

**Sophos Plc**

Directors' report and consolidated  
financial statements

Registered number 2096520

31 March 2005

## Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Sophos Plc	4
Consolidated profit and loss account	5
Consolidated statement of total recognised gains and losses	5
Consolidated balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Reconciliations of movements in shareholders' funds	9
Notes	10

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

### Principal activities

The group is principally engaged in the business of developing, selling and supporting software for computer security.

### Business review and future plans

Sophos has achieved its sixteenth consecutive year of profitable growth. Earnings declined as a result of our significant investments during the year in technical development and sales. The directors are confident that the group will see further benefits from these investments in the current and future years. The group will continue to exploit market opportunities throughout the world.

	<b>2005</b> <b>£000</b>	2004 £000	% growth
Turnover	<b>66,230</b>	55,541	19.2%
EBITDA*	<b>13,197</b>	14,992	(12.0%)

\* EBITDA is "Earnings before interest, tax, depreciation and amortisation" and is calculated as operating profit plus depreciation of tangible fixed assets and amortisation of goodwill.

	<b>2005</b> <b>£000</b>	2004 £000	% growth
Bookings	<b>72,689</b>	63,252	14.9%
Operating contribution**	<b>19,657</b>	22,703	(13.4%)

\*\* Operating contribution is "EBITDA" plus net revenue deferral.

### Research and development

The group continues to undertake research and development relating to the principal activity.

### Proposed dividend and transfer to reserves

No interim dividend has been paid in the year (2004: £nil). The directors do not recommend the payment of a final dividend (2004: £nil), leaving retained profits of £3,192,000 (2004: £6,824,000).

### Market value of land and buildings

The company has as its UK global headquarters a building that was designed and constructed for Sophos. The building's open market value, based on typical rental yields of non-specialist commercial properties, would be substantially below the cost and net book value recorded in the group's accounts. However, in the opinion of the directors, this difference is not significant since the group intends to occupy the building as its headquarters for the foreseeable future.

### Policy and practice on payment of creditors

It is the group's policy to pay its suppliers on a timely basis and in accordance with agreed terms.

At the year-end there were 19 days (2004: 29 days) purchases in trade creditors.

## Directors' report *(continued)*

### Employee involvement

A key objective for the group is to achieve a shared commitment by all employees to the success of the business. Throughout the group, there is consultation between employees and management on matters of mutual interest and information is disseminated through in-house newsletters, the group intranet, individual development reviews and team or company briefings. Employees are encouraged to promote and participate in the progress and profitability of the group through the employee share purchase plan, profit bonus and other incentive schemes.

### Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

### Political and charitable donations

The group made no political donations during the year. Contributions to local charities totalled £500 (2004: £500).

### Directors and directors' interests

The directors who held office during the year and their interests in the ordinary shares of Sophos Plc according to the register of directors' interests were:

	<b>Interest at end of year £0.0002 shares</b>	<b>Interest at start of year £0.0002 shares*</b>
Dr Peter Lammer	111,499,200	111,499,200
Dr Jan Hruska	111,499,200	111,499,200
Mr Peter Norman	200,000	200,000
Mr Richard Jacobs	2,525,000	2,525,000
Mr Ajit Nedungadi	-	-
Mr Steve Munford (appointed 22 April 2004)	-	-

\*The interest at start of the year has been restated following sub-division of the company's shares on 18 May 2004 (see note 16).

Mr Mark Forrest resigned as a director of the company on 11 March 2005.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

**Dr Peter Lammer**  
*Director*

The Pentagon  
 Abingdon Science Park  
 Abingdon  
 Oxon  
 OX14 3YP  
 28 June 2005

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



**KPMG LLP**

Arlington Business Park

Theale

Reading

RG7 4SD

## **Report of the independent auditors to the members of Sophos Plc**

We have audited the financial statements on pages 5 to 25.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

12 July 2005

## Consolidated profit and loss account

for the year ended 31 March 2005

	<i>Note</i>	<b>2005</b> <b>£000</b>	2004 £000
<b>Turnover</b>	2	<b>66,230</b>	55,541
Cost of sales		<b>(1,761)</b>	(1,820)
<b>Gross profit</b>		<b>64,469</b>	53,721
Administrative expenses		<b>(59,153)</b>	(44,113)
Other operating income		<b>202</b>	250
<b>Operating profit</b>		<b>5,518</b>	9,858
<b>EBITDA*</b>		<b>13,197</b>	14,992
Interest receivable and similar income	6	<b>589</b>	273
<b>Profit on ordinary activities before taxation</b>		<b>6,107</b>	10,131
Tax on profit on ordinary activities	7	<b>(2,915)</b>	(3,307)
<b>Retained profit for the year</b>	17	<b>3,192</b>	6,824

The accounts have been prepared on an unmodified historical cost basis.

## Consolidated statement of total recognised gains and losses

for the year ended 31 March 2005

	<b>2005</b> <b>£000</b>	2004 £000
<b>Profit for financial year</b>	<b>3,192</b>	6,824
Translation differences on foreign currency investments - net	<b>302</b>	(439)
<b>Total gains and losses recognised for the year</b>	<b>3,494</b>	6,385

\* EBITDA is "Earnings before interest, tax, depreciation and amortisation" and is calculated as operating profit plus depreciation of tangible fixed assets and amortisation of goodwill.

## Consolidated balance sheet

at 31 March 2005

	<i>Note</i>	<b>2005</b> <b>£000</b>	<b>2005</b> <b>£000</b>	2004 £000	2004 £000
<b>Fixed assets</b>					
Intangible assets	8		<b>6,716</b>		10,656
Tangible assets	9		<b>36,655</b>		37,305
			<hr/>		<hr/>
			<b>43,371</b>		47,961
<b>Current assets</b>					
Stocks	11	<b>55</b>		44	
Debtors	12	<b>15,440</b>		12,215	
Cash at bank and in hand		<b>21,235</b>		10,307	
		<hr/>		<hr/>	
<b>Creditors:</b> amounts falling due within one year	13	<b>36,730</b> <b>(29,917)</b>		22,566 (27,550)	
		<hr/>		<hr/>	
<b>Net current assets / (liabilities)</b>			<b>6,813</b>		(4,984)
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>50,184</b>		42,977
<b>Creditors:</b> amounts falling due after more than one year	14		<b>(13,820)</b>		(11,119)
<b>Provisions for liabilities and charges</b>	15		<b>(3,591)</b>		(2,579)
			<hr/>		<hr/>
<b>Net assets</b>			<b>32,773</b>		29,279
			<hr/> <hr/>		<hr/> <hr/>
<b>Capital and reserves</b>					
Called up share capital	16		<b>64</b>		64
Share premium account	17		<b>611</b>		611
Profit and loss account	17		<b>32,098</b>		28,604
			<hr/>		<hr/>
<b>Equity shareholders' funds</b>			<b>32,773</b>		29,279
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 28 June 2005 and were signed on its behalf by:

**Dr Peter Lammer**

*Director*

## Company balance sheet

at 31 March 2005

	<i>Note</i>	<b>2005</b>	<b>2005</b>	2004	2004
		<b>£000</b>	<b>£000</b>	£000	£000
<b>Fixed assets</b>					
Tangible assets	9		<b>35,250</b>		36,298
Investments	10		<b>142</b>		110
			<hr/>		<hr/>
			<b>35,392</b>		36,408
<b>Current assets</b>					
Stocks	11	<b>55</b>		44	
Debtors	12	<b>25,714</b>		23,310	
Cash at bank and in hand		<b>18,086</b>		6,462	
			<hr/>	<hr/>	
<b>Creditors:</b> amounts falling due within one year	13	<b>43,855</b>		29,816	
		<b>(23,367)</b>		(21,722)	
			<hr/>	<hr/>	
<b>Net current assets</b>			<b>20,488</b>		8,094
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>55,880</b>		44,502
<b>Creditors:</b> amounts falling due after more than one year	14		<b>(12,167)</b>		(10,367)
<b>Provisions for liabilities and charges</b>	15		<b>(3,428)</b>		(2,537)
			<hr/>		<hr/>
<b>Net assets</b>			<b>40,285</b>		31,598
			<hr/> <hr/>		<hr/> <hr/>
<b>Capital and reserves</b>					
Called up share capital	16		<b>64</b>		64
Share premium account	17		<b>611</b>		611
Profit and loss account	17		<b>39,610</b>		30,923
			<hr/>		<hr/>
<b>Equity shareholders' funds</b>			<b>40,285</b>		31,598
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 28 June 2005 and were signed on its behalf by:

**Dr Peter Lammer**

*Director*

## Consolidated cash flow statement

for the year ended 31 March 2005

	<i>Note</i>	<b>2005</b> <b>£000</b>	2004 £000
<b>Cash flow statement</b>			
<b>Cash flow from operating activities</b>	20	<b>16,749</b>	22,813
<b>Returns on investments and servicing of finance</b>	21	<b>589</b>	273
<b>Taxation</b>		<b>(3,825)</b>	(2,070)
<b>Capital expenditure and financial investment</b>	21	<b>(2,629)</b>	(21,274)
<b>Equity dividends paid</b>		<b>-</b>	(2,004)
		<hr/>	<hr/>
Cash inflow / (outflow) before management of liquid resources and financing		<b>10,884</b>	(2,262)
<b>Management of liquid resources</b>	21	<b>(12,398)</b>	918
<b>Financing</b>	21	<b>-</b>	456
		<hr/>	<hr/>
<b>Decrease in cash in the period</b>		<b>(1,514)</b>	(888)
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>Decrease in cash in the period</b>	22	<b>(1,514)</b>	(888)
Cash outflow to / (inflow from) liquid resources	22	<b>12,398</b>	(918)
		<hr/>	<hr/>
Change in net funds resulting from cash flows		<b>10,884</b>	(1,806)
Funds acquired on purchase of a subsidiary undertaking		<b>-</b>	584
Exchange differences	22	<b>44</b>	(225)
		<hr/>	<hr/>
<b>Movement in net funds in the period</b>		<b>10,928</b>	(1,447)
<b>Net funds at the start of the period</b>		<b>10,307</b>	11,754
		<hr/>	<hr/>
<b>Net funds at the end of the period</b>		<b>21,235</b>	10,307
		<hr/> <hr/>	<hr/> <hr/>

## Reconciliations of movements in shareholders' funds

*for the year ended 31 March 2005*

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Profit for the financial year</b>	<b>3,192</b>	6,824	<b>8,687</b>	7,038
New share capital subscribed (net of issue costs)	-	500	-	500
Exchange differences on foreign currency investments – net	<b>302</b>	(439)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net addition to shareholders' funds</b>	<b>3,494</b>	6,885	<b>8,687</b>	7,538
Opening shareholders' funds	<b>29,279</b>	22,394	<b>31,598</b>	24,060
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>32,773</b>	29,279	<b>40,285</b>	31,598
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 March 2005. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

In the company's separate financial statements, investments in subsidiary undertakings are stated at cost, less any provision for impairment.

Under the exemption within Financial Reporting Standard 8, the group has elected not to disclose transactions made between companies within the group.

#### ***Turnover***

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Customers generally enter into annual or longer term contracts with the group. Most commonly, customers receive software products at the start of the contract under a fixed term licence and are also entitled to receive regular updates or other services either for the first year of the licence term or for the duration of the licence term. Where a contract provides for the customer to receive updates or other services only for the first year of the licence term, customers can subsequently opt to purchase updates or other services for each of the remaining years of the licence period. When sold together, revenue in respect of the initial software supply is unbundled from revenue in respect of the provision of updates or other services. Revenue is attributed to each component based on its respective fair value. Revenue attributable to the initial software product is recognised in full upon delivery. Revenue attributable to updates or other services is recognised rateably over the duration of the contract.

Where the group contracts with an OEM or a service provider, rather than an end user, it mirrors the above policy and defers the revenue attributable to updates and services in line with the contract term granted to the end user.

#### ***Goodwill***

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life.

#### ***Tangible fixed assets 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	-	33⅓% per annum
Other plant and equipment	-	20% per annum
Motor vehicles	-	25% per annum
Fixtures and fittings	-	15% per annum

## **Notes** *(continued)*

### **1 Accounting policies** *(continued)*

#### ***Tangible fixed assets and depreciation*** *(continued)*

No depreciation is provided on freehold land.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Non-monetary assets and liabilities denominated in foreign currencies are stated at historical foreign exchange rates.

The assets and liabilities of overseas subsidiary undertakings and related goodwill are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

#### ***Leases***

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

#### ***Post retirement benefits***

The group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

#### ***Research and development expenditure***

Expenditure on research and development is written off against profits in the year in which it is incurred.

#### ***Stocks***

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used.

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### ***Cash and liquid resources***

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits with banks repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

## Notes (continued)

### 2 Segmental information

<b>Turnover</b>	<b>2005</b> <b>£000</b>	2004 £000
United Kingdom	21,318	19,841
United States of America	20,689	15,668
Continental Europe	14,538	13,403
Rest of the World	9,685	6,629
	<hr/>	<hr/>
	<b>66,230</b>	55,541
	<hr/> <hr/>	<hr/> <hr/>

In the opinion of the directors the disclosure of profit before interest and tax and net assets by geographical segment as required by SSAP 25 'Segmental analysis' would be seriously prejudicial to the interest of the company and therefore this information has not been disclosed.

The directors consider there to be a single class of business.

### 3 Profit on ordinary activities before taxation

<i>Profit on ordinary activities before taxation is stated</i>	<b>2005</b> <b>£000</b>	2004 £000
<i>after charging/(crediting):</i>		
Auditors' remuneration:		
- audit (including in respect of the company £27,500; 2004: £14,000)	40	38
- fees paid to the auditor and its associates in respect of other services	120	78
Depreciation and other amounts written off tangible fixed assets	3,284	2,808
Hire of plant and machinery - rentals payable under operating leases	7	156
Hire of other assets - operating leases	137	924
Research and development expenditure	10,138	6,676
Amortisation of goodwill	4,396	2,326
(Profit)/ Loss on sale of fixed assets	(4)	6
	<hr/>	<hr/>

### 4 Remuneration of directors

	<b>2005</b> <b>£000</b>	2004 £000
Directors' emoluments	861	624
Amounts receivable under long term incentive schemes	-	175
Compensation for loss of office	42	-
Company contributions to money purchase pension schemes	7	6
	<hr/>	<hr/>
	<b>910</b>	805
	<hr/> <hr/>	<hr/> <hr/>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £218,000 (2004: £355,000), and no company pension contributions were made to a money purchase scheme on his behalf (2004: £3,000).

Retirement benefits are accruing to the following number of directors under:

	<b>Number of directors</b>	
	<b>2005</b>	2004
Money purchase schemes	2	2
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**5 Staff numbers and costs**

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	<b>Number of employees</b>	
	<b>2005</b>	<b>2004</b>
Technical	<b>400</b>	265
Sales and marketing	<b>337</b>	224
Administration	<b>115</b>	94
	<b>852</b>	583

The aggregate payroll costs of these persons were as follows:

	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	<b>33,407</b>	22,720
Social security costs	<b>3,272</b>	2,532
Other pension costs	<b>641</b>	528
	<b>37,320</b>	25,780

**6 Interest receivable**

	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
Bank interest receivable	<b>589</b>	273
	<b>589</b>	273

**7 Taxation**

	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
<i>UK corporation tax</i>		
Current tax on income for the period at 30% (2004: 30%)	<b>3,281</b>	1,476
Adjustments in respect of prior periods	<b>(82)</b>	102
	<b>3,199</b>	1,578
<i>Foreign tax</i>		
Current tax on income for the period	<b>519</b>	522
Adjustments in respect of prior periods	<b>(2)</b>	165
	<b>517</b>	687
Total current tax	<b>3,716</b>	2,265
Deferred tax (credit) / charge (see below)	<b>(801)</b>	1,042
	<b>2,915</b>	3,307

## Notes (continued)

### 7 Taxation (continued)

<i>Deferred tax</i>	<b>Assets (note 12) £000</b>	<b>Provision (note 15) £000</b>	<b>Net £000</b>
At beginning of year	(258)	2,112	1,854
Charge/(credit) for the year	(1,392)	591	(801)
	<hr/>	<hr/>	<hr/>
At end of year	(1,650)	2,703	1,053
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### *Factors affecting the tax charge for the current period*

The current tax charge for the period is higher (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	<b>2005 £000</b>	2004 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	<b>6,107</b>	10,131
	<hr/>	<hr/>
Current tax at 30% (2004: 30%)	<b>1,832</b>	3,039
<i>Effects of:</i>		
Expenses not deductible for tax purposes	<b>140</b>	76
Goodwill amortisation not deductible for tax purposes	<b>1,319</b>	698
Capital allowances for period less than / (in excess of) depreciation	<b>12</b>	(1,624)
Tax losses carried forward	<b>635</b>	-
Utilised tax losses from group companies	<b>(85)</b>	(307)
Higher tax rates on overseas earnings	<b>81</b>	155
R&D and other tax credits	<b>(374)</b>	(285)
Other timing differences	<b>240</b>	246
Adjustments to tax charge in respect of previous periods	<b>(84)</b>	267
	<hr/>	<hr/>
Total current tax charge (see above)	<b>3,716</b>	2,265
	<hr/> <hr/>	<hr/> <hr/>

#### *Factors affecting the tax charge for future periods*

As set out in note 12, the group has unrecognised deferred tax assets. If the group is able to utilise these assets, it will reduce future tax charges.

**Notes** *(continued)*

**8 Intangible fixed assets**

	<b>Goodwill £000</b>
<i>Cost</i>	
At beginning of year	12,900
Foreign currency translation difference taken to reserves	730
	13,630
<b>At end of year</b>	<b>13,630</b>
<i>Amortisation</i>	
At beginning of year	2,244
Charge for year	4,396
Foreign currency translation difference taken to reserves	274
	6,914
<b>At end of year</b>	<b>6,914</b>
<i>Net book value</i>	
<b>At 31 March 2005</b>	<b>6,716</b>
At 31 March 2004	10,656

Goodwill is in respect of the acquisition of ActiveState Corporation. The goodwill is being amortised over a period of 3 years.

**Notes** *(continued)*

**9 Tangible fixed assets**

<b>Group</b>	<b>Freehold land and buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Fixtures and fittings</b>	<b>Total</b>
	£000	£000	£000	£000	£000
<b>Cost</b>					
At beginning of year	37,409	6,756	263	1,357	45,785
Additions	122	2,203	20	289	2,634
Disposals	-	(17)	(24)	(5)	(46)
Exchange movement	-	33	4	10	47
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	37,531	8,975	263	1,651	48,420
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>					
At beginning of year	2,482	5,144	168	686	8,480
Charge for year	1,444	1,528	55	257	3,284
On disposals	-	(12)	(17)	(3)	(32)
Exchange movement	-	24	2	7	33
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	3,926	6,684	208	947	11,765
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
<b>At 31 March 2005</b>	<b>33,605</b>	<b>2,291</b>	<b>55</b>	<b>704</b>	<b>36,655</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	34,927	1,612	95	671	37,305
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Within freehold land and buildings the gross cost which is depreciable is £ £36,092,000 (2004: £35,970,000)

**Notes** *(continued)*

**9 Tangible fixed assets** *(continued)*

Company	<b>Freehold land and buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Fixtures and fittings</b>	<b>Total</b>
	£000	£000	£000	£000	£000
<i>Cost</i>					
At beginning of year	37,409	4,798	118	465	42,790
Additions	122	1,131	20	108	1,381
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	37,531	5,929	138	573	44,171
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	2,482	3,694	91	225	6,492
Charge for year	1,444	897	19	69	2,429
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	3,926	4,591	110	294	8,921
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
<b>At 31 March 2005</b>	<b>33,605</b>	<b>1,338</b>	<b>28</b>	<b>279</b>	<b>35,250</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2004	34,927	1,104	27	240	36,298
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Within freehold land and buildings the gross cost which is depreciable is £36,092,000 (2004: £35,970,000)

**Notes** (continued)

**10 Fixed asset investments**

<b>Company</b>	<b>Shares in group undertakings £000</b>
<i>Cost</i>	
At beginning of the year	110
Additions in the year	32
	142
At end of the year	142

The principal undertakings in which the company's interest at the year-end is more than 20% are set out below. All investments are held directly by the company.

<i>Subsidiary undertakings</i>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>
Sophos Inc	United States of America	Selling software for computer security	Ordinary	100%
Sophos GmbH	Germany	Selling software for computer security	Ordinary	100%
Sophos Pty Ltd	Australia	Selling software for computer security	Ordinary	100%
Sophos Sarl	France	Selling software for computer security	Ordinary	100%
Sophos KK	Japan	Selling software for computer security	Ordinary	100%
Sophos Srl	Italy	Selling software for computer security	Ordinary	100%
Sophos Anti-Virus Asia Pte Ltd	Singapore	Selling software for computer security	Ordinary	100%
Sophos Nominees Limited	UK	Share nominee company	Ordinary	100%
Sophos Inc (formerly ActiveState Corporation)	Canada	Selling software for computer security	Common	100%

On the 31 March 2005 ActiveState Corporation merged with its former parent company 36547 Yukon Inc to become Sophos Inc, a company incorporated in the state of Alberta, Canada.

All the above investments have been included in the consolidated financial statements.

**11 Stocks**

	<b>Group</b>		<b>Company</b>	
	<b>2005 £000</b>	2004 £000	<b>2005 £000</b>	2004 £000
Finished goods and goods for resale	<b>55</b>	44	<b>55</b>	44
	<b>55</b>	44	<b>55</b>	44

**Notes** (continued)

**12 Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Trade debtors	<b>11,888</b>	10,646	<b>5,573</b>	5,409
Amounts owed by group undertakings	-	-	<b>19,266</b>	17,418
Other debtors	<b>1,093</b>	780	<b>520</b>	163
Prepayments	<b>623</b>	282	<b>189</b>	76
Corporation / corporate taxes	<b>186</b>	249	<b>166</b>	244
Deferred tax asset	<b>1,650</b>	258	-	-
	<b>15,440</b>	12,215	<b>25,714</b>	23,310

The elements of the deferred tax asset are as follows:

	<b>2005</b>	2004
	<b>£000</b>	£000
Tax losses of overseas subsidiaries	<b>1,064</b>	131
Other items in respect of overseas subsidiaries	<b>586</b>	127
	<b>1,650</b>	258

Deferred tax assets are recognised where, in the opinion of the directors, there is persuasive and reliable evidence that the asset will be recovered from relevant future taxable profits. There are unrecognised deferred tax assets, mainly in respect of tax losses of overseas subsidiaries, of £34,000 (2004: £732,000).

Within Group other debtors is an amount of £292,000 (2004: £296,000) that is due after one year.

**13 Creditors: amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Trade creditors	<b>1,144</b>	1,844	<b>631</b>	1,221
Amounts owed to group undertakings	-	-	-	102
Corporation / corporate taxes	<b>292</b>	457	-	-
Social security and other taxes	<b>1,909</b>	1,877	<b>1,313</b>	1,255
Other creditors	<b>424</b>	468	<b>97</b>	-
Accruals and deferred income	<b>26,148</b>	22,904	<b>21,326</b>	19,144
	<b>29,917</b>	27,550	<b>23,367</b>	21,722

**Notes** *(continued)*

**14 Creditors: amounts falling due after more than one year**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Accruals and deferred income	<b>13,820</b>	11,119	<b>12,167</b>	10,367
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**15 Provisions for liabilities and charges**

<b>Group</b>	<b>Vacant property</b>	<b>Deferred tax</b>	<b>Other</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At beginning of year	42	2,112	425	2,579
Amounts provided during the year	-	591	463	1,054
Amounts utilised during the year	(42)	-	-	(42)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At end of year	<b>-</b>	<b>2,703</b>	<b>888</b>	<b>3,591</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
 <b>Company</b>		<b>Deferred tax</b>	<b>Other</b>	<b>Total</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
At beginning of year		2,112	425	2,537
Amounts provided during the year		591	300	891
		<u>          </u>	<u>          </u>	<u>          </u>
At end of year		<b>2,703</b>	<b>725</b>	<b>3,428</b>
		<u>          </u>	<u>          </u>	<u>          </u>

The vacant property provision is the excess of a residual lease commitment over any anticipated rental income on property no longer occupied by a subsidiary. The lease was terminated in July 2004.

The provision for deferred tax relates to the difference between accumulated depreciation and capital allowances.

Other provisions relate to customer, supplier and legal matters. Generally such matters are resolved within one or two years.

**Notes** (continued)

**16 Called up share capital**

	2005		2004	
	Number	£000	Number	£000
<i>Authorised</i>				
Ordinary shares of £0.0002 each	45,000,000,000	9,000	-	-
Convertible preferred ordinary shares of £0.0002 each	5,000,000,000	1,000	-	-
Ordinary shares of £0.001 each	-	-	8,000,000,000	8,000
'B' Ordinary shares of £0.001 each	-	-	1,000,000,000	1,000
Convertible preferred ordinary shares of £0.001 each	-	-	1,000,000,000	1,000
		10,000		10,000
		10,000		10,000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £0.0002 each	249,063,900	50	-	-
Convertible preferred ordinary shares of £0.0002 each	70,111,600	14	-	-
Ordinary shares of £0.001 each	-	-	49,594,680	50
'B' Ordinary shares of £0.001 each	-	-	218,100	-
Convertible preferred ordinary shares of £0.001 each	-	-	14,022,320	14
		64		64
		64		64

All classes of shares are equity shares and rank pari passu for any dividend declared by the company. On a qualifying listing or at the election of the holders, the convertible preferred ordinary shares convert into ordinary shares on a one-for-one basis. The convertible preferred ordinary shares also carry priority over the assets of the company available for distribution in a winding up or other return of capital. 'B' ordinary shares are non-voting shares purchased by employees under the employee share purchase plan.

On 18 May 2004, the company sub-divided its shares. From that date, the company has authorised share capital consisting of 40,000,000,000 ordinary shares; 5,000,000,000 'B' ordinary shares and 5,000,000,000 convertible preferred ordinary shares each with a nominal value of £0.0002. The issued share capital became 247,973,400 ordinary shares of £0.0002 each; 1,090,500 'B' ordinary shares of £0.0002 each and 70,111,600 convertible preferred ordinary shares of £0.0002 each.

On 20 January 2005, the company re-designated the 5,000,000,000 'B' Ordinary shares as Ordinary shares of which 1,090,500 were allotted, called up and fully paid at 31 March 2005.

**Notes** *(continued)*

**17 Reserves**

<b>Group</b>	<b>Share premium</b>	<b>Profit and loss account</b>	<b>Total reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
At beginning of year	611	28,604	29,215
Retained profit for the year	-	3,192	3,192
Exchange differences	-	302	302
	<hr/>	<hr/>	<hr/>
At end of year	<b>611</b>	<b>32,098</b>	<b>32,709</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Company</b>	<b>Share premium</b>	<b>Profit and loss account</b>	<b>Total reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
At beginning of year	611	30,923	31,534
Retained profit for the year	-	8,687	8,687
	<hr/>	<hr/>	<hr/>
At end of year	<b>611</b>	<b>39,610</b>	<b>40,221</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**18 Commitments and contingencies**

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Contracted but not provided for	<b>52</b>	39	-	20
Authorised but not provided for	-	11	-	-

(b) At the end of the financial year the group had entered into no commitments in respect of finance leases or hire purchase contracts, the inception of which occurs after the year-end.

(c) Annual commitments under non-cancellable operating leases are as follows:

<b>Group</b>	<b>2005</b>		2004	
	<b>Land and buildings</b>	<b>Other</b>	Land and buildings	Other
	<b>£000</b>	<b>£000</b>	£000	£000
Operating leases which expire:				
Within one year	<b>199</b>	<b>20</b>	210	11
In the second to fifth years inclusive	<b>950</b>	<b>107</b>	894	110
Over five years	-	-	28	-
	<b>1,149</b>	<b>127</b>	1,132	121
	<b>£000</b>	<b>£000</b>	£000	£000

  

<b>Company</b>	<b>2005</b>		2004	
	<b>Land and Buildings</b>	<b>Other</b>	Land and buildings	Other
	<b>£000</b>	<b>£000</b>	£000	£000
Operating leases which expire:				
Within one year	-	<b>3</b>	-	-
In the second to fifth years inclusive	-	<b>4</b>	-	41
	-	<b>7</b>	-	41
	<b>£000</b>	<b>£000</b>	£000	£000

(d) Forward foreign exchange contracts - The group enters into derivative transactions such as forward foreign exchange contracts, all of which have a duration of less than one year, the purpose of which is to manage the currency risks arising from the group's operations. At the year end outstanding commitments to sell foreign currency totalled USD2.0 million and EUR1.2 million (2004: nil).

## Notes (continued)

### 19 Pension scheme

The group contributes to money purchase personal pension schemes in the UK and to similar or state pension schemes overseas for the benefit of the employees and directors. The assets of the schemes are administered by trusts or by other bodies in funds independent from the group. The pension cost charge for the period represents contributions payable by the group to the funds and amounted to £641,000 (2004: £528,000)

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

### 20 Reconciliation of operating profit to operating cash flows

	2005 £000	2004 £000
Operating profit	5,518	9,858
Depreciation	3,284	3,460
Amortisation of goodwill	4,396	2,326
Loss/(profit) on sale of fixed assets	(4)	6
(Increase) / Decrease in stocks	(11)	14
Increase in debtors	(1,908)	(1,564)
Increase in creditors	4,462	7,093
Increase in provisions	1,012	1,620
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>16,749</b>	<b>22,813</b>
	<hr/> <hr/>	<hr/> <hr/>

### 21 Analysis of cash flows

	<i>Notes</i>	2005 £000	2005 £000	2004 £000	2004 £000
<b>Returns on investments and servicing of finance</b>					
Interest received	6		589		273
			<hr/>		<hr/>
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(2,646)		(7,203)	
Sale of tangible fixed assets		17		5	
		<hr/>		<hr/>	
Acquisition of a subsidiary undertaking		(2,629)		(7,198)	
		<hr/>		(14,076)	
			<hr/>		<hr/>
			<b>(2,629)</b>		<b>(21,274)</b>
			<hr/> <hr/>		<hr/> <hr/>
<b>Management of liquid resources</b>					
Cash transferred (to)/ from short-term deposits with banks	22		(12,398)		918
			<hr/>		<hr/>
<b>Financing</b>					
Issue of 'B' ordinary share capital		-		501	
Repayment of term loans of a subsidiary acquired during the year		-		(45)	
		<hr/>		<hr/>	
			<b>-</b>		<b>456</b>
			<hr/> <hr/>		<hr/> <hr/>

**Notes** *(continued)*

**22 Analysis of net funds**

	At beginning of year £000	Cash flow £000	Exchange movement £000	At end of year £000
Bank current accounts	3,796	(1,514)	44	2,326
Short term deposits with banks	6,511	12,398	-	18,909
	<b>10,307</b>	<b>10,884</b>	<b>44</b>	21,235
	<b>10,307</b>	<b>10,884</b>	<b>44</b>	21,235

**23 Related party disclosures**

The company shares premises, printing, management and marketing services with Virus Bulletin Limited, a company in which Dr Peter Lammer and Dr Jan Hruska have interests. A contribution of £162,000 (2004: £159,000) to the costs of such services was receivable by the company in the year. In addition Virus Bulletin Limited invoiced Sophos group companies £40,000 (2004: £14,000) for subscriptions and conference fees. At 31 March 2005 an amount of £109,000 (2004: £160,000) was due to the company from Virus Bulletin Limited.