should be separately disclosed as an exceptional item or other adjustments requires judgement on its materiality, nature and incidence, as well as whether it provides clarity on the Company's underlying trading performance. In exercising this judgement, the Directors take appropriate regard of relevant accounting standards, as well as guidance issued by the Financial Reporting Council and the European Securities and Market Authority on the reporting of exceptional items and alternative performance measures. The overall goal of the Directors is to present the Company's underlying performance without distortion from one-off or non-trading events regardless of whether they be favourable or unfavourable to the underlying result.

FRS102 does not require these items to be presented on the face of the statement of profit or less, however the company has included them in the notes.

Research and development costs

Development costs will be capitalised in accordance with the accounting policy set out in this note. Determining the amounts to be capitalised requires the Directors to make assumptions regarding the capitalisation criteria requirements of FRS 102 - Section 18. See note 13.

Estimates

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The nature of estimation means that actual outcomes could differ from those estimates:

Income tax

The liability for income taxes at the balance sheet date includes the Directors estimates of the amount of tax payable on open tax computations where the liabilities remain to be agreed with the tax authorities. These estimates may differ from the actual outcome.

Investments

The carrying value of investments at the balance sheet date includes assessments made by the Directors on the future performance of those investments. These estimates are used to forecast future cash flows and accordingly assess the carrying value of investments on the balance sheet. These estimates may differ from the actual outcome.

6 Analysis of revenue

By activity

	2024	2023
	£'000	£'000
Product (Appliances)	**71,463**	77,230
Services	**572,886**	534,239
	644,349	611,469

SOPHOS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

7 Operating profit

Operating profit is stated after charging:

	2024	2023
	£'000	£'000
Operating lease rentals	**729**	629
Depreciation	**2,627**	2,812
Amortisation	**7,945**	5,533
Research and development	**40,272**	48,608
Pension scheme contributions	**2,024**	2,197
Net foreign currency differences	**6,396**	(14,862)
Auditors remuneration	**66**	63
Share based payments charge	**1,600**	5,379
Exceptional Items*	**19,918**	27,902

***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 company.

The Company has expensed £12.4m (2023: £22.7m) of costs in respect of SaaS projects which are not recognised as intangible assets (the most significant of which is a project covering the lead to cash process and systems).

Other exceptional costs amounting to £7.5m have been incurred in the year, of which £6.3m relates to settlement of litigation related to patent claims and counterclaims

8 Staff costs

	2024	2023
	£'000	£'000
Wages and salaries	**54,499**	63,805
Social security costs	**6,409**	7,405
Pension costs	**2,024**	2,197
Other costs	**8,267**	10,161
Share based payments charge	**1,600**	5,379
	72,799	88,947

SOPHOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR-ENDED 31 MARCH 2024

9 Employee information

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

	2024	2023
	Number	Number
Technical	**313**	188
Sales and Marketing	**156**	239
Administration	**156**	280
	625	707

10 Directors' emoluments

	2024	2023
	£'000	£'000
Director's emoluments	**–**	–
Aggregate contributions to pensions schemes	**–**	–
Total directors' emoluments	**–**	–

The aggregate value of Company contributions to defined contribution pension schemes in respect of directors' qualifying services paid or treated as paid during the year was £Nil (2023: £Nil).

Director's remuneration is paid by other Group entities for their role in the Company as well as their role in the other Group entities. Director's emoluments relating to the Company are therefore considered to be immaterial as the Directors' roles in the Company are incidental to their overall role in Sophos.

11 Finance income/(expense)

	2024	2023
	£'000	£'000
Interest on loans to related parties	**5,197**	3,362
Bank interest received	**4,582**	–
Total finance income	**9,779**	3,362
Interest expense on loans from related parties	**–**	(19)
Other finance expense	**(79)**	–
Total finance expense	**(79)**	(19)

SOPHOS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

12 Taxation

	2024 £'000	2023 £'000
Current taxation:		
Current year tax charge	**3,471**	1,506
Adjustments in respect of prior years	**547**	108
Total current tax charge	**4,018**	1,614
Deferred taxation:		
Origination and reversal of timing differences	**412**	4,581
Adjustments in respect of prior years	**(10,053)**	(3,154)
Impact of rate change	**(299)**	(1,227)
Total deferred tax (credit)/charge	**(9,940)**	200
Total tax charge on ordinary activities	**(5,922)**	1,814

Reconciliation to total tax charge:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

	2024 £'000	2023 £'000
Profit for the year before taxation	**183,225**	100,170
Profit for the year multiplied by the standard UK rate of 25% (2023: 19%)	**45,806**	19,032
Effects of:		
Expenses not deductible for tax purposes	**8,896**	3,491
Dividends received (exempt under section 931)	**(1,576)**	(317)
Adjustment in respect of previous years	**(9,805)**	(3,046)
Recognised tax losses surrendered for no consideration	**(34,797)**	(15,846)
Rate change impact during the year	–	(1,639)
Foreign tax - no credit available	**368**	139
Patent Box deduction	**(14,814)**	–
Total tax (credit)/charge on ordinary activities	**(5,922)**	1,814

The aggregate current and deferred tax relating to items that are recognised as items in equity is a charge of £Nil (2023: £Nil).

Factors affecting future tax charges

At the balance sheet date the company has unused tax losses of £157.7m (2023: £143.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses as it is considered probable that there will be future profits available in the Company.

SOPHOS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

13 Intangible assets

	Software £'000	Intellectual property £'000	Goodwill £'000	Total £'000
Cost				
At 1 April 2023	**36,335**	**40,695**	**30,390**	**107,420**
Additions	–	–	–	–
Disposals	**(705)**	–	–	**(705)**
At 31 March 2024	**35,630**	**40,695**	**30,390**	**106,715**
Accumulated amortisation				
At 1 April 2023	**33,195**	**38,936**	**1,878**	**74,009**
Charge for the year	1,033	1,012	5,900	7,945
At 31 March 2024	**34,228**	**39,948**	**7,778**	**81,954**
Net book value				
At 31 March 2024	**1,402**	**747**	**22,612**	**24,761**
At 31 March 2023	3,140	1,759	28,512	33,411

14 Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Fixture and fittings £'000	Total £'000
Cost					
At 1 April 2023	**33,209**	**16,141**	**21**	**2,656**	**52,027**
Additions		954		35	989
Disposals		(3,930)	(14)		(3,944)
At 31 March 2024	**33,209**	**13,165**	**7**	**2,691**	**49,072**
Accumulated depreciation					
At 1 April 2023	**25,602**	**14,448**	**21**	**1,821**	**41,892**
Charge for the year	1,274	1,180		238	2,692
Disposals		(3,930)	(14)		(3,944)
At 31 March 2024	**26,876**	**11,698**	**7**	**2,059**	**40,640**
Net book value					
At 31 March 2024	**6,333**	**1,467**	–	**632**	**8,432**
At 31 March 2023	7,607	1,693	–	835	10,135

SOPHOS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR-ENDED 31 MARCH 2024

14 Property, plant and equipment (continued)

At 31 March 2024, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £Nil (2023: £Nil).

Within freehold land and buildings the gross cost which is depreciable is £33,209k (2023: £33,209k).

15 Investments

	2024 £'000	2023 £'000
Sophos Holdings GmbH	**74,182**	74,182
Sophos Technology Private Ltd	**38,960**	38,960
Sophos Inc (Canada)	**13,546**	13,546
Sophos BV	**9,671**	9,671
Sophos Computer Security Pte Ltd	**2,084**	2,084
Sophos Italia Srl	**1,906**	1,906
Sophos Schweiz AG	**1,776**	1,776
Sophos AB	**1,767**	1,767
Sophos Sarl	**1,611**	1,611
Sophos Security Technology Ltd	**1,473**	1,473
Sophos Hungary Kft	**1,242**	1,242
Sophos Hong Kong Co Ltd	**670**	670
SOC.OS	**—**	251
Sophos Brazil	**165**	165
Sophos KK	**63**	63
Sophos Taiwan Ltd	**20**	20
Sophos Iberia Srl	**5**	5
Sophos Turkey Technoji Ltd Sirketi	**2**	2
Total investments	**149,143**	149,394

Impairment of Subsidiaries

Following an annual review there is no indication of impairment of investment in subsidiaries during 2024 (2023: £Nil).

16 Inventories

	2024 £'000	2023 £'000
Finished goods and goods for resale	**5,205**	8,091

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17 Debtors

	2024	2023
	£'000	£'000
Trade debtors	**35,625**	29,205
Amounts owed by Group undertakings – due within 1 year	**775,400**	731,720
Amounts owed by Group undertakings – due after more than 1 year	**57,413**	58,763
Other debtors	**242**	1,532
Deferred tax asset	**56,232**	46,293
Prepayments and accrued income	**20,140**	18,692
Corporation tax debtor	**8,116**	9,584
Total Debtors	**953,168**	895,789
Total Debtors - due within 1 year	**895,755**	837,026
Total Debtors - due after more than 1 year	**57,413**	58,763

	2024	2023
	£'000	£'000
The deferred tax asset above comprises:		
Capital allowances in excess of depreciation	**4,509**	5,497
Short-term timing differences	**12,300**	4,805
Losses	**39,423**	35,991
Total deferred tax asset	**56,232**	46,293

18 Creditors

	2024	2023
	£'000	£'000
Trade creditors	**22,371**	21,005
Amounts owed to group undertakings	**156,665**	152,910
Social security and other taxes	**3,152**	2,886
Other creditors	**14,081**	10,960
Accruals	**26,653**	39,746
Deferred revenue	**336,609**	371,437
Total creditors falling due within one year	**559,531**	598,944

	2024	2023
	£'000	£'000
Deferred revenue	**223,788**	211,827
Total creditors falling due after more than one year	**223,788**	211,827

19 Called-up share capital

Allotted, called-up and fully paid shares

	Ordinary shares	
	Thousands	**£'000**
1 April 2023	2,674,725	1,069
31 March 2024	**2,692,015**	**1,077**

Year-ending 31st March 2024 includes a reclassification of a rounding adjustment, to correct the number of shares and value of ordinary share capital in line with the Statement of Capital reported to Companies House.

These ordinary shares have a nominal value of GBP 0.0004 per share.

Shares are issued at par with no preference.

20 Operating leases

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

	2024	2023
	£'000	£'000
Within one year	**470**	629
In the second to fifth years inclusive	**220**	121
Total operating lease commitments	**690**	750

21 Related party transactions

During the year, the Group entered into transactions with companies under common control as set out below.

	Purchases from related parties	**Amounts owed to related parties**	Purchases from related parties	Amounts owed to related parties
	2024	**2024**	2023	2023
	£'000	**£'000**	£'000	£'000
Anaplan, Inc	**897**	–	1,387	–
ConnectWise, LLC	–	–	11	–
Flexera Software LLC	**1,504**	–	1,257	47

22 Ultimate parent undertaking

The ultimate parent entity is Sophos Ultimate Parent LP, an entity registered in the Cayman Islands and the ultimate controlling parties are the fund holders of Thoma Bravo. The Company's immediate parent company is Sophos Holdings Limited, whose registered office is 1 Bartholomew Lane, London,

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22 Ultimate parent undertaking (continued)

England, EC2N 2AX, a company registered and incorporated in England and Wales. The largest and smallest group within which these company financial statements are consolidated is headed by Sophos Intermediate I Limited, a company registered in England and Wales.

Group accounts can be obtained by writing to the Head Office: Sophos Intermediate I Limited, The Pentagon, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YP.

23 Functional currency

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

24 Contingent liabilities

In January 2019, Vir2us, Inc. filed a lawsuit against Group entities in federal court in the Eastern District of Virginia alleging claims of breach of contract arising out of a patent license agreement. On 31 March 2021 the U.S District Court delivered a judgement of $24.6m plus interest with royalty obligations going forward against two Group entities, and the Group entities filed an appeal. The appeal was successful, and the judgment was vacated, and the case remanded to the District Court in February 2023. At the time of signing these accounts, the plaintiff has not, since the appeal decision, submitted any documents to the District Court and the District Court has not yet set a schedule for the case. The Group intends to continue to vigorously defend against the allegations. The Group is unable to predict the likelihood of success of Vir2us's claims or estimate a loss or a range of loss. The Group has not recorded a provision in relation to this matter. Should the Group incur a liability as a result of this case, then Sophos Limited would be impacted through a cost recharge under the transfer pricing agreements within the Group.

In March 2024, the Group resolved outstanding litigation related to patent claims asserted by Webroot, Inc. and Open Text, Inc. ("Webroot") against a Group entity and counterclaims asserted by the Group entity against Webroot.

25 Events after the end of the reporting period

There are no material events that have occurred after the reporting period which require disclosure under FRS102.