defenx
digital protection

Security. Backup. Protection.

Annual Report 2016

Defenx PLC

Defenx digital protection: securing smartphones, data and privacy to keep the online world safe.

Highlights

Operational

- Acquisition of Memopal, a cloud-based backup and synchronisation business, was successfully completed and brings new IP customers and significantly increased internal development and customer support capacity.
- Enhanced product portfolio with the launch of Defenx Mobile Security Suite for Windows 10 Mobile, Defenx Privacy Adviser, Defenx Parental Control and the acquisition of Memopal Cloud Backup.
- Eight new channel partners added in the year bringing many potential new end-users and driving our geographical expansion into key markets.

Financial

- Fifth year of profitable growth – 58% year-on-year growth in revenue to €7.09 million (2015: €4.49 million) with a 10% increase in average revenue per user (ARPU).
- 88% growth in operating profits (before transaction costs) to €1.84 million (2015: €0.98 million).
- Strong cash generation of €2.32 million in operating cash inflow (2015: €1.02 million outflow).
- Shareholder approved placing and subscription raised €1.53 million net of expenses.

Post year end

- Long-term strategic partnership with BV-Tech, a leading independent corporate IT and cyber security solutions provider in Italy, which the Directors believe will significantly enhance Defenx's product portfolio and enable the Company to penetrate the corporate market to generate high-quality, recurring revenues in the medium-term.

"2016 has been a year of significant progress for Defenx, our first full year as a public company following our IPO in December 2015.

I believe that Defenx is in a strong position to continue its strategy to launch new products, enter new markets and broaden its management team in 2017; continuing to grow revenues and profits over the coming year in the ever-exciting mobile security software market.

I would like to take this opportunity to thank our people and shareholders whose hard work and support have facilitated the growth achieved in 2016."

Andrea Stecconi / Chief Executive Officer

See Chief Executive Officer's review, page 18

€7.09m +58%
Revenue

€1.84m +88%
Operating profit

€2.32m
Operating cash flow

€0.185
Earnings per share

At a glance

Founded in 2009, Defenx is a fast-growing and profitable cyber security company that offers a range of products for the mobile, PC and network security markets.

Defenx was admitted to trading on AIM in December 2015, acquired Memopal SRL in August 2016 (see page 16) and announced a strategic partnership with BV-Tech SpA in April 2017 (see page 14), which has allowed Defenx to diversify its product offering, grow its customer base and expand its team.

As we entered 2017, our product portfolio, the reach of our channel partners and our delivery capacity were much enhanced on the year earlier.

Broad product portfolio
The Defenx proposition is to solve our end-users' security needs on the devices they use, for their own protection and that of their data.

Our products fit into three complimentary segments:

- Security – anti-malware software
- Backup – Cloud-based backup and synchronisation
- Protection – applications to monitor, manage and secure online activities

By developing a range of products within these three segments we now address the varied needs of consumer and corporate end-users.

B2B2C distribution strategy
A flexible marketing strategy, focused on white-label and profit-share arrangements with distributors, telecoms companies and hardware manufacturers, enables Defenx to compete with established industry incumbents.

Security

Complete security for you, your family and your business

Our mobile, desktop and server security suites provide complete protection from viruses, spyware and other malware, including ransomware.

Many users, particularly of mobile devices, are still unaware that a simple download of their favourite song, clicking on an email link and other, seemingly harmless, activity, can trigger an attack. Once in place, malware replicates, feeds on network bandwidth and causes systems to malfunction, in some cases bringing them to a complete halt.

Defenx Mobile Security Suite continues to be our best-selling product accounting for over 60% of 2016 sales.

Defenx Security Suite for PCs is also popular, typically in bundle with mobile apps, accounting for around 25% of 2016 sales.

Backup

All your files in one place, secure in the Cloud

New to the Defenx portfolio in 2016, Memopal Cloud Backup combines automated backup and file synchronisation across multiple devices in 16 languages for all major operating systems. We also offer on-premise solutions for corporate partners like Türk Telekom.

Built on Memopal's proprietary Global File System (MGFS), we offer competitive cost per gigabyte storage while maintaining our margins.

Channel partner interest has been strong and we anticipate strong growth during 2017. Integration of 'zero knowledge' authentication, advanced permissions and encryption through our partnership with BV-Tech will address corporate needs.

Who we protect

Corporates

Families

Individuals

Protection

Protecting you and your loved ones' safety and privacy

Our new protection segment evolved from channel partner feedback: their end-users were asking for solutions to help manage and protect their online lives.

End-users are interested to know what the apps on the smartphones are doing – Defenx Privacy Adviser tells them.

Once they know, they are keen to manage this activity and protect their privacy – Defenx Parental Control helps them.

Defenx SOS goes one step further, using the smartphone to send alerts in an emergency to a parent or guardian.

Key driver for improved cyber protection

Ransomware

The rapid growth of ransomware, including more sophisticated attacks on businesses, is a key driver for the adoption of improved cyber protection. With the acquisition of Memopal, Defenx now offers Mobile Security and Cloud Backup which, when used together, reduce the risk of infection and, in the event of a successful attack, ensure data is never lost, even on the move.

Ransomware is malware for 'data kidnapping', an exploit in which the attacker encrypts the victim's data and demands payment for the decryption key. Ransomware spreads through e-mail attachments, infected programmes and compromised websites. A ransomware malware programme may also be called a cryptovirus, cryptotrojan or cryptoworm.

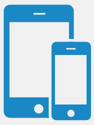
Attackers may use one of several different approaches to extort money from their victims:

- After a victim discovers he cannot open a file, he receives an email ransom note demanding a relatively small amount of money in exchange for a private key. The attacker often warns that if the ransom is not paid by a certain date, the private key will be destroyed and the data will be lost forever.
- The victim is duped into believing he is the subject of a police inquiry. After being informed that unlicensed software or illegal web content has been found on his computer, the victim is given instructions for how to pay an electronic fine.
- The malware surreptitiously encrypts the victim's data but does nothing else. In this approach, the data kidnapper anticipates that the victim will look on the Internet for how to fix the problem and makes money by selling anti-ransomware software on legitimate websites.

To protect against data kidnapping, experts urge users to backup data on a regular basis. If an attack occurs, do not pay a ransom. Instead, wipe the disk and restore data from the backup.

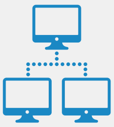
Source: TechTarget.com

What we protect



Mobile

Desktop



Network

Products and technology

Defenx has built a competitive product portfolio of security and protection solutions to which cloud-based backup was added with the acquisition of Memopal.

In 2016, we invested €4 million in software development including work on our new PC security suite. While our focus continues to be mobile users around the world, we recognise that many, particularly corporate users, require solutions that protect all devices and platforms.

Security

Defenx Mobile Security Suite

Devices:

Use your smartphone with complete peace of mind

Defenx Mobile Security Suite includes antivirus, anti-phishing, anti-spam and anti-theft protection as well as SIM protection and safe browsing.

Available in nine languages for Android, iOS and Windows Mobile phones and tablets.

2016 highlights
- Windows 10 Mobile version launched resulting in coverage of more than 90% of mobile devices.
- Added new features: webcam protection, remote mic capture and phototaking.

2017 outlook
- With an effective and lightweight anti-virus engine, the focus is now on user experience and integration.
- Align the user interface across devices and operating systems to offer a seamless cross-platform experience.

Defenx Security Suite

Devices:

All-round 'worry-free' protection for your computer

Defenx Security Suite includes antivirus, anti-spam, firewall, identity protection, safe browsing, privacy and parental controls.

Available in five languages for Windows 10, 8, 7, Vista and XP desktop and laptop PCs. There is also a network version.

VB100 certified by Virus Bulletin.

2016 highlights
- Launched a revamped product with improved features, better protection and reduced false positives.
- Successfully raised €1.5million from investors to accelerate the development of a new in-house PC security suite.

2017 outlook
- We expect to release the new Defenx Security Suite this summer built on the industry-leading anti-virus engine SDK.
- Further language localisation.

Backup

Memopal Cloud Backup

Devices:

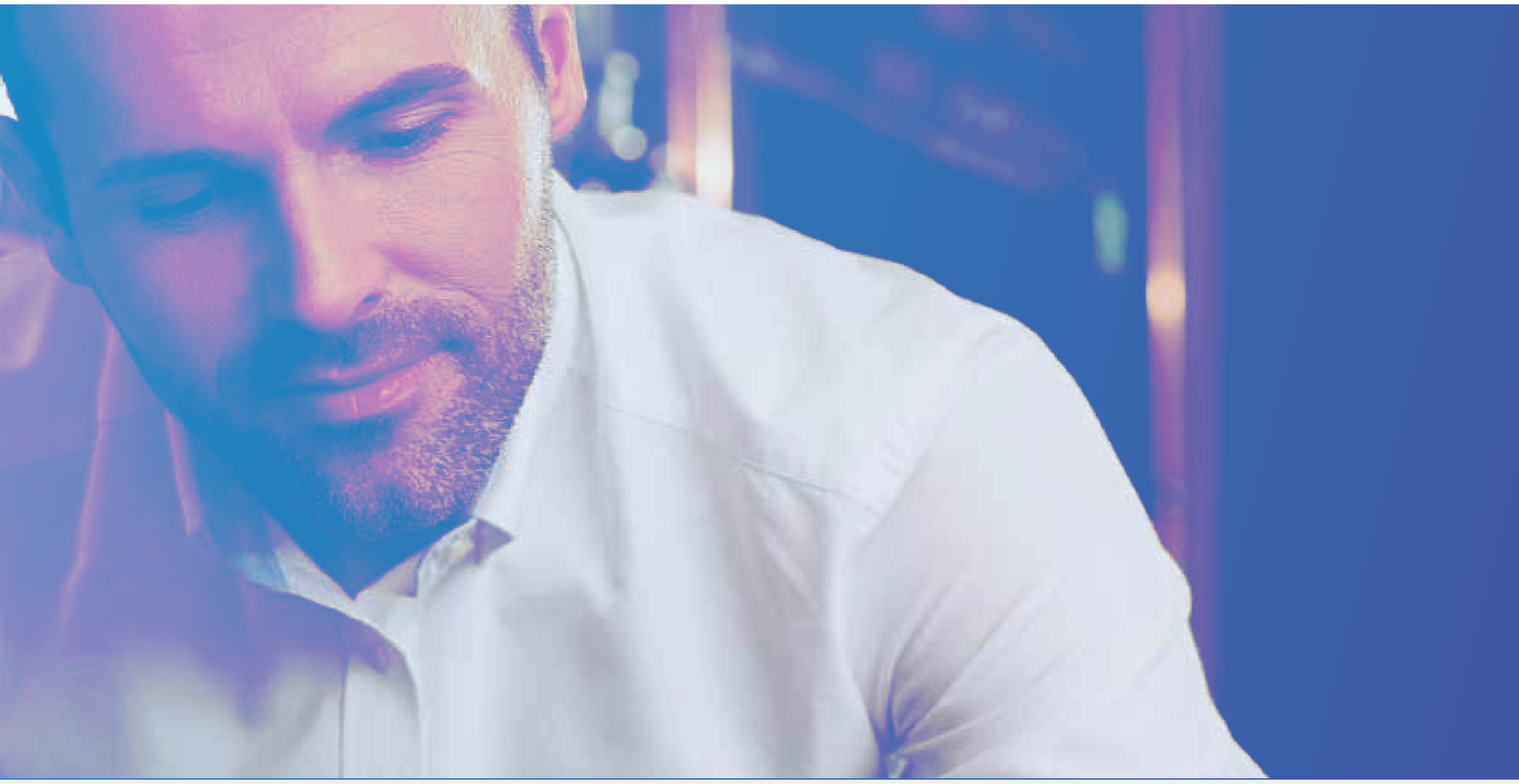
All your files securely in the Cloud

Memopal Cloud Backup protects files by securely saving a copy to the cloud. Because it keeps all file changes forever, users always have a clean version to restore, for example, following a ransomware attack (see page 3). It also provides a sync folder allowing the latest version of saved files to be accessed from any computer, device and online.

Available in 16 languages for Windows, Apple, Linux, Android, iOS and various NAS platforms.

2016 highlights
- Corporate features to control multiple accounts added last autumn.
- Added a simple interface to restore prior versions of files at any date and time to provide 'time machine' features and facilitate recovery from ransomware attacks.

2017 outlook
- Integration of anti-malware scanning of files stored in the cloud protecting users and allowing us to cross-sell security products.
- Support for more NAS platforms.



Protection

Defenx Privacy Adviser

Devices:

We care about your privacy

Defenx Privacy Adviser is a free app that allows users to monitor access to their personal data by installed apps.

A growing number of seemingly useful apps for smartphones can, in fact, invade your privacy, putting your personal information at risk.

Available for free on Android.

2016 highlights
- Launched last July, Defenx Privacy Adviser transforms the way mobile users understand what their apps know about them, providing a simple Red, Amber, Green visual indication of safety.

2017 outlook
- We use this free app to identify new end-users and generate brand awareness and trust.
- Feedback from the community of users will be reflected in updates to the app.

Defenx Parental Control

Devices:

Online safety for children

Defenx Parental Control protects under-age smartphone and tablet users from inappropriate content and enables parents to manage their children's online activity.

Parents can view call and messaging history, photos and be alerted when their child arrives or leaves specific locations. The app also includes some Defenx SOS features.

Available in five languages for Android.

2016 highlights
- Announced last December the exclusive launch and pre-order from Ukraine for distribution by Dr Komarovskiy using our SDK.

2017 outlook
- Add new features in response to user feedback and wider market developments.
- Additional platforms and language localisation.

Defenx SOS

Devices:

Send for help when you're in danger

Defenx SOS keeps loved ones safe by alerting a designated parent or guardian by email, SMS or via a call centre in an emergency such as an unexpected fall or attack.

The panic function, triggered by a Bluetooth-connected button or simply by dropping the smartphone, triggers the alert.

Available in two languages for Android.

2016 highlights
- Launched last autumn, Defenx SOS has a simple proposition: to transform any smartphone into an SOS device.

2017 outlook
- Integration with more Bluetooth buttons.
- Additional platforms and language localisation.

See Strategy in action, page 14

Chairman's statement

Anthony Reeves / Chairman

I am pleased to report that, in our first full year on AIM, we have delivered significant revenue and profit growth, exceeding the Board's expectations set at the start of the year. The year was marked by new challenges, new products, new channel partners and new people with our first acquisition in August 2016 of Memopal. Our first year on AIM has been transformational.

A year of product delivery

Much of 2016 was focused on strengthening Defenx's endpoint security products, which have long been our core offering. As part of our strategy to offer '360-degree' solutions that protect the everyday digital life of our individual, family and SME end-users, Defenx also launched during 2016 products for personal privacy, safety and parental control.

We have also added products to address progressively larger customers – from our existing, largely, consumer base to SMEs and corporates in the near future. We expect that our end-point network security, mobile device management and corporate cloud storage solutions will support and de-risk our continued revenue growth.

The long-term strategic partnership announced today with BV-Tech SpA (BV-Tech), a leading independent corporate IT and cyber security solutions provider in Italy, is entirely consistent with this strategy. The Board firmly believes this will strengthen both our product portfolio and reach into the corporate market. We look forward to working together with the wider BV-Tech team.

Board and management

Since our AIM admission, we have doubled our headcount to add further quality and bandwidth at all levels. Our development team has been strongly reinforced with the acquisition of Memopal SRL (Memopal). We now maintain and support all our products exclusively with internal resources, outsourcing key aspects of new product development to trusted external partners.

The Board was sad to say goodbye to Guido Branca, Chief Operating Officer, during the summer. We remain grateful for his significant contribution since joining Defenx in 2014, most notably establishing the parent company in the UK, the subsequent private placing and the successful IPO in 2015.

The appointment of Gianluca Granero as Group Development Director (non Board) follows the integration of Memopal into the Group. Gianluca's broad-ranging technical and commercial experience has provided much needed management bandwidth and helped to accelerate business development.

Early in 2017, Paolo Cellini was appointed as a strategic adviser to the Board. Paolo brings extensive experience and a track record of supporting growing companies within and beyond Italy and is already helping Defenx in its product portfolio and marketing strategy.

BV-Tech have the right to nominate two Directors, the first of whom, Franco Francione, was appointed today. His background is set out on page 27.

The Board continues the search for the right senior sales executive to help drive the Group's expansion.

Robust prospects

Following the €1.53 million placing and subscription last October, in which the Board was pleased to see participation by the Executive Directors, and last month's subscription by BV-Tech, Defenx is well positioned to deliver continued profitable growth in 2017.

As a high growth and profitable security solutions group, I am confident that Defenx will have another exciting year and deliver positive returns for shareholders.

The Board looks forward to meeting shareholders at the AGM on Tuesday 27 June 2017, in accordance with the Notice of AGM on pages 69 and 70.

Anthony Reeves
Chairman
22 May 2017

Timeline

'17
- Strategic partnership with BV-Tech announced raising €1.15 million
- Acquisition of encrypted voice and message software from BV-Tech

'16
- Eight new channel partners secured
- Placing to raise €1.53 million
- Acquisition of Memopal SRL
- Defenx Privacy Adviser/SOS apps launched
- Defenx Mobile Security Suite launched for Windows 10 phone

'15
- AIM IPO raising €2.1 million after expenses
- Defenx Mobile Security Suite launched for iOS

'14
- Defenx PLC incorporated
- Private placing raising €1.3 million after expenses

'13
- Mobile Security Suite for Android IP bought out from developer

'12
- Generated first profit on sales of €1.1 million
- Defenx Mobile Sucrity Suite launched for Android

'09
- Defenx SA launched in Switzerland
- Defenx Security Suite launched for Windows

Our business model

Defenx sells to channel partners that already have relationships with potential end-users of our products and solutions.

FEEDBACK

Defenx products

Security

Backup

Protection

B2B2C via channel partners (primary route to market)

Our channel partners include: telecoms operators, distributors/resellers, OEMs, system integrators and content aggregators.

This is not just about cost-effective distribution. We seek also to improve our channel partners' revenues and margins by providing a value-adding proposition for their customers.

We do this by:

- Sharing revenue with channel partners not only on the initial sale, but also on subsequent renewals – we do not disintermediate our channel partners.
- White labelling to allow our channel partners to build their brands.
- Integrating with our channel partners' sales and marketing, billing and other IT systems.

We help our channel partners discuss security issues with their customers, generating more trusting relationships, incremental sales and brand loyalty. In turn, we gain valuable insight into what our end-users want in their security solutions.

We call this our business-to-business-to-consumer (B2B2C) strategy. It is not common in the industry and, we believe, provides Defenx with competitive advantages in speed to market, customer acquisition cost and retention.

Channel partners provide marketing support through sales force training, point-of-sale support, marketing activities, and display and advertising materials in order to protect and project the Defenx brand.

Web sales (secondary route to market)

While our focus is via the channel, we also have direct B2B and B2C sales, primarily on the web. In April 2017, our new website went live bringing all Defenx and Memopal products together in a single website.

We will support this with:

- Targeted web-based marketing to drive traffic to our website being careful not to disintermediate our primary B2B2C channel
- Professional and user product reviews to create trust in Defenx products and greater visibility in App stores and across the web
- Educational content to inform potential end-users of the risks in their digital lives and how they can protect themselves

What makes us unique

Focus on mobile
The mobile security market is large and growing rapidly, particularly in secondary and emerging markets where many have simply skipped the desktop PC for the smartphone.

Proven expertise in cyber security
We have built the internal expertise and software development supply chain to deliver effective solutions, quickly and cost-effectively via our channel partners to end-users.

FEEDBACK

End-users

Corporates

Families

Individuals

Value proposition

Our goal is to provide 3-way protection to individuals, families and corporates building trust in Defenx as a guardian of users' security, data and safety:

- Device Security – anti-malware endpoint protection for mobile, PC and network devices
- Data Backup – Cloud-based backup and synchronisation solutions to protect data and securely share it
- Personal Protection – client, server and web-based applications to monitor, manage and secure the online activities of individuals, families and corporates

Increasingly this means solutions for smartphones, tablets, desktops and the rapidly proliferating world of connected devices, the Internet of Things (IoT). IoT includes everything from Smart TVs, set-top boxes and media streamers and servers, network attached storage (NAS), games consoles, broadband/cable modems, home automation such as NEST and Hive, smart light bulbs and so the list goes on.

Defenx solutions already cover many of these such devices and we regularly add to the range of devices protected.

Revenue generation

We generate revenue by selling licences, typically annual, for our software products. We expect the market shift from these 'traditional' licence sales towards a 'Protection as a Service' (PaaS) model, invoiced on a monthly or annually recurring basis, to continue. Memopal Cloud Backup is already sold this way.

Revenue growth in 2016 came primarily from new end-users and a modest increase in ARPU. In 2017, we aim to continue to grow by adding new end-users (driven by new channel partners), but also by increasing ARPU (driven by our broader product offering).

Cash conversion

While licence sales are invoiced up-front, typical credit terms in our markets can result in long delays between invoicing and cash collection. The transition to PaaS revenue generation, which will likely result in more sales being deferred for accounting purposes, will narrow the gap between reported revenue and cash generation. As we grow the proportion of sales to corporate focused channel partners, we expect cash collection cycles to shorten.

Software assets

The Group's software intellectual property underpins our revenue generation. As at 31 December 2016, the aggregate value shown as an intangible asset on the balance sheet amounted to €6.5 million.

B2B2C channel sales model

Our channel first strategy leverages channel partners' established market access, knowledge of their markets and sales and support resources without the need to build a large in-house sales support team.

Our market and opportunity

With Android overtaking Windows as the most common operating system, the mobile security market continues to grow rapidly.

Our goal is to protect individuals, families and corporates, building trust in Defenx as a guardian of users' security, data and safety.

Global drivers

MarketsandMarkets forecasts the global mobile security market to grow from $1.5 billion in 2014 to just under $5.8 billion by 2019. Growth is driven by the increasing number of connected devices, the volume and sophistication of cyber-attacks and the growth in users' willingness to use online services.

More connected devices

- According to the GSMA[1], at the end of 2016, two-thirds of the world's population had a mobile subscription – a total of 4.8 billion unique subscribers. By 2020, they forecast almost three-quarters of the world's population will subscribe to mobile services. Smartphone penetration also continues to grow rapidly with an estimated 5.7 billion devices by 2020.
- It's not just mobile devices, but IoT too. IHS[2] forecasts that the IoT market will grow from an installed base of 15.4 billion devices in 2015 to 30.7 billion devices in 2020 and 75.4 billion in 2025, the implications of which are only just beginning to be felt.

More attacks and data breaches

- The number of mobile vulnerabilities reported again grew in 2016 to over 600, broadly split between Android and iOS. Android remains the key target for hackers because so many devices are not regularly updated to the latest software and retain unpatched vulnerabilities. Android's dominant market share makes it our key focus.
- Ransomware continues to plague businesses and consumers with Symantec[3] reporting a 36% increase in infections. Attackers are demanding more from victims with the average ransom demand in 2016 rising to $1,077, up from $294 a year earlier.
- While industry adopted IoT technology first, home and corporate use is beginning to increase. Few such devices have good security or endpoint protection. Once connected to home or corporate networks, they offer an easy way in for hackers. Symantec found that, at times of peak activity, the average IoT device was attacked once every two minutes.

More data/online digital services

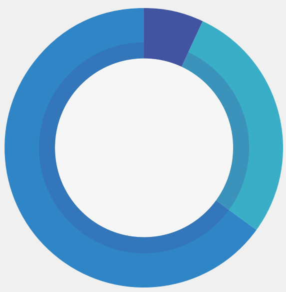
- As users, we seem more prepared to share data online than adopt secure behaviour, particularly on mobile devices.
- The rapid growth of messaging platforms continues, with a total user base of around 3.6 billion at the end of 2016. Since most users are on mobile, the majority of the just under 5 billion mobile subscribers across the world are using messaging apps. Mobile devices are also used by many corporate workers to access the cloud and communicate with co-workers through collaborative tools and social networks.

1.9 billion
Number of smartphones worldwide[1]

36%
Increase in ransomware infections in 2016[3]

$5.8 billion
Global mobile security market forecast for 2019[4]

Mobile devices worldwide



Android	65%
iOS	28%
Other	7%

Source: netmarketshare.com

Opportunities

With a rapidly growing target market, we have a wealth of opportunities. The Board segments the market by channel and geography. The cost, timeframe and risk profile of investment varies significantly by market.

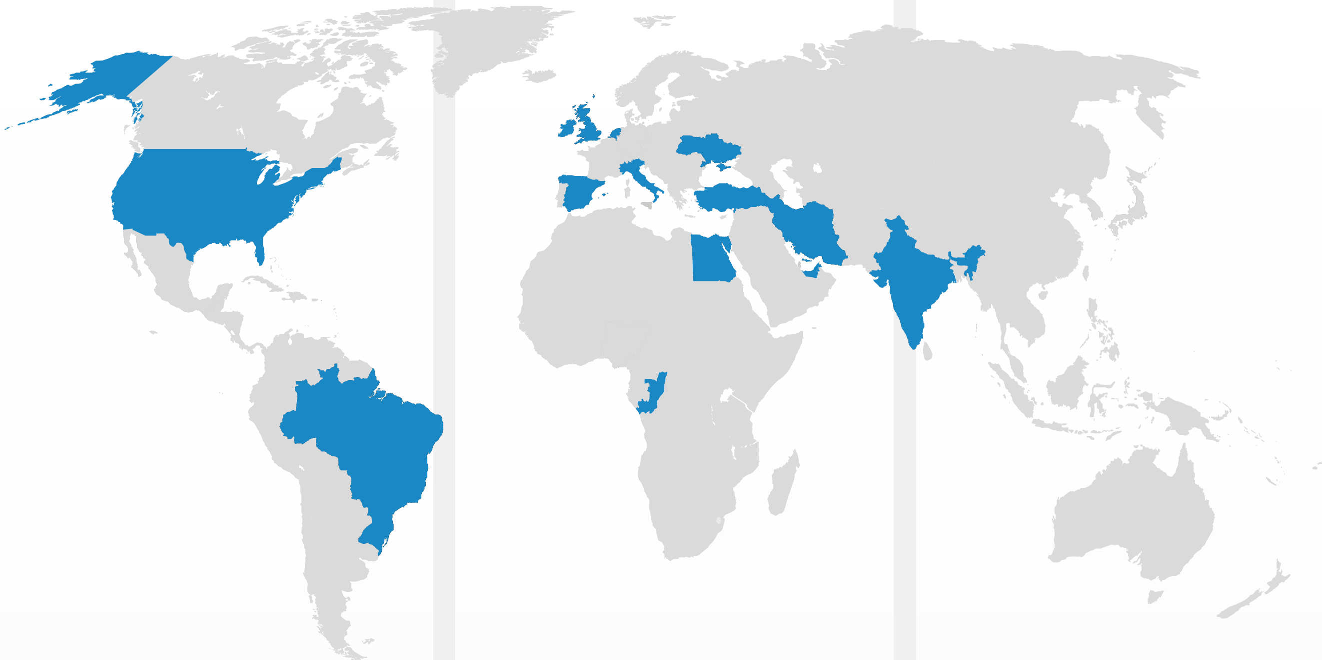
The Board seeks to balance these attributes in growing sustainable sales and building long-term shareholder value. We continue to target telecoms operators worldwide for whom mobile security is a must-have that they can promote as a value added service to increase revenues and margins.

During 2016, we added eight distributors, with a focus on corporate markets. With our broader product portfolio and channel partner-friendly approach, we will continue to target high-quality distributors.

Our proposition for device manufacturers is to provide them with new ways to differentiate their, often commoditised, products. Major steps in IoT are likely some way ahead, but we do explore opportunities to add value and will support this by targeted investment.

1 GSMA The Mobile Economy 2017
2 IHS Markit IoT platforms: enabling the Internet of Things, March 2016
3 Symantec Internet Security Threat Report 2017, April 2017
4 Markets & Markets Mobile Security Market Global Forecast to 2019

Markets by region



Americas

North America is the most developed and competitive market for our products. The Bring Your Own Device (BYOD) trend is being adopted by many SMEs and, increasingly, larger organisations. This is a major driver for the adoption of mobile security software. Latin and South America is subject to the same trends albeit at a slower pace. Individuals and SMEs are more sensitive.

Opportunities

Our strategy is to enter market cautiously with high-quality channel partners and specific targets. For example:

- Existing OEM partners acquired with Memopal provide a lower risk starting point to test our proposition and delivery capacity locally.
- We are collaborating with a potential new partner to provide a Security and Cloud solution for Android set-top TV boxes.

EMEA

Our focus remains Europe, our natural home and the region with the strongest privacy regulations. We already sell through channel partners into selected Middle Eastern and African countries. Our geographic proximity, channel-friendly model and ability to price in line with local requirements, has provided a competitive advantage locally.

Opportunities

- With eight new channel partners added during 2016, we expect to see sustained revenue growth across Europe and, in time, the Middle East and Africa.
- Our new website, supported by targeted direct marketing, will ensure awareness of our enhanced product portfolio improvements creating end-user demand and cross-selling opportunities.

Asia Pacific

Smartphone growth is now strongest across the Asia Pacific region. As in the Middle East and Africa, many users have simply skipped fixed line telephony and broadband. Awareness of and the need for mobile security is increasing rapidly, particularly with less advanced cyber security infrastructure locally.

Opportunities

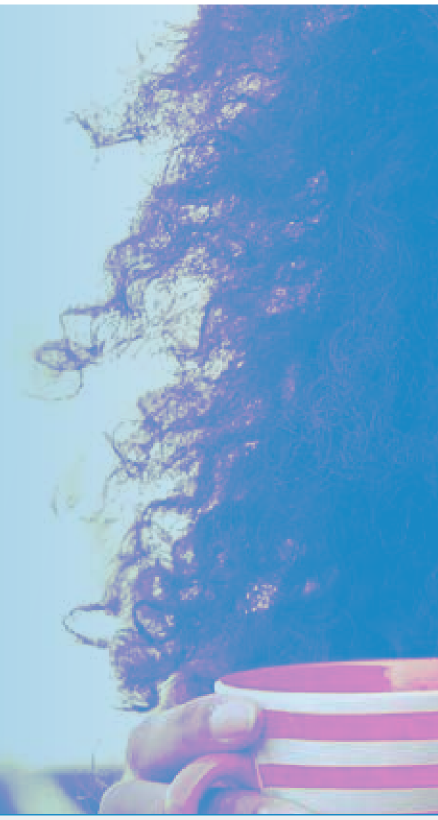
- Many potential OEM partners are Asia Pacific based. Our willingness to move quickly, offer white label solutions and share revenue, makes us attractive suppliers of value-adding software for commodity hardware.

Our strategy

Defenx aims to be a top five cyber security company in its chosen markets.

We will achieve this through four clear strategic objectives:

- developing relevant new products;
- broadening the reach of our channel partner base;
- building an efficient operating platform; and
- making targeted, earnings-enhancing, acquisitions.



Developing our products 1

Build on our mobile-optimised platform

- With an installed Defenx app on a user's mobile device we can cross-sell other products and services.
- Staying on a device is hard; users are fickle and apps can easily be deleted, so we add value by simplifying the user experience with clear and consistent interfaces, providing the right features without overload and building trust in Defenx as a guardian of users' security, data and safety.

Integrate cloud-based backup and sync

- With the acquisition of Memopal, Defenx now provides protection from ransomware attacks by preventing the initial infection and ensuring data is always securely saved in the cloud in the event of an attack.
- Deeper integration will allow us to gather data on emerging threats and offer protection even to users with no installed security software.

Broaden security solutions

- The proportion of mobile devices with endpoint protection is still low, so our focus has been to provide simple, cost-effective and unobtrusive protection for mobile devices.
- As awareness grows, endpoint protection coverage increases and our end-users' devices become more powerful, we will add more sophisticated security features.

Enhance mobile device management tools

- As the number of connected devices grows, managing multiple devices is becoming more important since each device is a potential target and route into a home or corporate network.
- Adding features to enable users to understand what is happening to the data on each of their devices and to manage them remotely is now a core focus.

Broaden our customer base 2

Broaden sales function

- During 2016, we added eight major new channel partners providing access to new corporate customers and their end-users, which underpins the revenue growth expected in 2017.
- We continue to build our channel sales and support team with the future focus on new geographical markets.

Target new geographical markets

- Defenx already sells indirectly through its channel partners into many countries, notably in secondary and emerging markets.
- Our growing reputation in the channel and brand recognition with end-users in these markets is enabling us to win new partners and end-users.

Target corporates

- It has always been part of our strategy to expand further into the corporate market where demand for cyber security is a major driver for IT investment.
- BV-Tech's customer relationships and sales, support and technical staff will accelerate our expansion into the larger corporate market.

Operational focus

3

Growing R&D spend to drive growth

- Our goal is to fund 'maintenance' software development work from operating cash flows to deliver positive free cash flow.
- Feedback from our channel partners is instrumental in prioritising our investment decisions and lowers risk.
- Where new products can accelerate profitable sales growth, we will raise additional finance to invest as we did in 2016.

Channel partner concentration

- We firmly believe that our B2B2C channel strategy will scale effectively to deliver profitable growth and we accept the elevated customer concentration this brings compared to a pure B2C sales model.
- Sales from additional channel partners will diversify our sectoral and geographical mix and mitigate customer concentration over time; we are targeting no channel partner to account for more than 10% of sales in the medium-term.

Cash collection

- Extended collection terms of between 90 and 120 days are standard for the channel markets in which we operate.
- We manage our credit risk by assessing new channel partners before doing business, agreeing payment plans with them and maintaining regular contact. Our bad debt expense track record is good.
- The working capital burden of extended collection terms is managed with invoice discounting facilities. As the credit quality of our channel partners strengthens, we will increase the use of such facilities.

Management bandwidth

- The Memopal acquisition significantly increased the Group's internal development and customer support capacity.
- The strategic partnership with BV-Tech brings access to experienced sales, support and technical staff and additional Board bandwidth with the appointment of two Directors.

Growth through acquisition

4

Identify appropriate targets

- Our executive team and channel partners provide market intelligence on potential asset and corporate targets.
- All potential targets are carefully screened and, if appropriate, submitted to the Board before formal contact and specific negotiations start.

Build capacity to execute

- The acquisition of Memopal and strategic partnership with BV-Tech demonstrate the Board's ability to identify and execute transactions quickly and effectively.
- As Defenx headcount and experience grows, we will seek to use internal resources to assess strategic, commercial and technical aspects of any transaction to limit our reliance on external due diligence.

Deliver earnings enhancing transactions

- The Board's goal is to use the Company's equity to pay for acquisitions where there is a reasonable basis for the dilution to be matched by incremental profits in the medium-term.
- Developing our integration skillset and resources is a priority to ensure we can maximise value from transactions.

Strategy in action

BV-TECH

With BV-Tech as a significant shareholder, Defenx will target corporate customers to add high-quality, recurring revenues in the medium-term.

About BV-Tech

Founded in 2005, BV-Tech SpA is a leading independent corporate IT solutions provider in Italy and the parent of a group of companies operating in the management consulting and information & communication technology sectors.

BV-Tech operates across multiple industry verticals including finance, telecoms, media, healthcare, defence and homeland security, local government and public administration and has gained significant experience in design, implementation and transformation projects of complex ICT infrastructures (10,000 servers and more) with particular focus on information security management, fraud prevention and cyber security.

BV-Tech has grown rapidly, reporting revenues of €56 million in 2016 and employing over 600 engineers and IT experts. BV-Tech expects to invest over €30 million in R&D over the next three to four years. It is one of the founding partners of the Interdisciplinary Consortium for Improving Critical Infrastructure Cybersecurity (IC)3 promoted by the MIT Sloan Management School, aimed at improving and disseminating the cybersecurity culture for critical infrastructure.

Significant customers of BV-Tech include the Lombardy and Veneto Regional governments, the Italian Ministry of Justice, TIM (Telecom Italia Mobile), American Express, NATO, Leonardo, Bulgari, Eni and Saipem.

Strategic partnership

Defenx's strategy is to own and develop digital security solutions marketed to a broad range of customers and end-users. It has always been part of our strategy to expand further into the corporate market where the demand for cyber security is a major driver for IT investment. The strategic partnership with BV-Tech represents a significant step in pursuit of this strategy. Defenx has acquired a bespoke version of BV-Tech's encrypted voice and messaging software with full rights over the source code for a consideration of €2.65 million in new Ordinary Shares.

Defenx and BV-Tech will shortly formalise each party's commitments to the long-term strategic partnership, which will include assisting Defenx to access the Italian corporate market, the services to be provided by each party and the financial and other considerations due in respect of such services.

As a demonstration of its long-term intent, BV-Tech also subscribed for €1.15 million in new Ordinary Shares in April 2017. BV-Tech now owns 29.6% of Defenx's Ordinary Shares.

Rationale

BV-Tech has a sophisticated and integrated sales and distribution structure and close support relationships with its large corporate customers, many of whom have customers of their own that are or could be users of digital security products and solutions that Defenx offers. This provides the opportunity for BV-Tech to enhance and deepen its relationships by offering Defenx products to its existing and new customers.

BV-Tech's sales, support and technical staff, with the experience to design, sell and integrate corporate technology solutions, will be available to assist Defenx in the development and delivery of an ever-wider range of cyber security solutions and accelerate Defenx's expansion into the larger corporate market.

Benefits

The Directors believe that, with the support of BV-Tech as a significant shareholder, Defenx will be able to target larger corporate customers more rapidly, more cost effectively and with lower risk, with a view to adding high-quality, recurring revenues in the medium-term.

See www.bv-tech.it/en/ for more information

Areas of competence

ICT Infrastructure | Security | Application Management | Web & Internet App Implementation | Business Intelligence | Audit & Compliance

1 2 3

Defenx ECM (Encrypted Calling & Messaging)

Built on the software acquired from BV-Tech, Defenx ECM, delivers Encrypted Calling & Messaging for Android, iOS and Blackberry smartphones.

In a highly competitive market, organisations will succeed or fail on their ability to capture, manage and communicate information effectively and securely. Existing mobile and fixed communication systems are not secure by design and possess many vulnerabilities as demonstrated by regular news of industrial and state sponsored espionage. Smartphones are increasingly widespread and increase the risk of illegal wiretapping. Therefore, the protection of communications has become strategically important.

Defenx ECM employs standard protocols, encryption algorithms and open-source software components to provide secure telephone conversations and encrypted messages and attachments.

Every year, new sectors find they need to protect their communications: financial institutions with price sensitive information, multinationals with commercially sensitive information, law enforcement with intelligence of interest to criminals, and government and intelligence agencies with classified information.

Key features:
- Secure calls: conversation and history protection with in-call roaming (switching between WiFi and mobile networks).
- Secure messages: chat, SMS, attachments and self-destruction.
- Simplicity: software-only solution with the same user experience as a smartphone, using the existing mobile phone number, address book integration and 1-click activation.
- Performance: low bandwidth, battery consumption and latency.
- Security: open protocols delivering end-to-end (ZRTP) and end-to-site (SDES) models with PIN, password or fingerprint access control.

General data protection regulation

In our first joint effort, we are now developing corporate solutions that combine Defenx products and BV-Tech expertise to address the implementation of the EU General Data Protection Regulation (GDPR) in 2018.

GDPR replaces the existing EU Data Protection Directive and is designed to harmonise data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy.

For most businesses, GDPR will require investment in people, processes and systems to protect personal data. There are significant fines for breaches, particularly those that could have been prevented or mitigated with appropriate safeguards. The burden of proof that adequate steps had been taken falls on the business holding the data.

Cyber security
Any device used for data capture and processing is a potential data breach target or network attack entry point. Defenx Security software provides simple to use, but effective endpoint protection. It can be deployed on devices, both owned by the business or employees (used under BYOD policies), to significantly improve risk management.

Date encryption
GDPR does not proscribe specific processes or tools to be implemented, but the encryption of personal data is suggested practice. Forthcoming updates to Memopal Cloud Backup will offer appropriate corporate-grade encryption (end-to-end or end-to-site).

File management and audit
Organisations possess large volumes of unstructured data across different systems and departments. This data is often 'contaminated' by personal data. GDPR requires the identification of personal data, adequate safeguards and the reporting of any breaches.

We believe that cloud storage coupled with data analytics will facilitate the identification of personal data subject to GDPR, its potential misuse or loss. The logging of all file actions (e.g. create, delete, read, share, etc.), in an immutable form, will make it auditable.

Strategy in action continued

memopal online backup

1 2 4

The acquisition of Memopal, a cloud-based backup and synchronisation business, was successfully completed in August 2016 bringing new IP, new customers and internal development and customer support capacity. Cloud storage is a door opener to new opportunities.

About Memopal
Memopal, founded in Rome, Italy, in 2007, developed and owns an innovative cloud storage platform and infrastructure.

By combining predictive software with commodity hardware, Memopal's proprietary Global File System (MGFS) delivers competitive cost per gigabyte cloud storage.

Memopal's Cloud Backup and synchronisation client software is available in 16 languages across all major operating systems, including Microsoft Windows, Apple OS X, Linux, Android and iOS.

Rationale
The acquisition was in line with Defenx's stated strategy of diversifying its product portfolio and growing its customer base.

Memopal's team of seven staff and three consultants significantly increased the Group's internal development and customer support capacity that we would otherwise have needed to recruit.

The consideration was €1.78 million including up to €0.38 million in new Ordinary Shares contingent on 2017 Group EBITDA. The Board believes the acquisition multiples – up to 3.0x revenue and 6.6x EBITDA on historic 2015 results – represents good value for shareholders.

Impact so far
Defenx now offers effective protection against ransomware both reducing the risk of malware infection and, in the event of a successful attack, ensuring data is never lost, even on the move.

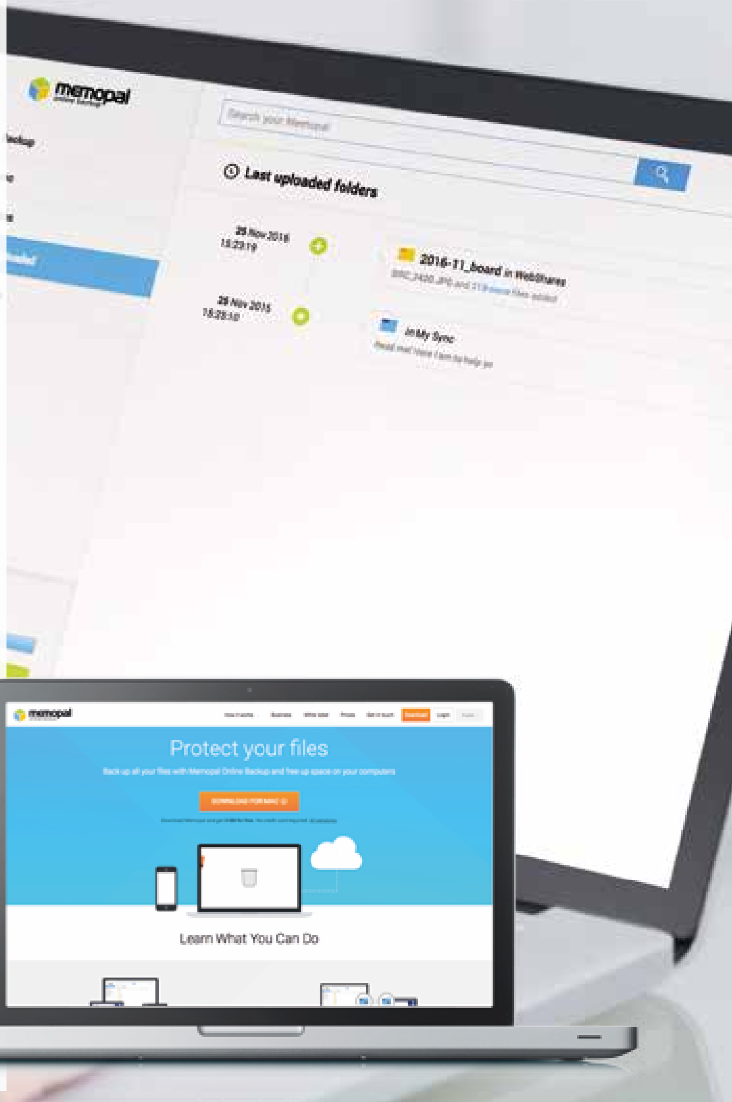
Memopal's largest customer, Türk Telekom, renewed its contract during the year and we are working together to expand into their customer base and the wider regional market.

With the team from Memopal, the Group now maintains and supports its products with internal resources, outsourcing key aspects of new product development to trusted external partners.

With an EU subsidiary, the Group also has some protection against the potential impacts of Brexit and has been able to secure low cost debt finance to reduce its overall cost of capital. At the end of 2016, there was around €0.7 million in bank facilities, at interest rates at or below 4% per annum.

Memopal's revenue and profit contribution in 2016 was modest as we integrated the business and started to build the sales pipeline for 2017. We are confident that the keen interest from channel partners will translate into significant revenue growth and incremental profit.

Memopal's largest customer, Türk Telekom, renewed its contract during the year and we are working together to expand into their customer base and the wider regional market.



Defenx Parental Control

Defenx Parental Control protects under-age smartphone and tablet users from inappropriate content and enables parents to manage their children's online activity.

The problem
Children expect to have a smartphone because their friends have one too. Smartphones are a great way to stay connected with children. However, children don't always display good judgment in the sites they visit and the content they share. They may not yet know how to stay safe online.

The solution
Defenx Parental Control enables parents and guardians to control their children's online activities and device usage from their own smartphone or web browser. This control empowers parents to educate their children as they grow up, safe in the knowledge that they are protected.

Defenx Parental Control will shortly be available in five languages for Android, iOS and Windows 10 Mobile.

Benefits
The addition of Defenx Parental Control broadens our product portfolio providing a different, value-adding, proposition for our channel partners to engage with their customers. We can cross-sell our Security products to new users of Protection products and vice versa.

Progress to date
We launched exclusively with a Ukrainian channel partner securing a 75,000 unit pre-order in December 2016. Our partner has an established network of long-term partnerships with telephone carriers and electronics retailers in Ukraine, Russia and neighbouring countries including Georgia and Azerbaijan.

It also acts as the web solution provider for Dr Eugene Komarovskiy (www.komarovskiy.net), a paediatrician with a strong reputation in Russian-speaking countries who has published books dedicated to the wellbeing of children aged 0 – 14 and has a significant social media following. Dr Komarovskiy is supporting the product through his web and TV channels.

Both our own label Defenx Parental Control and the white-label version were built using our Parental Control SDK.

Key features:
- Block inappropriate content: control which websites can and cannot be viewed by specific site and category e.g. pornography and other adult sites, known phishing sites, etc.
- Track calls and messages: see who is called or texted most and maintain a list of blocked contacts.
- Control games & apps: block undesired apps from running.
- Webcam control and photo browser: block access to the camera and remotely view photos taken.
- Time limiting: set time limits for how long children can be online and the time of day they can access the internet.
- Alerts and reporting: view online activity without blocking access and receive warning messages when specific sites are visited. View activity on the device, including surfing history, call/SMS history, social network usage, new contacts, and app, bandwidth and battery usage.
- Location tracking, check-in and panic button: track the device location by GPS, require regular checking-in from the app and, in an emergency, call for help with the panic button. Turn the camera and mic on remotely.

Chief Executive Officer's review

Andrea Stecconi / Chief Executive Officer

Defenx has successfully navigated its first full year on AIM. Our B2B2C strategy has again delivered significant revenue and profit growth. This growth comes through growing the team, growing our product portfolio and growing the number and quality of channel partners we now support. Year-on-year growth in revenue was 58% to €7.09 million. Operating profits (before transaction costs) increased 88% to €1.84 million with strong cash generation. Earnings per share increased four-fold to €0.185.

Growing with the market

Defenx has focused on the mobile security market since its outset. Today, Google's Android has overtaken Microsoft's Windows as the world's most popular operating system. The number of mobile devices continues to grow towards an estimated 5.7 billion by 2020. Internet activity increasingly revolves around mobile devices – email, messaging, web browsing, sharing photos and videos – particularly so in the secondary and emerging markets that we target. We therefore remain convinced that developing our product portfolio to securing mobile devices and protecting the data they contain is the right strategy.

The rapid growth of ransomware, including more sophisticated attacks on businesses, is a key driver for the adoption of improved cyber protection. With the acquisition of Memopal, Defenx now offers Mobile Security and Cloud Backup both reducing the risk of infection and, in the event of a successful attack, ensuring data is never lost, even on the move.

New channel partners

Our focus on mobile and a channel-friendly business model enabled us to add eight new channel partners in 2016, expanding our reach into retail, mobile operators and device manufacturers. Distribution continues to grow in 2017 with the launch of Defenx Mobile Security Suite on the Café Bazaar Playstore, an Iranian Android App marketplace, through one of our channel partners.

Our channel partners have not just increased in number, but also in the size of the target markets they address, driving our geographical expansion into key markets. The acquisition of Memopal brought Türk Telekom as a new channel partner. Their contract has been renewed and we are already working together to expand into their customer base and the wider regional market.

Memopal acquisition completed

As announced on 2 August, we successfully completed the acquisition of 95.2% of Memopal, a cloud-based backup and synchronisation business based in Rome, Italy. Memopal's team has significantly increased the Group's internal development and customer support capacity that we would otherwise have needed to recruit during the year. The acquisition diversified and enhanced the Group's product portfolio and added new channel partners, development and support staff.

Expanding the product portfolio

As we entered 2017, our product portfolio was much enhanced since the IPO. In addition to Security (anti-malware end-point protection), we have added Backup (cloud storage and sync to protect data and securely share it) and Protection (a suite of solutions to monitor and manage the online activity of family members and corporate staff). With these three product segments we now address the varied needs of consumer and corporate end-users.

Development work is now well advanced on our in-house PC and Network Security Suite, part of our strategy to comprehensively address the needs of corporate end-users. Together with the Defenx Mobile Device Management (MDM) portal and Defenx Encrypted Call & Messaging (ECM) Apps, we will soon have a compelling product portfolio with which to attack the corporate market.

We continue to explore profitable opportunities in the IoT domain. Our existing Security solution for NAS drives and the expertise from Memopal is being used to develop Security and Backup solutions for Smart TVs and set-top boxes.

Solid financial performance

Our B2B2C strategy again delivered significant revenue growth with full year revenues including the contribution from Memopal of €7.09 million, a year-on-year increase of 58%. Thanks to strong cost control, we have also delivered a significant increase in operating profitability and earnings per share. Our financial performance is discussed in detail below in the Financial review.

In October, primarily to accelerate software development, we successfully sought shareholders' approval for an equity placing and subscription raising €1.53 million net of fees. Together with strong operating cash flows of €2.32 million and the debt facilities secured following the acquisition of Memopal, we now have the funding to continue our mobile-led growth and expand into the lucrative corporate market.

Corporate and social responsibility

Much of our software is optimised for mobile devices running on battery power. We seek to maximise its efficiency by reducing the impact on processing capacity and memory. These products therefore have lower power consumption reducing the frequency of battery recharging: a small, but scalable contribution to the environment. In common with many businesses, our greatest impact on the environment comes from travel, notably air travel. We seek to use modern communications to limit air travel as far as possible.

Current trading and outlook

Defenx is on track to launch new products, enter new markets and broaden its management team in 2017. The Board of Defenx is confident that the Group will show continued growth in revenue and profit over the coming year in the ever-exciting security software market. I firmly believe that our long-term partnership with BV-Tech, announced last month, will generate high-quality, recurring revenues in the medium-term.

I would like to personally thank our people and investors for their continued support and look forward to reporting further progress in 2017.

Andrea Stecconi
Chief Executive Officer
22 May 2017

Financial review

Philipp Prince / Chief Financial Officer

Defenx's continued revenue growth and strong cost control translated into significantly increased operating profits and, importantly, positive operating cash flows. The reduction in our free cash outflow is welcome and shows a clear trend towards the Board's goal of positive free cash flows. Following the acquisition of Memopal, we took advantage of low cost debt in Italy and completed an investor-supported placing to accelerate our investment plans.

Key performance indicators

		2016	2015
Revenue	€m	**7.09**	4.50
Revenue growth	%	**57.9%**	88.5%
Operating profit (before transaction costs)	€m	**1.84**	0.98
Operating margin (before transaction costs)	%	**26.0%**	21.8%
Earnings per share	€	**0.185**	0.042
Operating cash flow	€m	**2.32**	(1.02)
Free cash flow (after capitalised development costs)	€m	**(1.67)**	(2.37)

Revenues

Group revenues grew 58% to €7.09 million (2015: €4.49 million) driven primarily by increased demand from new and existing channel partners following the launch of new products and upgrades. On an organic basis, excluding the acquisition of Memopal, revenue growth was 53%. The market sales seasonality continues to result in the majority of Group revenues, 67% (2015: 70%), falling into the second half of the financial year.

Mobile security revenues accounted for around 65% (2015: 70%) of our business with the balance from PC and Network security and our new Backup segment. Network security revenues increased substantially with the sale of our NAS security products to new channel partners.

ARPU was 10% higher than the prior year. As highlighted last year, the sale of security bundles – providing protection for multiple platforms – is increasingly important. With the addition of Backup and Protection segment products to our portfolio, we expect this trend to continue with a resultant increase in the Group's ARPU.

The deferred revenue provision increased to €590,000 (2015: €315,000) representing the proportion of sales attributable to the provision of updates and support over the licence period outstanding at the year end. As our revenue model shifts towards 'Protection as a Service' subscriptions, we expect deferred revenue to grow as a proportion of sales. The Board continues to monitor the likely impact of IFRS 15, due for first time adoption from January 2018, and emerging market practice.

Gross margin

In line with guidance last year, gross profit margins fell to 82.5% (2015: 88.6%) with the launch of new products that increased amortisation charges to €1.01 million (2015: €477,000). Cost of sales also includes sales commissions, expensed customer integration and software maintenance costs.

The introduction of Memopal Cloud Backup in March 2016, for which there are additional storage, connectivity and labour costs of sales, also had a modest downward impact on margins. We expect this to continue in 2017 as Memopal Cloud Backup sales grow.

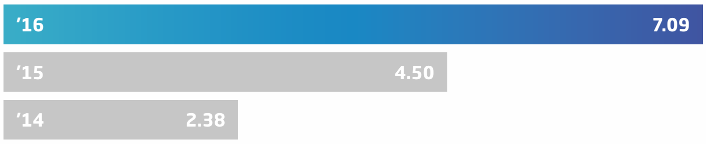
Expenses

The Group now reports operating expenses by department, being sales & marketing; research, development & operations; and administration, with transaction costs separately itemised. Analysed by their nature, marketing, staff and AIM-related expenses account for the majority of the Group's ongoing operating expenses (see note 6).

Marketing expenses, primarily contributions towards developing the Defenx brand that are generally paid to channel partners only upon the achievement of pre-agreed sales targets, increased to €2.22 million (2015: €1.45 million), a modest fall to 31.4% (2015: 32.3%) of sales against our target of 30%.

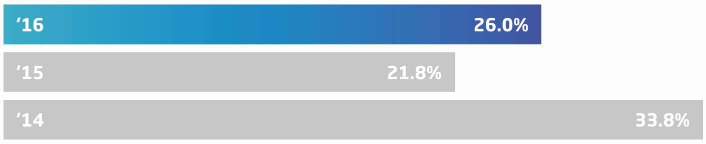
Overall staff costs increased to €943,000 (2015: €691,000) with the addition of ten sales, support and development staff, largely following the acquisition of Memopal, and the full year effect of the Board additions and alignment of remuneration to market rates for the IPO. Performance-related bonuses of €191,000 (2015: €203,000) are included in these costs. We continue to engage sales and development resources as contractors at an additional cost during the year of €88,000 (2015: €114,000) excluding software development costs that have been capitalised.

Revenue (€ millions)



Revenue and revenue growth provides the evidence that our software is purchased and used.

Operating profit margin (before transaction costs) (%)



Growth in operating margins ensures sales, marketing and administrative costs are controlled to drive efficiency in the Group's operations.

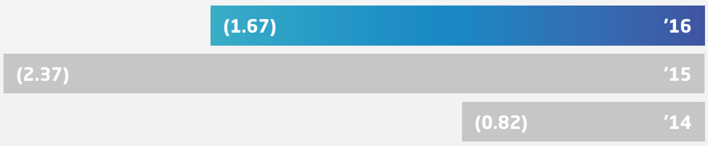
Earnings per share (€)

Earnings per share is the key indicator showing whether Defenx is delivering shareholder value.

Operating cash flow (€ millions)

Operating cash flow demonstrates that profits convert to cash on a timely basis.

Free cash flow (€ millions)



Free cash flow shows whether Defenx is self-funding its investment activities.

Financial review continued

The costs of maintaining our AIM listing were €168,000 (2015: €6,000 from 3 December 2015). In addition, the share-based payment charge in respect of the 204,750 warrants granted to our joint-brokers at the time of the placing in October 2016 was €59,000. Excluding these AIM expenses, administrative expenses fell during the year. On an annualised basis, Memopal adds around €300,000 to the Group's operating expenses.

Operating profitability

Operating profits before transaction costs increased 88% to €1.84 million (2015: €979,000) resulting in an operating margin before transaction costs of 26.0% (2015: 21.8%). This increase reflects the tight control of overheads following the step change in the Group's cost base prior to our IPO. Being largely fixed costs, we anticipate operating margins to continue to improve during 2017 towards our target of 30%.

Transaction costs of €189,000 relating to the acquisition of Memopal and net interest expenses of €62,000 (2015: €3,000) resulted in profit before tax of €1.60 million (2015: €362,000). Additional transaction costs of €169,000 relating to the placing and subscription were charged to the share premium account.

Taxation

The Group's effective tax rate for the year of 21.1% (2015: 64.6%) is in line with the 20% main rate in the UK. The loss incurred by the Company itself, for which we do not yet obtain tax relief, was offset by the release of excess provisions for Swiss tax from 2014. With the acquisition of Memopal, we expect our effective rate of tax to increase further above 20% during 2017. We keep the Group's operations under review to ensure taxes are paid that fairly reflect activities in the UK, Italy and Switzerland.

Net profit and EPS

Profit after tax attributable to ordinary shareholders of Defenx was €1.23 million (2015: €192,000). This equates to earnings per share (EPS) of €0.185 (2015: €0.042) undiluted and €0.169 (2015: €0.039) diluted.

The Board has reviewed the dividend policy in light of the Group's strategy, available opportunities and anticipated funding requirements and has concluded that it is in the interests of shareholders to continue to reinvest profits in future growth. The medium-term intention remains to become a dividend paying business.

Cash flow

The net cash inflow from operating activities was €2.32 million (2015: €1.02 million outflow) after an increase in receivables of €1.44 million (2015: €2.27 million) offset by an increase in payables and provisions of €1.04 million (2015: €347,000). We continue to work with our channel partners to accelerate the receipt of debtors, although extended terms are common in Southern Europe, the Middle East and Africa.

The cash outflow from investing activities reflects continued investment in our software assets, which accelerated following the placing and subscription in October 2016. During the year, capitalised software development costs were €4.89 million (2015: €1.35 million) including €900,000 for the Memopal Cloud Backup IP acquired with Memopal. Cash acquired upon the acquisition of Memopal was €354,000.

The net cash inflow from financing activities reflects the placing and subscription in October 2016 that raised €1.53 million net of expenses, the drawdown of new debt facilities and the partial repayment of the vendor loans in respect of the acquisition of Memopal.

The free cash outflow, defined as net cash flow from operating activities less internally capitalised development costs, was €1.67 million (2015: €2.37 million). As revenues continue to grow, it is the Board's expectation that free cash flow will turn positive.

Together with the net proceeds of €2.78 million from the IPO, Defenx has raised a total of €4.31 million since admission to AIM. A further €1.15 million was subscribed by BV-Tech after the year-end.

Intangible assets

The net book value of capitalised development costs increased to €6.54 million (2015: €2.61 million) reflecting the completion of work on Defenx Mobile Security for Windows 10 Mobile, Defenx Privacy Adviser and Defenx Parental Control; the start of work on Defenx Security Suite for Windows PCs and networks; integration with channel partners' systems; and the acquisition of Memopal.

The acquisition of Memopal resulted in goodwill of €1.14 million and an intangible customer relationship asset relating to certain B2B customer contracts, which is being amortised over three years, of €305,000 (see note 23).

Having assessed the sales prospects for our software products, the Board is satisfied that carrying value of these intangible assets is appropriate.

Current assets and liabilities

Current assets increased to €6.68 million (2015: €4.64 million) including year-end trade receivables of €5.33 million (2015: €2.83 million), of which 16% was overdue, and cash balances of €1.18 million (2015: €1.33 million).

Credit risk is managed by regular review of outstanding and overdue balances and dialogue with customers. Standard payment terms are typically between 90 and 120 days in our markets. The average age of outstanding invoices at the year-end was 58 days, somewhat below the average during the year due to our sales seasonality. Based on the strong relationships with our customers and their past collections experience, we are confident that trade debtors are fairly stated in the balance sheet.

Cash deposits are held in Euros, Sterling, Swiss Francs and US Dollars and placed on deposit in the UK and Switzerland. Minimal balances are held in Italy. Cash forecasts are updated monthly to ensure that sufficient cash is available for foreseeable requirements.

Current liabilities increased to €4.07 million (2015: €1.35 million) including trade creditors and accruals of €1.39 million (2015: €656,000), the current proportions of deferred revenue, loans and borrowings, and taxation of €773,000 (2015: €443,000).

Financing

The Group entered into new debt facilities of, in aggregate, €1.32 million during the year. A €400,000 term loan, €150,000 invoice discounting facility and overdraft of €150,000 are available in Italy. A supply chain finance facility of £450,000 is available in the UK. The invoice discounting and supply chain finance facilities have allowed the Group to narrow the working capital gap between the extended debtor terms customary in its overseas markets and shorter supplier credit terms in the UK. In addition, €742,000 of the €1 million vendor loans (including the €438,000 in cash consideration) in respect of the acquisition of Memopal were outstanding at the year-end.

Gross debt, including vendor loans, was €1.95 million (2015: €nil) at the year end (see note 18). Net debt was €774,000 (2015: €nil), equivalent to a debt-to-equity ratio of 8% compared to the Board limit of 25%. The weighted average interest rate payable for the year was 9.8%.

Defenx is in a strong financial position to continue to grow and exploit many exciting opportunities ahead. The Group ended the year with a significantly stronger balance sheet. Total equity attributable to ordinary shareholders of Defenx increased to €9.63 million (2015: €5.81 million) representing a net asset value per share of €1.120 (2015: €0.953).

Philipp Prince
Chief Financial Officer
22 May 2017

Principal risks and uncertainties

The Board is responsible for developing a comprehensive risk framework and a system of internal controls.

Principal risk	Mitigation	Movement
Technology The industry in which Defenx operates is in the process of continual change reflecting technical developments as industry and government standards and practices change and emerge. The markets in which Defenx operates are competitive and rapidly evolving. The Group's existing products may become less competitive or even obsolete as competitors introduce new products and customer behaviour changes. Certain of the Group's competitors have greater scale with significant financial, technical, sales and marketing resource and may therefore be better able to generate sales.	New products and features are carefully assessed against their target markets and in response to channel partner feedback prior to development. Defenx works with expert development partners who have a track record of producing high-quality software quickly and at highly competitive costs.	
Cyber security and data protection As a growing provider of security solutions, Defenx may become a high-profile target and the Group's networks and products may have vulnerabilities that have from time to time been, and may in future be, targeted by attacks designed to disrupt the Group's business and harm its reputation. As a custodian of increasing volumes of end-user data, the Group is exposed to data loss and breaches of data protection regulations in the markets in which it operates. Such attacks and/or data loss could adversely affect the Group's reputation, performance and operations.	The Group actively monitors its cyber exposure and its products effectiveness against emerging threats. The Group's IT team: • monitors suspicious activities • investigates and reports on any actual or suspected incidents • regularly implements improvements in the Group's security infrastructure. All staff are trained to mitigate cyber risks by adopting appropriate best-practice.	▲
Competition The markets in which Defenx operates are competitive and rapidly evolving. The Group's existing products may become less competitive or even obsolete as competitors introduce new products and customer behaviour changes. Certain of the Group's competitors have greater scale with significant financial, technical, sales and marketing resource and may therefore be better able to generate sales.	Defenx's products have been optimised for mobile devices, the fastest growing product category, which the Board believes reduces the likelihood of obsolescence. The Board further believes that our B2B2C strategy is more efficient with lower customer acquisition costs and higher ARPU. This efficiency, which is expected to increase with scale, will become a competitive advantage for Defenx.	

The principal risks and uncertainties presented below are those considered by the Board to have a potentially material impact on the Group's ability to achieve its key objectives. They do not include all the risks associated with the Group's activities.

Key

- ▲ Increase
- ▬ Stable
- ▼ Decrease

<table>
<tr><th>Principal risk</th><th>Mitigation</th><th>Movement</th></tr>
<tr><td>Retention of channel partners
Our B2B2C strategy relies on the attraction and retention of channel partners. These relationships are fundamental to achievement of our business objectives. If we do not retain channel partners whether by reason of competition, mismanagement or other cause, the Group's financial performance could be significantly adversely impacted.</td><td>Defenx seeks to attract and retain high-quality channel partners by:
• offering a growing range of security products and solutions that meet the needs of end-users
• providing tools to help partners manage renewals and generate recurring revenues rather than disintermediating them by selling direct to end-users
• pricing our products competitively and sharing revenues to give partners fair margins</td><td>▼</td></tr>
<tr><td>Recruitment and retention of staff
The success of Defenx depends upon high-quality staff with the relevant expertise and experience to broaden and sell the Group's products and solutions. Failure to retain these staff and attract and retain other high calibre individuals may adversely affect the Group's performance and profitability.</td><td>The Board believes that the Group's focus on the fast growing mobile security market, its recent IPO and strong leadership offers a compelling and refreshing employment proposition.</td><td>▬</td></tr>
<tr><td>Operations overseas
A rising proportion of Defenx's revenues are generated outside the European Union. The Group may be adversely affected by changes in local and regional economic, political and social conditions such as changes in law and regulation, taxation and currency restrictions. In addition, fluctuating exchange rates and the costs of conversion and exchange controls may have an unfavourable impact on profitability, particularly when reported in Sterling.</td><td>By working with channel partners, Defenx leverages their expertise of overseas markets to trade more effectively than by operating directly in such markets.

The Group incurs the majority of its costs and generates most of its revenues in Euros. This natural hedging reduces the impact of fluctuations in foreign currencies.</td><td>▲</td></tr>
<tr><td>Working capital and funding
The Group has many investment choices in its fast growing markets. Growing sales, particularly in new and emerging markets, and new product development requires time and working capital. Poor investment choices may result in weaker or no sales growth, products with limited market potential and limited funding constraining our ability to grow.

The Group is also exposed to heightened credit risk due to customer concentration and extended credit terms resulting from its B2B2C business model and focus on secondary and emerging markets.</td><td>The Group is profitable and invests its positive operating cash flows in sales, marketing and software development. It does not need to fund trading losses.

All software development and material sales generation activity, for example into new territories, is assessed and prioritised by market potential and risk.

Credit risk is mitigated by assessing the credit rating of new customers prior to entering into contracts and agreeing credit terms with customers.</td><td>▼</td></tr>
</table>

Board of Directors

Anthony (Tony) Reeves
Chairman

Appointed to the Board: 7 October 2015

Committee Membership: A R*

Tony has over 45 years' experience in the recruitment sector and was the executive chairman of Kellan Group plc, the AIM listed recruitment business. Prior to this, he was chairman and chief executive officer of the hotgroup plc from 2001 until its acquisition by Trinity Mirror Group plc in 2005. In 1986 Tony formed Lifetime Corporation, an overseas recruitment agency operating primarily in the Middle East, which was reversed into a business listed on the American Stock Exchange and sold to Olsten for $660 million with $1 billion sales. He is also a private investor in various early stage companies and vice president of Chelsea Football Club.

Andrea Stecconi
Founder and Chief Executive Officer

Appointed to the Board: 3 June 2014

Committee Membership: None

Andrea established Defenx in 2009 to build on the marketing and channel development skills he developed through a career in technology marketing. From 1999 to 2009, Andrea was chief executive officer at Exa Media Spa a media software developer based in Ancona Italy. In 2005, as part of an effort to leverage the Exa Media distribution network, he successfully brought Kaspersky PC security software into Italy. He is specifically responsible for strategic direction, lead generation and customer engagement. Andrea holds a degree in accounting from the Istituto F. Corridoni in Osimo (Marche Region) and attended further studies in computer programming. He is presently based in Balerna, Switzerland and is fluent in Italian and English.

Philipp Prince
Chief Financial Officer

Appointed to the Board: 21 July 2015

Committee Membership: None

Philipp has 20 years' experience as a chartered accountant, having qualified with Stoy Hayward (now BDO LLP) in 1995. He spent 16 years in corporate finance, becoming a partner in 2002, and spent two years building BDO's government and infrastructure team. Prior to joining Defenx, he was CFO of Enecsys, a Silicon valley based solar micro-inverter business. Philipp is responsible for financial management, governance and investor relations. He has an MA in Natural Sciences from Corpus Christi College, Cambridge University, and he is a fellow of the Institute of Chartered Accountants in England & Wales. Philipp is currently based in London and is fluent in English and French and speaks German.

Leonard Seelig
Non-executive Director

Appointed to the Board: 7 October 2015

Committee Membership: A* R

Leonard has had a successful career in finance spanning over 25 years and including senior positions in the US and Europe with America's largest banks. He is currently actively involved both at an operating and board level in several companies in the technology sector and was until recently non-executive chairman of APC Technology Group Plc, an AIM listed 'green-tech' company. Leonard's educational background includes a Bachelor of Commerce from the University of Witwatersrand in South Africa, and a Master of Science in Agricultural Economics from Texas A&M University in America.

Franco Francione
Non-executive Director

Appointed to the Board: 22 May 2017

Committee Membership: A

Franco has 30 years' experience in finance and administration. He started his career at an Italian business subsequently acquired by Johnson Controls Automotive where he was treasury manager reporting to the managing director. In 2001, he moved to Segesta SpA, now part of the Korian Group, a European leader in services to the elderly, listed on Euronext. At Segesta, Franco was CFO and real estate director responsible for finance, treasury, purchasing, administration, estates and M&A, and sat on 26 subsidiary boards. In March 2017, Franco joined BV-Tech SpA as CFO. He is one of BV-Tech's nominated directors. He speaks Italian and English.

Key:
A Member of the Audit Committee
R Member of the Remuneration Committee
* Denotes Chairman of Committee

Chairman's statement on governance

Dear shareholder

As an AIM company we are not required to comply with the UK Governance code (UK Code). We are, however, committed to following the principles set out in the Quoted Companies Alliance Corporate Governance Code (QCA Code), widely accepted as being the industry standard for growing companies to which the UK Code does not apply to the extent considered appropriate having regard to the current size and stage of development of the Company.

The reports from the Committees' Chairmen are set out on pages 30 to 36 and you will hear from them how Defenx is continuing to develop its governance framework. We see the evolution of good governance going hand in hand with the growth of the Group. We believe that high standards of governance make an important contribution to shareholder value now and in the future.

Future plans

Following the announcement of the strategic partnership with BV-Tech, which entitles them to nominate two Directors to the Board, any appointments are subject to approval by the Company's independent Non-executive Directors and the satisfactory completion of the requisite due diligence procedures Franco Francione was appointed by the Board today as a Non-executive Director. I am working with BV-Tech to identify and approve their second nominee.

We do not currently anticipate any succession issues but recognise that it may be necessary to recruit either replacement or additional Directors and senior management. We will therefore consider the need to create a Nominations Committee to consider the suitability of any proposed Directors and make recommendations to the Board.

Anthony Reeves
Chairman
22 May 2017

The Board

The Board comprises a balanced mix of Executives and Non-executives with a combination of relevant skills and experience, designed to ensure there is effective leadership of the Group. Directors' biographies appear on pages 26 and 27.

Both Anthony Reeves and Leonard Seelig continue to be considered by the Board to be independent, Anthony having fulfilled the test of independence on his appointment. In determining that they are independent the Board considered the individual's interests in the Company's shares and the share options granted to them. The Board determined that these interests aligned the Directors' interests with those of the Group and bearing in mind the small percentages held, that they remained independent. Franco Francione is not considered to be independent by virtue of his employment as CFO of BV-Tech.

The Board is responsible for setting strategy, performance and for the stewardship of the Group, within the framework of effective controls which enable risk to be assessed and managed. Importance is placed on maintaining a robust control environment.

Anthony Reeves as Non-executive Chairman is responsible for the leadership of the Board, ensuring its effective operation and setting the agenda. Andrea Stecconi as Chief Executive Officer is responsible for day-to-day operations. The Directors have access to the services of a Company Secretary through Equiniti David Venus Limited who provides advice on company legal and corporate governance matters. In addition, the Directors are able to take independent legal advice at the Company's expense if so required.

The Non-executive Directors are contracted to spend 24 days per annum on Defenx business.

Board meeting attendance

The Board normally meets on a monthly basis. During the year, the Board met on 10 scheduled occasions.

		Board meetings attended
Anthony Reeves	Non-executive Chairman	10/10
Andrea Stecconi	Chief Executive Officer	10/10
Guido Branca (resigned 15 June 2016)	Chief Operating Officer	4/5
Philipp Prince	Chief Financial Officer	10/10
Leonard Seelig	Non-executive Director	10/10

There were also five ad-hoc Board meetings convened in relation to the acquisition of Memopal and the placing and subscription in October 2016, which were attended by the Directors by phone except for one where Anthony Reeves was overseas and unable to join.

Board performance evaluation

The Board is committed to undertaking reviews of Board and Committee performance and of individual Board members every year. The first review, which will include the identification of any training needs for the Board, was deferred and will be conducted during 2017 once the second appointment on behalf of BV-Tech has been approved.

Risk management and internal control
The Board is responsible for determining the nature and extent of major risks facing the Group and for establishing and maintaining a risk management framework and system of internal financial controls.

A summary of the principal risks identified by the Group and how these are mitigated is set out on pages 24 and 25 The key elements of the Group's risk framework and internal control systems are:
- A schedule of matters reserved for decision by the Board
- Defined responsibilities and authority limits
- Close involvement of the Executive Directors and other members of senior management in day-to-day operations
- Monthly management reporting
- Comprehensive annual budgeting process and monitoring of performance against budget

The Board discusses all business matters having regard to the risk for the Group and to the extent that risks inherent in a particular activity are considered significant, appropriate action is taken and steps taken to mitigate the issue.

Going concern
The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, continue to adopt the going concern basis in preparing the Group and Company financial statements.

Relations with shareholders
The Directors are committed to regular engagement with existing shareholders and prospective investors and will make themselves available to meet existing and potential investors in London during the weeks in which Board meetings are held, which is generally the fourth week of the month.

In accordance with good governance, the Company entered into a relationship agreement with its major shareholder and Chief Executive Officer, Andrea Stecconi, to ensure the independent operation of the Group without undue influence. On 11 April 2017, the relationship agreement terminated as a result of Andrea's interest in the share capital falling below 20%.

Andrea Stecconi, Angelo Motti, Mauro Celentano, who in aggregate hold 2,353,492 (20.0% of the) Ordinary Shares, agreed not to sell or otherwise dispose of any of their shares, subject to certain limited exceptions, during the 12 months to 2 December 2016 and such agreements have now therefore lapsed. Normal orderly market provisions apply until 2 December 2017.

In total, BV-Tech holds 3,480,388 (29.6% of the) Ordinary Shares. BV-Tech is restricted, other than in certain limited circumstances, from transferring its Ordinary Shares for a period of 12 months, and for a further 12-month period any such transfers will need to be effected through the Company's broker.

The Company and BV-Tech have entered into a relationship agreement to ensure that the Company is capable at all times of carrying on its business independently of BV-Tech and its associates and for the benefit of the shareholders as a whole.

Information received by the Board
The Board receives information on, at least a monthly basis, to enable it to review operational and financial performance (including sales activity, software development progress and working capital management); forecasts (including comparison with market expectations); potentially significant transactions; and strategy.

Website
Our corporate website at investors.defenx.com and relevant social media platforms provide access to Company information, public announcements, published financial reports and contact details.

AGM
The forthcoming AGM on Tuesday 27 June 2017 will again be an opportunity to meet shareholders. The Chairman, other Directors and senior management will be available to meet shareholders and to answer any questions.

Audit committee report

Dear shareholder

As Chairman of Defenx's Audit Committee, I am pleased to present the Audit Committee Report for the year ended 31 December 2016, which has been prepared by the Committee and approved by the Board.

The Committee is responsible for reviewing and reporting to the Board on financial reporting, internal control and risk management, and for reviewing the performance, independence and effectiveness of the external auditors in carrying out the statutory audit. The Committee advises the Board on the statement by the Directors that the Annual Report, when read as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

During the year, the Committee's primary activity involved meeting with the external auditors, considering material issues and areas of judgement, and reviewing and approving the interim and year-end results and accounts.

In addition, the Committee reviewed the audit and tax services provided by haysmacintyre, the Group's external auditors. The Committee concluded that haysmacintyre are delivering the necessary audit scrutiny and that the tax services provided did not pose a threat to their objectivity and independence. Accordingly, the Committee recommended to the Board that haysmacintyre be re-appointed for the next financial year.

In the coming year, in addition to our ongoing duties we will:
- Continue to consider the impact on the Group of the introduction of International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers'
- Keep the need for an internal audit function under review, having regard to the Company's strategy and resources.

Leonard Seelig
Chairman of the Audit Committee
22 May 2017

Audit committee and attendance
The Audit Committee comprises Anthony Reeves and Leonard Seelig who chairs the Committee. It is our intention to appoint a further member to the Committee upon the enlargement of the Board following the strategic partnership with BV-Tech. The Board considers that Leonard Seelig has sufficient relevant financial experience to chair the Audit Committee given his 25-year career in banking and finance.

The Committee is required by its terms of reference to meet at least twice a year. During the year, the Committee met twice and both members of the Committee attended on each occasion. In addition Philipp Prince, Chief Financial Officer, attended by invitation as did representatives of haysmacintyre, the Company's external auditors.

Objectives and responsibilities
The Committee is responsible for monitoring the integrity of the Group's financial statements, including its Annual and Interim Reports, preliminary result announcements and any other formal announcements relating to its financial performance prior to release.

The Committee's main responsibilities can be summarised as follows:
- to review the Company's internal financial controls and risk management systems;
- to monitor the integrity of the financial statements and any formal announcements relating to the Group's financial performance, reviewing significant judgements contained in them;
- to make recommendations to the Board in relation to the appointment of the external auditors and to recommend to the Board the approval of the remuneration and terms of engagement of the external auditors;
- to review and monitor the external auditors' independence and objectivity, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to steps to be taken.

The terms of reference are reviewed annually and are available on the Company's website at investors.defenx.com.

Significant issues considered during the year
During the year, the Committee:
- met with the external auditors to review and approve the annual audit plan and receive their findings and report on the annual audit;
- considered significant issues and areas of judgement with the potential to have a material impact on the financial statements;
- considered the integrity of the published financial information and whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Group's position and performance, business model and strategy; and
- reviewed and approved the interim and year-end results and accounts.

The significant accounting areas and judgements considered by the Committee were:

Revenue recognition
The Committee discussed business developments in the sector, in particular the increasing frequency with which the Group's channel partners adopt a 'bundling' strategy for selling software which gives rise to licences sold by Defenx not necessarily being activated. The Committee was satisfied that the consequential judgement taken on licences sold and not activated and therefore the timing of release of deferred revenue in the accounts was appropriate. The Committee also considered an initial appraisal of the impact of adopting IFRS 15 in subsequent years.

Recoverability of debtors
The Committee reviewed the track record of payments and after-date recoveries from slow-paying debtors. In light of this evidence and having regard to the payment profile being considered typical for the sector and the relevant geographical regions, the Committee was satisfied that trade receivables were fairly stated.

Share-based payments
The Committee discussed the assumptions which continue to be adopted in accounting for share-based payments and recognising that these involve a certain amount of judgement and complexity, concluded that in the absence of a track record of exercising options, the assumption that an effective life-span of five years, compared with an option period of up to 10 years, was not an unreasonable assumption. Further details of the assumptions made are contained in note 21 to the financial statements.

Going concern
The Committee reviewed the cash flow forecasts for the Group and discussed the key assumptions and risks relevant to their achievement. The Committee was satisfied that the basis for adopting the going concern basis in preparing the Group and Company financial statements, set out in note 1 on page 47, was reasonable.

Valuation of intangible assets
The Committee reviewed the basis of capitalisation and considered the intangible value attributed to its intangible software development costs. The Committee was satisfied that the cash flows from the anticipated level of future revenues, supported by customer interest and the sales pipeline, are sufficient to support the carrying values.

Acquisition of Memopal
The Group completed the acquisition of Memopal SRL in August 2016. Management completed the exercise to determine the fair value of intangible assets and other net assets acquired in accordance with IFRS3. The Committee has reviewed the key assumptions adopted and discussed the accounting treatment and completeness of related disclosures with the external auditors.

Risk review process
The Audit Committee is responsible for reviewing the financial risks and the internal controls relating thereto but the Board as a whole has responsibility for reviewing the overall business risks and risk management framework. The Group's principal risks and uncertainties are set out in the Strategic Report together with mitigating actions and the internal controls and risk management procedures are summarised in the Corporate Governance Report.

External auditor
The Committee reviewed the effectiveness of the audit process in respect of the year ended 31 December 2015 and immediately prior to publishing this report in respect of the year ended 31 December 2016. In doing so, the Committee considered the reports produced by haysmacintyre, met the audit engagement partner and discussed the audit with the Chief Financial Officer. The Committee continues to be satisfied that the external auditors are delivering the necessary scrutiny and robust challenge in their work. Accordingly the Committee recommended to the Board that it is appropriate to re-appoint haysmacintyre as the Group's external auditors for the next financial year.

External audit and non-audit services
During the year, haysmacintyre provided tax advisory services. An analysis of the audit and non-audit fees is provided in note 6 to the financial statements. The Audit Committee considered the independence and objectivity of haysmacintyre in carrying out both tax and audit services. The Committee was satisfied with the written assurances received that the non-audit work undertaken by haysmacintyre did not pose a threat to their objectivity and independence.

Remuneration committee report

Dear shareholder

As Chairman of Defenx's Remuneration Committee, I am pleased to present the Remuneration Committee Report for the year ended 31 December 2016, which has been prepared by the Committee and approved by the Board.

The Remuneration Committee is responsible for determining the remuneration policy for the Executive Directors and other members of senior management and for overseeing the Company's long-term incentive plans. The Board as a whole is responsible for determining Non-executive Directors' remuneration.

As an AIM company, the Directors' Remuneration Report Regulations do not apply to Defenx and so the report that follows is disclosed voluntarily and has not been subject to audit. The Annual Report on remuneration will again be subject to an advisory vote by shareholders at our forthcoming AGM and we hope to receive your support.

The Committee will continue to monitor market trends and developments in order to assess those relevant for the Group's future remuneration policy.

Remuneration decisions for 2016
Defenx delivered profitable growth in 2016, reporting a 58% increase in revenue to €7.09 million and operating cash flow of €2.32 million.

Andrea Stecconi and Philipp Prince will receive bonuses of £40,000 each representing 44% and 50% of their respective base salaries. There were no long-term incentive awards during the year.

Remuneration policy for 2017 and future years
Defenx has changed considerably since admission to AIM, with the acquisition of Memopal in August 2016 and the announcement of the strategic partnership with BV-Tech in April 2017.

Accordingly, we have reviewed the Group's remuneration policies in detail to reflect the needs of a growing multi-national group. The Committee believes that executive salaries paid across the Group are now below market norms. Future salary increases will be set to bring them into line with relevant market levels.

The future policy table provides an appropriate balance between fixed remuneration and variable incentives. The performance elements will have clearly defined and challenging targets that link rewards to business performance in the short and medium-term. All variable elements of remuneration are subject to clawback or repayment in the event of serious financial misstatement or misconduct.

Following a review of Group performance and their personal contribution, Andrea Stecconi and Philipp Prince salaries will increase to £115,000 and £105,000 being increases of 28% and 31% respectively, effective 1 January 2017. In addition, Philipp Prince is now entitled to the same benefits package as offered to new employees in the UK.

There have been no long-term incentive awards since admission to AIM. It is our intention to make performance-based awards once the nominee Directors of BV-Tech have been appointed to the Board.

Anthony Reeves
Chairman of the Remuneration Committee
22 May 2017

Future policy table

The key components of Executive Directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fixed pay			
Base Salary To attract, retain and motivate high calibre executives by setting base salaries in line with the relevant market.	Base salaries are reviewed annually with reference to individual and Group performance in line with the relevant market reflecting the individual's experience, competence and importance to the business.	The Committee believes that the Executive Directors' salaries are below the market norm for Defenx's current size and resources. Salary increases will be set to bring their salaries into line with the relevant market as the business grows.	Individual and Group performance is taken into account in determining the rate of salary rises towards the relevant market norm.
Benefits To provide appropriate benefits taking into account local state provision.	Benefits vary by country of operation but typically include private medical and life insurance cover.	Benefits are set against comparable market practice.	None
Pension To provide post-retirement benefits for individuals in a cost-effective manner taking into account local state provision.	Pensions vary by country of operation and include contribution to state, personal and Group plans. There are no defined benefit plans in operation.	Defenx makes contributions to meet local requirements. In the UK contributions are up to 5% of salary plus up to a further 5% matching contribution.	None
Variable pay			
Annual bonus To focus executives on achieving operational and financial targets for the financial year.	Targets are set shortly after the start of the relevant financial year in the context of the Group's budget and prior year financial performance. The Committee determines the extent to which such targets have been met. Bonuses are typically paid in cash, although the Committee has discretion to defer awards in cash or in shares. The Committee has the discretion to reduce or clawback bonuses in the event of serious financial misstatement or misconduct.	The maximum bonus opportunity for Executive Directors is 100% of salary. Up to 50% of the maximum bonus will vest for target performance. The Committee may award up to 25% for threshold performance	The annual bonus is based on the achievement of financial targets with personal performance contributing up to one half. Revenue growth, free cash flow and EPS are considered the best measures of the Group's performance. The Committee will review metrics annually to ensure they remain appropriate and reflect the Group's strategy.
Long-Term Incentive Plan (LTIP) To align the interests of executives with shareholders in growing the long-term value of Defenx.	The plan provides for annual awards of share options and performance shares to eligible individuals. Vesting for future awards will be based solely on performance, typically over three years. The Committee has the discretion to reduce or clawback LTIP awards and to vary future awards in the event of serious financial misstatement or misconduct.	Awards may be made up to a maximum of 200% of salary in normal circumstances, although the Committee has discretion to vary this in exceptional circumstances. No awards will vest below threshold. Up to 25% will vest on achievement of threshold performance, then increase on a straight-line basis to full vesting for stretch performance.	Future LTIP awards will vest on performance only with no further time-based awards. The Committee's intention is to set LTIP targets to encourage long-term growth and shareholder value. It is anticipated that this will be based on an appropriate shareholder return measure.
Other arrangements			
Shareholding guidelines To align Directors' interests with the long-term interests of shareholders	Executive Directors are required to retain a minimum shareholding in the Company of 200% of their base salaries and retain at least 50% of shares vesting (after tax) under the LTIP until the guideline is met.	n/a	n/a
Non-executive Directors' fees To reflect the time commitment in preparing for and attending meetings, in supporting the Executive Directors and the responsibilities of the role.	Annual base fee with additional fees for Committee chairs. Additional fees if there is a material increase in the time commitment required.	The Board recognises that the Non-executive Directors' fees are currently set below market norms. The Board intends to increase fees towards such norms as Defenx grows.	None

Remuneration committee report continued

Committee members and attendance

The members of the Committee are Anthony Reeves (Chairman) and Leonard Seelig. It is our intention to appoint a further member to the Committee upon the enlargement of the Board following the strategic partnership with BV-Tech. The Committee is aware that the Company Chairman should not chair the Remuneration Committee and intends to address this as soon as practicably possible.

The Committee is required by its terms of reference to meet at least twice a year. During the year, the Committee met twice and both members of the Committee attended on each occasion. Andrea Stecconi was in attendance for the relevant part of each meeting but this did not include that part of the meeting where his own remuneration was discussed.

The terms of reference are reviewed annually and are available on the Company's website at investors.defenx.com.

Single total figure of remuneration for Executive Directors

The table below sets out the total single figure remuneration received by each Director who served during the year ended 31 December 2016.

	Salary or fees €	Benefits €	Pension €	Annual bonus €	Cash Total €	Long-term incentive €	Total €
Executive							
Andrea Stecconi	**113,892**	**-**	**-**	**46,667**	**160,559**	**-**	**160,559**
Guido Branca (resigned 15 June 2016)	**85,425**	**1,989**	**-**	**-**	**87,414**	**(12,467)**	**74,947**
Philipp Prince	**99,687**	**1,989**	**-**	**46,667**	**148,343**	**30,536**	**178,879**
Sub-total	**299,004**	**3,978**	**-**	**93,334**	**396,316**	**18,069**	**414,385**
Non-executive							
Tony Reeves	**29,883**	**-**	**-**	**-**	**29,883**	**3,224**	**33,107**
Leonard Seelig	**29,883**	**-**	**-**	**-**	**29,883**	**2,588**	**32,471**
Sub-total	**59,766**	**-**	**-**	**-**	**59,766**	**5,812**	**65,578**
Total	**358,770**	**3,978**	**-**	**93,334**	**456,082**	**23,881**	**479,963**

Guido Branca resigned as a Director on 15 June 2016. Included in his salary above is a termination payment of €20,871. There were no other termination payments during the year.

The table below sets out the total single figure remuneration received by each Director who served during the year ended 31 December 2015.

	Salary or fees €	Benefits €	Pension €	Annual bonus €	Cash Total €	Long-term incentive €	Total €
Executive							
Andrea Stecconi	81,875	–	–	57,077	138,952	–	138,952
Guido Branca	87,049	3,136	–	38,748	128,933	12,467	141,400
Philipp Prince (appointed 21 July 2015)	49,255	3,136	–	35,225	87,616	4,909	92,525
Marco Moschetta (resigned 19 February 2015)	36,078	–	–	–	36,078	–	36,078
Joyce Bigio (appointed 18 February 2015, resigned 28 May 2015)	14,090	–	–	–	14,090	–	14,090
Sub-total	268,347	6,272	–	131,050	405,669	17,376	423,045
Non-executive							
Tony Reeves (appointed 7 October 2015)	8,454	–	–	27,476	35,930	–	35,930
Leonard Seelig (appointed 7 October 2015)	8,454	–	–	22,544	30,998	–	30,998
Sub-total	16,908	–	–	50,020	66,928	–	66,928
Total	285,255	6,272	–	181,070	472,597	17,376	489,973

Base salary

The Executive Directors' service agreements are as follows:

	with Defenx PLC		with Defenx SA			
	2016	**2017**	2016	**2017**	**Group total 2017**	Increase %
Andrea Stecconi	£10,000	**£15,000**	£80,000	**£100,000**	**£115,000**	28%
Philipp Prince	£80,000	**£105,000**	–	**-**	**£105,000**	31%

The increases for both Andrea Stecconi and Philipp Prince are effective 1 January 2017.

Benefits and pension

Philipp Prince receives medical and life insurance cover and is entitled to pension contributions of 5% of salary plus up to a further 5% of salary on a matched basis. This is consistent with other UK staff.

Both Guido Branca and Philipp Prince were entitled to an office allowance of £4,500 per annum in the period prior to the Company opening a London-based head office in May 2016.

Annual bonus

For the year ended 31 December 2016

In line with the variation to their service agreements following admission to AIM, Andrea Stecconi and Philipp Prince were entitled to a bonus of up to £40,000 each dependent on Group profit before tax exceeding 90% of the 2016 budget. This target having been met, the full bonus is due to each of them. Equivalent arrangements apply to other senior members of staff.

For the year ended 31 December 2017

The Group's annual bonus scheme applies to senior employees including the Executive Directors. The maximum potential bonus is 100% of salary with up to 25% vesting for threshold performance. No bonus is awarded for performance below threshold.

Financial performance targets have been set primarily based on revenue growth and free cash flow consistent with the Group's 2017 budget and market expectations. The Committee believes that the financial performance targets for 2017 are commercially sensitive and accordingly will only be disclosed in the 2017 Annual Report.

Remuneration policy for Non-executive Directors

The current annual fees together with the dates of the letters of appointment are:

	Date of letter	2015	2016	Increase %
Anthony Reeves	7 October 2015	£24,000	£30,000	25%
Leonard Seelig	7 October 2015	£24,000	£28,000	17%
Franco Francione	22 May 2017	–	–	–

The increases for both Anthony Reeves and Leonard Seelig are effective 1 January. Their letters of appointment allow for additional fees for material additional time committed to Defenx.

Long-term incentives for Executive and Non-executive Directors

EMI Option Scheme

The Company established an EMI Option Scheme to provide incentives to employees, including Directors, to achieve the longer-term objectives of the Group, to give suitable recognition to the ability and industry of the individuals concerned and to attract and retain suitably experienced and able people, by providing them with the opportunity to acquire ownership interests in the Company.

The vesting of the existing options is not conditional on performance conditions; the only condition being that the individual remains an employee of the Group. Future awards will vest solely on performance.

The following share option awards have been granted to Executive Directors under the EMI Option Scheme:

	Date of grant	Number of shares	Exercise price	Vesting period	Expiry date
Philipp Prince	22 July 2015	42,000	£0.80	Over 36 months	22 July 2025
Philipp Prince	3 December 2015	125,000	£1.48	One third on first anniversary; balance over following 24 months from grant	2 December 2025

The Company established an Unapproved Share Option Scheme and the following options have been granted under this scheme:

	Date of grant	Number of shares	Exercise price	Vesting period	Expiry date
Anthony Reeves	3 December 2015	15,625	£1.48	One third on first anniversary; balance over following 24 months from grant	2 December 2025
Leonard Seelig	3 December 2015	12,500	£1.48	One third on first anniversary; balance over following 24 months from grant	2 December 2025

Remuneration committee report continued

Directors' interests in shares and share scheme interests

The Directors' beneficial interests in shares, together with their respective families, as at 31 December 2016 are shown below together with their interests in share schemes.

	Long-term incentives						
	Subject to continued employment only	Vested but not yet exercised	Beneficially owned	Total interest in shares	Required shareholding (% salary)	Current shareholding (% salary)	Current shareholding (% of capital)
Andrea Stecconi	–	–	1,826,836	1,826,836	200%	1469%	15.5%
Philipp Prince	105,500	61,500	71,255	238,255	200%	63%	0.7%
Anthony Reeves	10,417	5,208	31,250	46,875	–	–	0.3%
Leonard Seelig	8,333	4,167	25,000	37,500	–	–	0.3%
Franco Francione	–	–	–	–	–	–	–

There have been no changes to the Directors' shareholdings between 31 December 2016 and 22 May 2017. None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group save as set out in note 25 to the financial statements. Franco Francione is CFO of BV-Tech which holds 3,480,388 (29.6%) of the Ordinary Shares.

Terms of office for Executive and Non-executive Directors

Andrea Stecconi's service agreement is subject to termination by either party on six-months' notice. Philipp Prince's service agreement is subject to termination by either party on three-months' notice. The Chairman and Non-executive Director provide their services under letters of appointment. The appointments are terminable on three-months' notice by either party.

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2016.

Principal activity
Defenx PLC is a public limited company incorporated in England and Wales, registered number 08993398, with its registered office at 42-50 Hersham Road, Walton-on-Thames, Surrey KT12 1RZ. Defenx PLC is quoted on the AIM market of the London Stock Exchange.

Its principal activity is to provide security solutions with a range of products for mobile devices and PCs, protecting them against hackers and data loss. Management and control is exercised from the UK and its main countries of operation are Italy and Switzerland.

Review of business
The Strategic Report on pages 6 to 25 provides a review of the business, the Group's trading for the year ended 31 December 2016, key performance indicators and an indication of research and future developments as well as the principal risks and uncertainties facing the business.

Results and dividend
The results for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 40. The Directors do not recommend the payment of a dividend, because the Board believes it is in the Company's interests to retain earnings to fund working capital needs and achieve capital growth.

Directors
The Directors who served during the year ended 31 December 2016 and up to the date of signing the financial statements were as follows:

A Stecconi
G Branca (resigned 15 June 2016)
P Prince
A Reeves
L Seelig
F Francione (appointed 22 May 2017)

In accordance with the Articles of Association, each Director must retire from office at the third AGM after the AGM or general meeting, as the case may be, at which he was appointed or last re-appointed. Franco Francione, having been appointed since the last general meeting, will retire at the forthcoming AGM and, being eligible, will offer himself for re-election.

Directors' interests
Details of the Directors' interests in the shares of the Company and details of options granted under the Group's share scheme are set out in the Remuneration Report on pages 32 to 36. No Director has any beneficial interest in the share capital of the subsidiary undertaking.

Qualifying indemnity provision
The officers of the Company are indemnified in respect of proceedings which might be brought by a third party. No cover is provided in respect of fraudulent or dishonest transactions.

Financial risk management policies and objectives
A summary of the Group's key operating risks is set out on pages 24 and 25. The Group's risk management policies and objectives including exposure to price risk, credit risk, liquidity and cash flow risk are contained in note 19 to the financial statements.

Share capital
Full details of changes in the Company's share capital during the year and after the year end are set out in notes 20 and 26 to the financial statements respectively. Details of employee share options and warrants are set out in note 21. Following the conversion of all of the Company's deferred shares on 11 April 2017, the Company has one class of Ordinary Shares of £0.018 each.

Substantial shareholdings
At 22 May 2017, the Company's significant shareholders were:

	Number of shares	Holding
BV-Tech SpA	3,480,388	29.6%
Andrea Stecconi	1,826,836	15.5%
Defenx Nominees Limited	653,178	5.6%
Hargreave Hale Limited	510,000	4.3%
Angelo Motti	426,890	3.6%

Political donations
During the year ended 31 December 2016 the Group made no political donations.

Events after the reporting date
Details of significant events since the balance sheet date are contained in note 26 to the financial statements.

Provision of information to the auditors
Each of the Directors who held office at the date of approval of this Directors' Report confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's and Group's auditor is unaware; and
- he has taken all the steps he ought to have taken as a Director in order to make himself aware of any information needed by the Company and the Group's auditors in connection with their report and to establish that the auditors are aware of that information.

Auditor
haysmacintyre has expressed its willingness to continue in office as auditor to the Company. A resolution to reappoint haysmacintyre will be proposed at the forthcoming AGM.

AGM
The AGM will be held on Tuesday 27 June 2017. The notice of AGM and the ordinary and special resolutions to be put to the meeting are included on pages 69 to 70.

Approval
The Directors' report was approved on behalf of the Board on 22 May 2017.

Anthony Reeves
Chairman

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable UK law and those IFRSs as adopted by the European Union.

Under Company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they present fairly the financial position, financial performance, and cash flows of the Group and Company for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IRFSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.
- State that the Group and the Company have complied with IFRSs subject to any material departures disclosed and explained in the financial statements.
- Make judgements and estimates that are reasonable and prudent.

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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed in the Strategic Report above, confirms that, to the best of his knowledge:

- The Group financial statements which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.
- The Directors consider that the Annual Report and Accounts, taken as a whole is fair, balanced and understandable.

This responsibility statement was approved by the Board on 22 May 2017.

Andrea Stecconi
Chief Executive Officer

Philipp Prince
Chief Financial Officer

Independent auditors' report to the members of Defenx PLC

Independent auditors' report to the members of Defenx PLC

We have audited the financial statements of Defenx PLC for the period ended 31 December 2016, which comprise the consolidated statement of comprehensive income, the Group and parent company statements of financial position, the Group and parent company statements of changes in equity, the Group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors' 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

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2016 and of the Group's profit for the period then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and such reports have been prepared in accordance with applicable legal requirements.

In light of our knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Ian Cliffe (senior statutory auditor)
For and on behalf of haysmacintyre

26 Red Lion Square
London
WC1R 4AG

22 May 2017

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2016 €	Year ended 31 December 2015 €
Revenue	5	**7,088,162**	4,489,557
Cost of sales	6	**(1,240,462)**	(512,168)
Gross profit		**5,847,700**	3,977,389
Sales & marketing expenses	6	**(2,587,518)**	(1,916,406)
Research, development & operations' expenses	6	**(469,545)**	(162,155)
Administrative expenses	6	**(950,346)**	(919,629)
Operating expenses before transaction costs	6	**(4,007,409)**	(2,998,190)
Operating profit before transaction costs		**1,840,291**	979,199
Transaction costs	6	**(188,590)**	(614,192)
Operating profit		**1,651,701**	365,007
Finance income	8	**316**	37
Finance expense	8	**(62,165)**	(2,787)
Profit before tax		**1,589,852**	362,257
Income tax expense	9	**(368,660)**	(170,339)
Profit and total comprehensive profit for the year		**1,221,192**	191,918
Attributable to:			
Equity holders of the parent		**1,232,656**	191,918
Non-controlling interests		**(11,464)**	–
Profit and total comprehensive profit for the year		**1,221,192**	191,918
Earnings per share – profit for the year attributable to equity holders of the parent			
Basic	10	**€0.185**	€0.042
Diluted	10	**€0.169**	€0.039

The profit for the year arises from the Group's continuing operations.

There were no other items of comprehensive income. Accordingly, no consolidated statement of comprehensive income has been prepared.

Consolidated statement of financial position

	Note	31 December 2016 €	31 December 2015 €
Non-current assets			
Property, plant and equipment	11	**132,401**	–
Intangible assets	12	**7,979,534**	2,607,400
		8,111,935	2,607,400
Current assets			
Trade and other receivables	14	**5,503,927**	3,305,604
Cash and short-term deposits	15	**1,177,644**	1,333,869
		6,681,571	4,639,473
Total assets		**14,793,506**	7,246,873
Current liabilities			
Trade and other payables	16	**(1,393,382)**	(656,459)
Deferred revenue	17	**(461,447)**	(248,975)
Loans and borrowing	18	**(1,437,334)**	–
Income taxes payable		**(772,851)**	(442,690)
		(4,065,014)	(1,348,124)
Non-current liabilities			
Deferred revenue	17	**(128,812)**	(65,657)
Loans and borrowing	18	**(514,793)**	–
Deferred consideration	23	**(380,856)**	–
Deferred tax liabilities	9	**(53,091)**	(20,650)
		(1,077,552)	(86,307)
Total liabilities		**(5,142,566)**	(1,434,431)
Net assets		**9,650,940**	5,812,442
Capital and reserves			
Called up share capital	20	**196,549**	145,004
Share premium	20	**5,542,365**	4,051,322
Merger reserve	22	**1,641,622**	695,212
Share-based payment reserve	21	**156,403**	60,343
Retained earnings		**2,093,217**	860,561
Equity attributable to equity holders of the parent		**9,630,156**	5,812,442
Non-controlling interests		**20,784**	–
Total equity		**9,650,940**	5,812,442

Consolidated statement of changes in equity

	Share capital €	Share premium account €	Merger reserve €	Share-based payment reserve €	Retained earnings €	Foreign exchange reserve €	Total €	Non-controlling interests €	Total equity €
As at 1 January 2015	90,903	580,373	678,610	–	660,144	38,179	2,048,209	–	2,048,209
Change in functional currency	1,465	11,613	16,602	–	8,499	(38,179)	–	–	–
Profit for the year	–	–	–	–	191,918	–	191,918	–	191,918
Shares issued	52,636	3,459,336	–	–	–	–	3,511,972	–	3,511,972
Share-based payments	–	–	–	60,343	–	–	60,343	–	60,343
As at 31 December 2015	**145,004**	**4,051,322**	**695,212**	**60,343**	**860,561**	**-**	**5,812,442**	**-**	**5,812,442**
Profit for the year	–	–	–	–	1,232,656	–	1,232,656	(11,464)	1,221,192
Acquisition of Memopal SRL	13,322	–	946,410	–	–	–	959,732	32,248	991,980
Shares issued	38,223	1,491,043	–	–	–	–	1,529,266	–	1,529,266
Share-based payments	–	–	–	96,060	–	–	96,060	–	96,060
As at 31 December 2016	**196,549**	**5,542,365**	**1,641,622**	**156,403**	**2,093,217**	**-**	**9,630,156**	**20,784**	**9,650,940**

Consolidated statement of cash flows

	Note	Year ended 31 December 2016 €	Year ended 31 December 2015 €
Cash flows from operating activities			
Profit for the year after tax		**1,221,192**	191,918
Income tax expense		**368,660**	170,339
Profit before tax		**1,589,852**	362,257
Adjustments to reconcile profit before tax to net cash flows:			
Net interest expense	8	**61,849**	2,750
Depreciation of property, plant and equipment	11	**22,482**	–
Amortisation of intangible assets	12	**1,009,849**	476,623
Share-based payments expense	21	**96,060**	60,343
Operating cash flows before movements in working capital		**2,780,092**	901,973
Increase in trade receivables		**(2,297,367)**	(1,809,552)
(Increase)/decrease in other receivables		**857,061**	(456,513)
Increase/(decrease) in trade and other payables		**847,193**	177,521
Increase/(decrease) in provisions		**191,081**	169,138
		(402,032)	(1,919,406)
Interest received		**316**	37
Interest paid		**(55,175)**	(2,787)
Tax paid		**(924)**	(1,295)
Net cash flow from operating activities		**2,322,277**	(1,021,478)
Investing activities			
Purchase of property, plant and equipment	11	**(22,482)**	–
Development costs – internally developed	12	**(3,988,821)**	(1,351,000)
Acquisition of intangible software assets	12	**(900,000)**	–
Acquisition of a subsidiary, net of cash acquired	23	**353,788**	–
Net cash used in investing activities		**(4,557,515)**	(1,351,000)
Financing activities			
Net proceeds from issue of share capital	20	**1,529,265**	3,511,972
Proceeds from borrowings	18	**647,533**	–
Repayment of borrowings	18	**(260,525)**	–
Net cash from financing activities		**1,916,273**	3,511,972
Net increase in cash and cash equivalents		**(318,965)**	1,139,494
Net foreign exchange difference		**-**	(11,620)
Cash and cash equivalents at 1 January		**1,333,869**	205,995
Cash and net cash equivalents at 31 December	15	**1,014,904**	1,333,869

Company statement of financial position

Company registration number: 08993398

	Note	31 December 2016 €	31 December 2015 €
Non-current assets			
Investments in subsidiary company	13	**1,844,407**	65,603
Intangible assets	12	**1,830,000**	–
		3,674,407	65,603
Current assets			
Trade and other receivables	14	**71,337**	167,376
Loans to subsidiary company	25	**2,735,226**	2,130,013
Cash and short-term deposits	15	**1,042,634**	1,218,464
		3,849,197	3,515,853
Total assets		**7,523,604**	3,581,456
Current liabilities			
Trade and other payables	16	**(672,651)**	(468,953)
Deferred revenue	17	**(447)**	(1,605)
Loans and borrowing	18	**(717,000)**	–
		(1,390,098)	(470,558)
Non-current liabilities			
Loans and borrowing	18	**(153,349)**	–
Deferred consideration	23	**(380,856)**	–
		(534,205)	–
Total liabilities		**(1,924,303)**	(470,558)
Net assets		**5,599,301**	3,110,898
Capital and reserves			
Called up share capital	20	**196,549**	145,004
Share premium	20	**5,542,365**	4,051,322
Merger reserve	22	**946,410**	–
Share-based payment reserve	21	**156,403**	60,343
Retained earnings		**(1,242,426)**	(1,145,771)
Equity attributable to equity holders		**5,599,301**	3,110,898

The Company's loss for the year ended 31 December 2016 was €96,655 (2015: €1,035,047).

Company statement of changes in equity

	Share capital €	Share premium account €	Merger reserve €	Share-based payment reserve €	Retained earnings €	Foreign exchange reserve €	Total €
As at 1 January 2015	**90,903**	**580,373**	**-**	**-**	**(108,227)**	**10,579**	**573,628**
Change in functional currency	1,465	11,613	–	–	(2,499)	(10,579)	–
Total comprehensive loss for the year	–	–	–	–	(1,035,045)	–	(1,035,045)
Shares issued	52,636	3,459,336	–	–	–	–	3,511,972
Share-based payments	–	–	–	60,343	–	–	60,343
As at 31 December 2015	**145,004**	**4,051,322**	**-**	**60,343**	**(1,145,771)**	**-**	**3,110,898**
Total comprehensive loss for the year	–	–	–	–	(96,655)	–	(96,655)
Acquisition of Memopal SRL	13,322	–	946,410	–	–	–	959,732
Shares issued	38,223	1,491,043	–	–	–	–	1,529,266
Share-based payments	–	–	–	96,060	–	–	96,060
As at 31 December 2016	**196,549**	**5,542,365**	**946,410**	**156,403**	**(1,242,426)**	**-**	**5,599,301**

Company cash flow statement

	Note	Year ended 31 December 2016 €	Year ended 31 December 2015 €
Cash flows from operating activities			
Loss for the year before and after tax		**(96,655)**	(1,035,045)
Adjustments for:			
Net interest (income)/expense		**(233,317)**	(25,809)
Share-based payments expense	21	**96,060**	60,343
Operating cash flows before movements in working capital		**(233,912)**	(1,000,511)
(Increase)/decrease in trade receivables		**8,188**	(9,503)
(Increase)/decrease in other receivables		**209,815**	(156,927)
Increase/(decrease) in trade and other payables		**351,719**	365,505
Increase/(decrease) in provisions		**(1,158)**	1,605
		568,564	200,680
Interest paid		**(34,288)**	–
Net cash flow from operating activities		**300,364**	(799,831)
Investing activities			
Development costs – internally developed	12	**(1,830,000)**	–
Investment in subsidiary	23	**(438,217)**	–
Loans to subsidiary		**(605,213)**	(1,509,823)
Net cash used in investing activities		**(2,873,430)**	(1,509,823)
Financing activities			
Net proceeds from issue of share capital	20	**1,529,266**	3,511,972
Proceeds from borrowings	18	**867,970**	–
Net cash from financing activities		**2,397,236**	3,511,972
Net increase in cash and cash equivalents		**(175,830)**	1,202,318
Net foreign exchange difference		**-**	(2,453)
Cash and cash equivalents at 1 January		**1,218,464**	18,599
Cash and net cash equivalents at 31 December	15	**1,042,634**	1,218,464

Notes to the consolidated financial statements

Defenx PLC is a public limited company incorporated in the UK on 11 April 2014. The Company's Ordinary Shares are traded on AIM. The consolidated financial statements comprise Defenx PLC and its subsidiaries, Defenx SA, a company incorporated in Switzerland, and Memopal SRL, a company incorporated in Italy (together referred to as the Group), for the year ended 31 December 2016.

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented the parent's own income statement. The parent's loss for the year ended 31 December 2016 amounted to €96,655 (2015: €1,035,047).

1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union (adopted IFRSs).

The preparation of the financial statements in compliance with adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in this note.

Basis of consolidation: business combinations and merger accounting

The financial statements have been prepared on a consolidated basis in line with the principles laid out in IFRS 3: *Business Combinations*. The Group's accounting policy on business combinations is set out in note 2a) below.

The standard states that in instances where Group reconstructions have taken place, such as in the case of a share for share exchange, guidance should be taken from the appropriate national GAAP in preparing the financial statements. The Directors have therefore considered the implications of UK FRS 6: *Acquisitions and Mergers* and considered it appropriate to adopt merger accounting in respect of the acquisition of Defenx SA by the parent company in 2014. This resulted in a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the parent company for the acquisition of the shares and the subsidiary's own issued share capital.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the parent company, thereby attracting merger relief under the Companies Act 2006.

Going concern

The Chief Executive Officer's review above outlines the activities of the Group along with factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review above along with details of its cash flow and liquidity.

As at 31 December 2016 the Group had net assets of €9,650,940 (31 December 2015: €5,812,442) as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's performance for the next two years. The forecasts contain certain assumptions about the level of future sales, margins and the level of cash recovery from trading.

After considering the forecasts and the risks, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, continue to adopt the going concern basis in preparing the Group and Company financial statements.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistent with those applied in the prior financial year and are applied by all Group entities unless otherwise stated.

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and are shown separately on the face of the statement of income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of income.

Notes to the consolidated financial statements continued

2. Principal accounting policies continued
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

b) Revenue recognition
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services provided in the normal course of business, net of all related discounts and sales taxes.

The Group's revenues to date comprise sales of software licences, the majority of which are for 12 months with a limited number for two, three and five years. These term-based agreements include free upgrades and enhancements on a when-and-if-available basis. The Group recognises the software licence portion of revenue at the time of delivery while the portion attributable to upgrades and enhancements is deferred and recognised on a straight-line basis over the period of the relevant agreement. Customers have no right of return; once sold, licences are neither refundable nor returnable.

c) Foreign currency
The Directors reviewed the functional currency applied by the Group and determined that, with effect from 1 January 2015, the functional currency should be the Euro. This change arose due to the increasing proportion of the Group's operational activities denominated in Euro such that a Sterling functional currency was no longer considered appropriate.

Transactions in foreign currencies are initially recorded at the respective functional currency rates ruling when the transactions occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling on the reporting date. Differences arising on settlement or translation are recognised in the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The Group's presentation currency remains the Euro. As this now matches the functional currency applied by Defenx PLC, Defenx SA and Memopal SRL there are no currency translations on consolidation.

d) Trade and other receivables
Trade receivables are stated at fair value being the lower of their original invoiced value and recoverable amount. A provision for impairment is made where there is objective evidence that the Group will not be able to recover balances in full. Indications of impairment include customers in financial difficulty or seriously in default against agreed payment terms. There is no material variance between carrying and fair values.

e) Property, plant and equipment
Property, plant and equipment are recognised initially at cost. After initial recognition, these assets are carried at cost less any accumulated depreciation and impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, and is applied separately to each identifiable component, as follows:
- Data centre servers and storage 3 to 7 years
- Office equipment 5 to 10 years

An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is de-recognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

f) Intangible assets
Identifiable intangible assets are recognised when the Group controls the asset, it is probable that future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be reliably measured. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally-generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the statement of income in the period in which the expenditure is incurred.

Research costs are expensed as incurred. Development costs on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability and intention to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development costs as an asset, the asset is 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 benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets, and is applied separately to each identifiable component, as follows:

- Development costs 3 to 5 years
- Customer relationships 3 years

g) Impairment of assets

At each balance sheet date, the Directors review the carrying amounts of property, plant, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Directors estimate the recoverable amount of the CGU to which the asset belongs.

Recoverable amounts are based on a calculation of expected future cash flows discounted to their present value using pre-tax discount rates that reflect market assessments of the time value of money and risks specific to the asset for which the expected future cash flows have not been adjusted.

Any impairment charge is recognised in the statement of income in the period in which it occurs for assets carried at cost if the recoverable amount is less than the carrying value. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

h) Pension costs

The Group makes defined contributions to its employees' pension plans according to the laws of the country of employment. The pension costs charged in the financial statements represents the contributions payable during the year.

i) Share-based payments

In accordance with IFRS 2 share-based payments reflects the economic cost of awarding shares and share options to employees and Directors by recording an expense equal to the fair value of the benefit awarded. The expense is recognised in the statement of income over the vesting period of the award.

Fair value is measured by the use of a Black-Scholes model, which takes into account conditions attached to the vesting and exercise of the options. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where awards are granted to employees of a subsidiary, the fair value of the award at grant is recorded in the parent company's financial statements as an increase in the value of the investment with a corresponding increase in equity via the share-based payment reserve.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

j) Leased assets and obligations

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

k) Operating leases

Assets leased under operating leases are not recorded on the statement of financial position. Rental payments are charged directly to the statement of income on a straight-line basis over the lease term.

Notes to the consolidated financial statements continued

2. Principal accounting policies continued

l) Current and deferred taxation

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits (temporary differences) and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Where there are deductible temporary differences arising in subsidiaries, deferred tax assets are recognised only where it is probable that they will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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. Deferred tax is charged or credited to the statement of income.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

n) Trade and other payables

Trade payables are recognised at fair value. There is no material variance between book and fair values.

o) Borrowings

Bank loans and overdrafts are recorded initially at their fair value, net of direct transaction costs and finance charges and are recognised in the statement of income over the term of the instrument. There is no material variance between book and fair values.

3. Judgements and estimates

The Board makes judgements and assumptions concerning the future that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. Actual results may differ from these estimates.

The judgements and key sources of estimation uncertainty that may have a significant effect on the amounts recognised in the financial statements are discussed below:

Revenue recognition (note 2b)

Judgement is required in the assessment of licence activation timing and the resultant period over which deferred revenue is released to the statement of income. Licences can be activated immediately upon sale (e.g. for online sales), sometime after sale (e.g. through our channel partners) or not at all (e.g. typically where our licences are sold as a bundle). Management has estimated the average period from which deferred revenues start to be released. The share of sales attributable to upgrades and enhancements that is deferred represents a small proportion of total sales. Therefore, although the period over which deferred revenue is released is uncertain, the impact on the financial statements is not materially dependent on this judgement.

Impairment of assets (note 12)

Judgement is required in the impairment assessment of assets, notably intangible software development costs. Recoverable amounts are based on a calculation of expected future cash flows, which require assumptions and estimates of future performance to be made. Cash flows are discounted to their present value using pre-tax discount rates based on the Directors' market assessment of risks specific to the asset.

4. Changes in accounting policies and disclosures

New standards adopted during the year

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016 that had a significant effect on the Group's financial statements.

New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Group's future financial statements:

- IFRS 9 Financial Instruments (effective for accounting periods beginning or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018)
- IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019)
- Amendments to IAS 7 Statement of cash flow (effective for accounting periods beginning on or after 1 January 2017)
- Improvements to IFRS Standards 2012-2014 Cycle
- Improvements to IFRS Standards 2014-2016 Cycle

The Directors have considered the above new standards, interpretations and amendments to published standards that are not yet effective and concluded that, except for IFRS 15 *Revenues from Contracts with Customers*, they are either not relevant or that they would not have a significant impact on the Group's and Company's financial statements.

The Group intends to adopt IFRS15 for its accounting period starting 1 January 2018. This may require a restatement of the 2017 comparatives in the 2018 results to the extent there is a material change in the Group's revenue recognition policy under IFRS15.

Defenx currently sells products as conventional term, typically annual, licences and, in the case of Memopal Cloud Backup, on a renewing subscription basis. Over time, the Directors expect to sell all of the Group's solutions on a PaaS subscription basis. PaaS subscription sales and related direct costs are already and will continue to be recognised over the subscription term whether sold directly or indirectly.

However, term licences requires the Directors to consider when delivery obligations are met, in order to determine when to recognise invoiced sales as revenue. Immediate recognition upon invoicing reflects the outright nature of the sale without any right of return or refund. However, the implicit obligation to provide virus definitions, other updates and cloud access during the term could suggest that the release of all or part of invoiced sales over the end-user's licence term is more appropriate. In addition, for indirect sales through channel partners, the Group has limited visibility as to when each licence is activated, requiring the Directors to estimate the time period over which to release invoiced sales.

This results in two areas of judgement: (i) how to split invoiced sales between up-front licence and licence term service elements; and (ii) over which timeframe to release any service element. In line with many of our peers, the review of how these judgements should be made under IFRS has not yet been completed. The Directors continue to assess the methodology to be applied. Accordingly, the Directors are not yet in a position to provide detailed guidance on the potential impact of IFRS15 on our future results. The Directors intend to provide specific guidance in the Group's interim results to be published before 30 September 2017.

5. Segmental analysis

The Group operates as a single endpoint division selling three main categories of product:

- Security – anti-malware endpoint protection for mobile, PC and network devices.
- Backup – Cloud-based backup and synchronisation solutions to protect data and securely share it.
- Protection – client, server and web-based applications to monitor, manage and secure the online activities of individuals, families and corporates.

Accordingly, the Group has a single reportable segment. This is consistent with the internal reporting provided to the chief operating decision-maker, identified as the management team including the Chief Executive Officer and the Chief Financial Officer.

The Group no longer considers its product hardware platforms (Mobile, PC and Network) as relevant to understanding performance since end-users increasingly purchase solutions for multiple platforms. The following disclosure is provided for comparison with prior period reporting. Revenue by product category and platform for the Group is as follows:

	31 December 2016 €	31 December 2015 €
Revenue by product category		
Security		
– Mobile	**4,626,676**	3,197,934
– PC	**1,641,133**	1,252,544
– Network	**567,456**	25,145
Backup	**198,394**	–
Other	**54,503**	13,934
	7,088,162	4,489,557

Notes to the consolidated financial statements continued

5. Segmental analysis continued

Non-current assets (capitalised development costs) by product segment for the Group are as follows:

	31 December 2016 €	31 December 2015 €
Non-current assets by product category		
Security		
– Mobile	**944,354**	394,307
– PC	**1,830,000**	–
– Network	**1,328,188**	1,747,258
Backup	**2,655,226**	–
Protection	**1,130,000**	–
Other	**224,167**	465,835
	8,111,935	2,607,400

The Group does not analyse costs or assets other than intangible assets by product category or platform.

Geographical segments

The Group is managed centrally and accordingly the Group does not analyse costs or assets by geographical region. Revenue by customer location is as follows:

	31 December 2016 €	31 December 2015 €
Revenue by geographic market (customer location)		
Europe (EU including the UK)	**4,697,889**	3,725,222
Europe (Non-EU)	**2,342,006**	739,190
Other	**48,267**	25,145
	7,088,162	4,489,557

6. Operating profit

The operating profit is stated after charging:

	31 December 2016 €	31 December 2015 €
Cost of sales		
Amortisation of intangible assets (note 12)	**1,009,849**	476,623
Operating expenses before transaction costs		
Marketing contributions	**2,223,550**	1,451,965
Staff costs (note 7)	**942,895**	691,358
Share-based payment expense (note 21)	**96,060**	60,343
Bad debt (release)/expense	**(74,112)**	69,485
Lease payments – land and buildings	**62,053**	29,588
Net foreign exchange (gains)/losses	**(21,061)**	34,443
Depreciation of property, plant and equipment (note 11)	**22,482**	–
Transaction costs		
Costs in respect of the AIM admission	**-**	614,192
Costs in respect of the acquisition of Memopal SRL	**188,590**	–
Auditors' remuneration (included within administrative expenses)		
Audit services		
Parent company and Group audit	**16,517**	17,965
Audit of the parent company's subsidiary	**26,662**	11,272
Non-audit services		
Reporting accountant for the AIM admission	**-**	113,706
Tax compliance and other fees	**13,456**	32,003
Total auditors' remuneration	**56,635**	174,946

In 2016, share issuance costs of €169,489 in respect of the placing and subscription were charged to the share premium account. In 2015, AIM admission costs of €366,817, including auditors' remuneration of €26,579, were charged to the share premium account.

7. Staff costs

Staff costs (including Directors' emoluments) incurred in the year were as follows:

	31 December 2016 €	31 December 2015 €
Wages and salaries	**801,154**	616,727
Social security costs	**95,732**	46,424
Pension costs	**9,202**	9,126
Share-based payments expense	**36,807**	19,081
	942,895	691,358

The average monthly number of permanent employees during the period in the Group was as follows:

	31 December 2016 Number	31 December 2015 Number
Executive Directors*	**3**	3
Sales & marketing	**3**	1
Research, development & operations	**8**	2
Administration*	**1**	–
	15	6

* Employed by the Company

	€	€
Directors' emoluments		
Emoluments (including Non-executive Directors' fees)	**456,082**	472,597

	€	€
Highest paid Director		
Emoluments	**160,559**	138,952

8. Finance income and expenses

	31 December 2016 €	31 December 2015 €
Finance income		
Interest income	**316**	37
Finance expense		
Interest expense	**62,165**	2,787

9. Taxation

No liability to UK or Italian income tax arose on ordinary activities for the year ended 31 December 2016. The tax charge for both 2016 and 2015 arose in respect of operations in Switzerland as follows:

	31 December 2016 €	31 December 2015 €
Current tax		
Current tax on profits for the year	**506,301**	233,905
Adjustment for over provision in prior periods	**(170,082)**	–
	336,219	233,905
Deferred tax		
Origination and reversal of temporary differences	**32,441**	(63,566)
Total income tax expense	**368,660**	170,339

Notes to the consolidated financial statements continued

9. Taxation continued

The reasons for the difference between the actual income tax charge for the year and the standard rate of corporation tax in the UK applied to the profit for the year are as follows:

	31 December 2016 €	31 December 2015 €
Profit for the year	**1,221,192**	191,918
Tax expense	**368,660**	170,339
Profit before tax	**1,589,852**	362,257
Tax using Defenx PLC's domestic tax rate of 20% (2015: 20%)	**317,970**	73,357
Expenses not deductible for tax purposes	**90,054**	121,041
Adjustment for over provision in prior periods	**(170,082)**	–
Temporary timing differences	**(46,272)**	(50,859)
Effect of higher tax rates in Italy and Switzerland	**7**	4,049
Other overseas taxation	**10,408**	1,296
Utilisation of previously unrecognised tax losses	**90,322**	–
Losses carried forward for future offset	**43,812**	85,021
At the effective income tax rate	**336,219**	233,905

The aggregate tax rate in Switzerland was 20.4% during the year (2015: 20.4%). The corporation tax rate in the UK was reduced from 21% to 20% effective April 2015 and will reduce to 19% effective April 2017 and 18% effective April 2020.

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 27.5% and 20.4% (2015: 20.4%) being the respective effective rates of tax applicable in Italy and Switzerland where the deferred tax arises.

	Consolidated statement of financial position		Consolidated statement of income	
	31 December 2016 €	31 December 2015 €	31 December 2016 €	31 December 2015 €
Timing difference arising on standards conversion	**-**	–	**-**	146,452
Accelerated depreciation for accounts purposes	**(79,939)**	(85,270)	**5,331**	(73,123)
Deferred revenue	**-**	64,620	**(64,620)**	34,614
Disallowed bad debt provision	**(58,754)**	–	**(58,754)**	(44,377)
Other timing differences	**7,150**	–	**7,150**	–
Arising on acquisition of Memopal SRL	**78,452**	–	**78,452**	–
Deferred tax expense/(income)	**-**	–	**(32,441)**	(63,566)
Net deferred tax asset/(liability)	**(53,091)**	(20,650)	**-**	–

The accumulated tax losses available to the Group at 31 December 2016 were €720,389 (2015: €553,284). These losses relate to activities, and are available indefinitely for offsetting against future taxable profits, of Defenx PLC in the UK and Memopal SRL in Italy. No deferred tax asset is recognised in respect of these losses as it is not sufficiently certain that the Group will be able to utilise them in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the retained profit would increase by €153,070 (2015: €110,657).

10. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of Defenx PLC by the weighted average number of Ordinary Shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all the dilutive deferred shares (note 20), the exercise of options (note 21) and crystallisation of the contingent share consideration (notes 20 and 23).

The following reflects the income and share data used in the basic and diluted EPS calculations:

	31 December 2016 €	31 December 2015 €
Profit attributable to ordinary equity holders of Defenx PLC for basic and adjusted EPS	**1,232,656**	191,918
Weighted average number of Ordinary Shares for basic EPS	**6,674,406**	4,549,653
Effect of:		
– dilution from deferred shares	**300,000**	300,000
– dilution from share options and warrants	**62,245**	86,571
– contingent shares on acquisition of Memopal SRL	**238,035**	–
Weighted average number of Ordinary Shares for diluted EPS	**7,274,686**	4,936,224

The weighted average numbers of shares above reflect the eight for one Ordinary Share consolidation implemented on 16 November 2015 as further disclosed in note 20. Relevant transactions involving Ordinary Shares or potential Ordinary Shares since 31 December 2016 are set out in note 26.

11. Property, plant and equipment

	Cloud equipment €	Office equipment €	Total €
Cost			
At 1 January 2015	–	–	–
At 31 December 2015	**–**	**–**	**–**
Acquired through business combinations	**178,082**	**270,504**	**448,586**
Additions	**15,307**	**4,211**	**19,518**
At 31 December 2016	**193,389**	**274,715**	**468,104**
Accumulated depreciation			
At 1 January 2015	–	–	–
At 31 December 2015	**–**	**–**	**–**
Acquired through business combinations	**105,009**	**208,212**	**313,221**
Charge for the year	**9,831**	**12,651**	**22,482**
At 31 December 2016	**114,840**	**220,863**	**335,703**
Net book value			
At 31 December 2015	–	–	–
At 31 December 2016	**78,549**	**53,852**	**132,401**

There was no property, plant and equipment held under finance leases. No borrowings are secured on the Group's assets. There was no property, plant and equipment in the statement of financial position of the Company.

Notes to the consolidated financial statements continued

12. Intangible assets

Group

	Goodwill €	Development costs €	Customer relationships €	Total €
Cost				
At 1 January 2015	–	1,881,711	–	1,881,711
Change in functional currency	–	11,619	–	11,619
Additions – internally developed	–	1,351,000	–	1,351,000
At 31 December 2015	–	3,244,330	–	3,244,330
Additions – internally developed	–	3,988,821	–	3,988,821
Additions – purchased	–	900,000	–	900,000
Arising on business combinations	1,139,229	–	353,933	1,493,162
At 31 December 2016	**1,139,229**	**8,133,151**	**353,933**	**9,626,313**
Accumulated amortisation				
At 1 January 2015	–	160,307	–	160,307
Amortisation charge	–	476,623	–	476,623
At 31 December 2015	–	636,930	–	636,930
Amortisation charge	–	960,692	49,157	1,009,849
At 31 December 2016	**-**	**1,597,622**	**49,157**	**1,646,779**
Net book value				
At 31 December 2015	–	2,607,400	–	2,607,400
At 31 December 2016	**1,139,229**	**6,535,529**	**304,776**	**7,979,534**

Development costs represent qualifying expenditure on the development of software products for resale less accumulated amortisation and impairment costs.

During the year and before its acquisition, Memopal SRL sold a perpetual licence allowing Defenx SA to use, modify and sell its cloud-based backup and synchronisation software for a consideration of €900,000. Goodwill relates to the acquisition of Memopal SRL and the customer relationships intangible asset relates to certain B2B customer contracts in Memopal SRL. The recognition and treatment of these assets in the financial statements is further described in note 23.

Development costs of €1.13 million (2015: €140,000) for products under development at the year end have not yet been launched or amortised. The Group has no contractual commitments for development costs (2015: €nil).

There were no intangible assets in the statement of financial position of the Company.

Impairment

The Group is required to test, on an annual basis, whether goodwill and intangibles have suffered any impairment or when there are indications that the value of the assets might be impaired. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the statement of income. Goodwill is considered impaired if the carrying value of the CGU to which it relates is greater than the higher of fair value less costs of disposal and the value in use. Goodwill is allocated to the Group's Backup segment CGU.

The Group has assessed the net present value of individual products held as development costs against forecasts of future sales of the related products, unit sales prices and costs over a five-year period. No sales beyond five years have been included in the calculations. The impairment tests are sensitive to changes in these forecasts and changes could result in impairment; however, the varying bases indicate a net present value in excess of the carrying value of the intangible assets at the balance sheet date. The key assumptions in the value in use calculations are:

	31 December 2016	31 December 2015
Gross margin	**70-90%**	80-95%
Marketing contributions	**0-35%**	0-35%
Discount rate	**20%**	20%

Gross margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Group's weighted average cost of capital (WACC) adjusted to reflect management's assessment of specific risks related to the CGU. Growth rates beyond the first two years are based on economic data pertaining to the region concerned.

Future events may cause these assumptions to change, which could have an adverse effect on the future results of the Group. The discount rate would need to increase to around 30% (2015: 60%) or the gross margin and marketing contribution assumptions would need to fall by over 15% (2015: 50%) before affecting the carrying value of intangible assets.

Company

The Company's intangible assets all relate to capitalised software development costs.

	Development costs €	Total €
Cost		
At 1 January 2015	–	–
At 31 December 2015	–	–
Additions – internally developed	1,830,000	1,830,000
At 31 December 2016	**1,830,000**	**1,830,000**
Accumulated amortisation		
At 1 January 2015	–	–
At 31 December 2015	–	–
At 31 December 2016	**1,830,000**	**1,830,000**
Net book value		
At 31 December 2015	–	–
At 31 December 2016	**1,830,000**	**1,830,000**

13. Investment in subsidiaries

The following subsidiary undertakings have been included in the financial statements:

Name	Country of incorporation and principal place of business	Ownership	Non-controlling interests
Defenx SA	Via Caslaccio 4, Balerna 6828, Switzerland	100.0%	–
Memopal SRL	Via Nepal 16, 00144 Rome, Italy	95.2%	4.8%

Both subsidiaries' principal activity is that of the parent, namely the development, provision and distribution of software solutions.

The movement in investments in the parent company's statement of financial position is:

	31 December 2016 €	31 December 2015 €
Opening balance 1 January	**65,603**	63,148
Change in functional currency	**–**	2,455
Additions	**1,778,804**	–
Closing balance at 31 December	**1,844,407**	65,603

Notes to the consolidated financial statements continued

14. Trade and other receivables

	Group		Company	
	Year ended 31 December 2016 €	Year ended 31 December 2015 €	**Year ended 31 December 2016 €**	Year ended 31 December 2015 €
Gross trade receivables	**5,528,661**	3,099,697	**1,314**	9,503
Provision for impairment	**(196,248)**	(270,360)	**–**	–
Net trade receivables	**5,332,413**	2,829,337	**1,314**	9,503
Other receivables	**171,514**	162,161	**70,023**	157,873
Payments on account	**–**	314,076	**–**	–
Total trade and other receivables	**5,503,927**	3,305,604	**71,337**	167,376
Provisions for impairment				
Opening balance at 1 January	**(270,360)**	(417,354)	**–**	–
Utilised during the year	**25,372**	200,193	**–**	–
Net increase/(decrease) during the year	**48,740**	(53,199)	**–**	–
Closing balance at 31 December	**(196,248)**	(270,360)	**–**	–

All amounts shown under receivables are due within one year. The payments on account represent advances to an established software developer with whom the Group had agreed detailed specifications for work that had been started, but not invoiced prior to the year-end.

The movement in the impairment provision for trade receivables has been included in administrative expenses in the statement of income. Other classes of financial assets included within trade and other receivables do not contain impaired assets.

At 31 December 2016, €149,000 (2015: €nil) of trade receivables had been sold to providers of invoice discounting services. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the debts sold within trade receivables until the debtors repay or default. The proceeds from transferring the debts are included in loans and borrowing until the debts are collected or the Group makes good any losses incurred by the lender.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held with banks and cash in transit. Finance charges are accounted for on an accruals basis and charged to the statement of income when payable.

Cash and cash equivalents are held in Euros, Sterling, Swiss Francs and US Dollars and placed on deposit in the UK, Italy and Switzerland.

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	Group		Company	
	31 December 2016 €	31 December 2015 €	**31 December 2016 €**	31 December 2015 €
Cash at bank	**1,177,644**	1,333,869	**1,042,634**	1,218,464
Bank overdrafts	**(162,740)**	–	**–**	–
	1,014,904	1,333,869	**1,042,634**	1,218,464

16. Trade and other payables

	Group		Company	
	Year ended 31 December 2016 €	Year ended 31 December 2015 €	**Year ended 31 December 2016 €**	Year ended 31 December 2015 €
Trade payables	**1,056,067**	440,241	**665,750**	419,113
Other payables and accruals	**337,315**	216,218	**6,901**	49,840
Total trade and other payables	**1,393,382**	656,459	**672,651**	468,953

Trade and other payables shown above are payable within one year. The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates to fair value.

17. Deferred revenue

	Group		Company	
	2016 €	2015 €	**2016 €**	2015 €
At 1 January	**314,632**	145,494	**1,605**	–
Deferred during the year	**524,608**	285,439	**15,316**	1,605
Released to the statement of income	**(248,981)**	(116,301)	**(16,474)**	–
At 31 December	**590,259**	314,632	**447**	1,605
Current	**461,447**	248,975	**447**	1,605
Non-current	**128,812**	65,657	**–**	–

18. Loans and borrowing

The book and fair value of interest-bearing loans and borrowings was:

		Group		Company	
	Ultimate maturity	**31 December 2016 €**	31 December 2015 €	**31 December 2016 €**	31 December 2015 €
Current					
Overdrafts	On demand	**20,035**	–	**–**	–
	On demand	**142,705**	–	**–**	–
Invoice discounting facility	Up to 120 days	**149,288**	–	**–**	–
Supply chain facility	Up to 90 days	**498,245**	–	**498,245**	–
Bank loans – unsecured	30 June 2019	**97,770**	–	**–**	–
Vendor loans from business combinations	31 July 2018	**529,291**	–	**218,755**	–
		1,437,334		**717,000**	–
Non-current					
Bank loans – unsecured	30 June 2019	**302,230**	–	**–**	–
Vendor loans from business combinations	31 July 2018	**212,563**	–	**153,349**	–
		514,793	–	**153,349**	–
Total loans and borrowing		**1,952,127**	–	**870,349**	–

Overdrafts and other short-term facilities, excluding the supply chain facility, attract variable interest at between 3% and 6% per annum. The supply chain facility, denominated in Sterling, attracts a fixed rate of interest of 1.65% per month. The bank and vendor loans, both denominated in Euros, attract interest at 3% over three-month EURIBOR and at 8% fixed per annum respectively.

The average effective interest rate for the year ended 31 December 2016 was 9.8% (2015: nil).

The currency profile of loans and borrowings was:

	Group		Company	
	31 December 2016 €	31 December 2015 €	**31 December 2016 €**	31 December 2015 €
Euro	**1,433,847**	–	**372,104**	–
Sterling	**498,245**	–	**498,245**	–
Swiss franc	**20,035**	–	**–**	–
	1,952,127	–	**870,349**	–

At 31 December 2016, the Group had available €111,000 (2015: €nil) of undrawn committed borrowing facilities.

Notes to the consolidated financial statements continued

19. Financial instruments and risk management
The Group is exposed through its operations to the following financial risks:
- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Other than the new finance facilities entered into during the year, there have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

General objectives, policies and processes
The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Board receives quarterly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Group does not use derivative financial instruments such as forward currency contracts, interest rate swaps or similar instruments. The Group does not issue or use financial instruments of a speculative nature.

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:
- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Bank overdrafts
- Floating rate bank loans

	Group		Company	
Financial assets	**Year ended 31 December 2016 €**	Year ended 31 December 2015 €	**Year ended 31 December 2016 €**	Year ended 31 December 2015 €
Gross trade receivables	**5,528,661**	3,099,697	**1,314**	9,503
Less: provision for impairment	**(196,248)**	(270,360)	**–**	–
Net trade receivables	**5,332,413**	2,829,337	**1,314**	9,503
Other receivables	**171,514**	476,267	**70,023**	157,873
Net receivables	**5,503,927**	3,305,604	**71,337**	167,376
Cash and cash equivalents	**1,177,644**	1,333,869	**1,042,634**	1,218,464

Trade receivables principally comprise amounts outstanding for sales to customers and are typically payable between 90 and 120 days. The year-end average age of trade debtors was 58 days (2015: 91 days). An impairment review of outstanding trade receivables is carried out at each period end and a specific amount provided for. A general provision is maintained reflecting the fact that some customers are small and do not have strong credit histories.

Financial liabilities	Group Year ended 31 December 2016 €	Group Year ended 31 December 2015 €	Company Year ended 31 December 2016 €	Company Year ended 31 December 2015 €
Trade payables	**1,056,067**	440,241	**665,750**	419,113
Other payables and accruals	**337,315**	216,218	**6,901**	49,840
Loans and borrowing	**1,952,127**	–	**870,349**	–
Total payables	**3,345,509**	656,459	**1,543,000**	468,953

Trade and other payables and accruals comprise amounts outstanding for trade purchases and ongoing costs and are typically payable within 90 days. The year-end average age of trade creditors was 29 days (2015: 28 days). Where there is a contractual right of set-off with a customer that is also a supplier, notably in relation to marketing contributions payable to channel partners, relevant receivable and payable balances are set against one another.

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, cash and cash equivalents, trade and other payables, and loans and borrowings.

Due to their short-term nature, the carrying value of trade and other receivables, cash and cash equivalents, trade and other payables approximates their fair value. Book values and expected cash flows are reviewed by the Board and any impairment charged to the statement of income in the relevant period.

There were no changes to the valuation techniques during the period.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales.

The Group is exposed to credit risk in respect of these balances such that, if one or more customers encounter financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers prior to entering into contracts and by entering contracts with customers with agreed credit terms. The analysis below shows the ageing of trade and other receivables and the movement in bad debt provision in the year:

Ageing of trade & other receivables	Group Year ended 31 December 2016 €	Group Year ended 31 December 2015 €	Company Year ended 31 December 2016 €	Company Year ended 31 December 2015 €
Not due at reporting date	**4,651,921**	1,215,070	**284**	–
Up to 3 months	**463,478**	460,132	**1,030**	9,503
3 to 6 months	**341,934**	943,742	**–**	–
Above 6 months	**71,328**	480,753	**–**	–
Gross receivables	**5,528,661**	3,099,697	**1,314**	9,503
Less: allowance for receivables	**(196,248)**	(270,360)	**–**	–
Net receivables	**5,332,413**	2,829,337	**1,314**	9,503

Sales to two customers based in Italy amounted to approximately 52% (2015: three for 65%) of Group revenue. Sales to two customers based in Switzerland amounted to 30% (2015: one for 16%) and one customer based in Malta amounted to 15% (2015: 14%) of Group revenue. No other individual customer accounted for more than 5% of Group revenue.

Customer credit risk is managed in accordance with the Group's established policy and procedures. Customer credit quality is assessed and periodically reviewed based on available information and individual credit limits are defined based on this assessment. Outstanding customer receivables are actively monitored and reviewed at least quarterly. At 31 December 2016, the Group had five customers (2015: four) that owed more than €500,000, accounting for 92% (2015: 92%) of trade receivables outstanding.

As at 31 December 2016, trade receivables of €463,478 (2015: €923,853) were past due but not impaired.

Notes to the consolidated financial statements continued

19. Financial instruments and risk management continued

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group manages its interest rate risk while balancing the fixed and variable rates available as its loans and borrowings are renewed. The Group does not enter into interest rate swaps. At 31 December 2016, approximately 64% of the Group's borrowings were at a fixed rate of interest (2015: nil).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/decrease in basis points		Effect on profit before tax	
	31 December 2016	31 December 2015	31 December 2016 €	31 December 2015 €
Increase in Euro rates	**+100**	–	**7,120**	–
Decrease in Euro rates	**-50**	–	**(3,560)**	–

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than its functional currency. The Group's policy is, where possible, to allow customers to settle liabilities denominated in the customer's functional currency, primarily the Euro and Swiss franc.

The Group is predominantly exposed to currency risk on sales and purchases made from customers and suppliers based outside the Eurozone. Sales and purchases from customers and suppliers are made on a central basis and the risk is monitored centrally, but not hedged utilising any forward exchange contracts. Apart from these particular cash flows the Group aims to fund expenses in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred. As at 31 December 2016, the Group's net exposure to foreign exchange risk was as follows:

	Euro €	Sterling €	Swiss Franc €	US Dollar €	Total €
As at 31 December 2016					
Trade and other receivables	**5,383,108**	**95,383**	**1,118**	**24,318**	**5,503,927**
Cash and cash equivalents	**590,887**	**586,757**	**-**	**-**	**1,177,644**
Trade and other payables	**(1,243,626)**	**(129,959)**	**(16,375)**	**(3,422)**	**(1,393,382)**
Loans and borrowings	**(1,433,847)**	**(498,245)**	**(20,035)**	**-**	**(1,952,127)**
Deferred consideration	**(380,856)**	**-**	**-**	**-**	**(380,856)**
Net current assets	**2,915,666**	**53,936**	**(35,292)**	**20,896**	**2,955,206**
As at 31 December 2015					
Trade and other receivables	3,153,671	148,773	2,957	203	3,305,604
Cash and cash equivalents	588,808	736,378	8,657	26	1,333,869
Trade and other payables	(126,877)	(379,984)	(146,297)	(3,301)	(656,459)
Net current assets	3,615,602	505,167	(134,683)	(3,072)	3,983,014

The following table demonstrates the sensitivity to a reasonably possible change in Euro exchange rates, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

	Increase/decrease in basis points		Effect on profit before tax	
	31 December 2016	31 December 2015	31 December 2016 €	31 December 2015 €
Sterling	**+20**	+10	**(10,787)**	(50,517)
	-10	-10	**5,394**	50,517
Swiss franc	**+10**	+10	**3,529**	13,468
	-10	-10	**(3,529)**	(13,468)
US Dollar	**+10**	+10	**(2,090)**	307
	-10	-10	**2,090**	(307)

Liquidity risk

Liquidity risk arises from the Group's management of working capital. The risk is that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least 90 days.

The Board receives rolling 12-month cash flow projections on a quarterly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The liquidity risk of each Group entity is managed centrally. Budgets are set locally and agreed by the Board in advance, enabling the Group's cash requirements to be anticipated. Where facilities of Group entities need to be increased, approval must be sought from the Chief Finance Officer. Where the amount of the facility is above a certain level, agreement of the Board is needed.

The table below analyses the Group's financial liabilities by contractual maturities. Amounts disclosed in the table are the contractual undiscounted cash flows.

	Group		Company	
	Year ended 31 December 2016 €	Year ended 31 December 2015 €	**Year ended 31 December 2016 €**	Year ended 31 December 2015 €
Ageing of trade & other payables				
Up to 3 months	**1,393,382**	656,459	**672,651**	468,953
3 to 6 months	**–**	–	**–**	–
Above 6 months	**–**	–	**–**	–
	1,393,382	656,459	**672,651**	468,953
Ageing of loans and borrowing				
Up to 3 months	**645,974**	–	**553,167**	–
Between 3 to 12 months	**791,360**	–	**163,833**	–
Between 1 and 2 years	**412,541**	–	**153,349**	–
Between 2 to 5 years	**102,252**	–	**–**	–
Over 5 years	**–**	–	**–**	–
	1,952,127	–	**870,349**	–

Capital management

The Group's capital is made up of share capital, share premium, merger reserve, non-controlling interests and retained profits totalling €9,650,940 at 31 December 2016 (2015: €5,812,442) as set out in the statement of changes in equity.

The Group's objectives when maintaining capital are:

- to safeguard the ability to continue as a going concern, so that the Group can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group's strategy is to finance working capital requirements from existing cash resources and debt facilities while investment activity is financed wherever possible with surplus cash resources or through the issue of new shares where an acceptable return can be generated.

Notes to the consolidated financial statements continued

19. Financial instruments and risk management continued

The Group monitors capital on the basis of its debt-to-equity ratio. This ratio is calculated as net debt to total equity as defined above. Net debt is calculated as total debt (as shown in the consolidated statement of financial position) less cash and cash equivalents. The Group's strategy is to limit the debt-to-equity ratio to 25% to balance leverage with the availability of low cost debt, notably working capital facilities in Italy. Any increase over this limit requires Board approval. The debt-to-equity ratio at 31 December 2016 was 8% (2015: nil) as set out below:

	Year ended 31 December 2016 €	Year ended 31 December 2015 €
Loans and borrowing	**1,952,127**	–
Less: cash and cash equivalents	**(1,177,644)**	(1,333,869)
Net debt	**774,483**	(1,333,869)
Total equity	**9,650,940**	5,812,442
Debt-to-equity ratio	**8.0%**	0%

The increase in the debt-to-equity ratio during 2016 resulted primarily from the decision by the Board to enter into low cost debt facilities in Italy and the UK.

20. Share capital

	Number of shares	Share capital €	Share premium €
As at 1 January 2015	**32,021,160**	**90,608**	**580,373**
Change in functional currency	–	1,453	11,613
Issue of new Ordinary Shares – private placing	5,364,904	16,068	762,325
Equity issue costs	–	–	(43,490)
	37,386,064		
8 for 1 consolidation	4,673,258	–	
Issue of new Ordinary Shares – AIM placing and subscription	1,425,654	36,568	2,970,136
Equity issue costs	–	–	(229,635)
As at 31 December 2015	**6,098,912**	**144,697**	**4,051,322**
Issue of new Ordinary Shares – Memopal SRL	621,394	13,322	–
Issue of new Ordinary Shares – placing	1,647,500	33,176	1,441,284
Equity issue costs	–	–	(169,489)
Directors' subscription for new Ordinary Shares	250,000	5,047	219,248
As at 31 December 2016	**8,617,806**	**196,242**	**5,542,365**

Ordinary share capital

The Ordinary Shares of £0.018 carry the right to one vote per share at general meetings of the Company and the rights to share in any distribution of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up. The shares are denominated in Sterling.

On 1 August 2016, 621,394 new Ordinary Shares were allotted at £1.2968 per share as part the consideration for the acquisition of Memopal SRL. No share premium has been recognised in the parent company's financial statements since more than 90% of Memopal's shares were acquired thereby attracting merger relief under the Companies Act 2006. A total of €946,410 was credited to the merger reserve in the statement of financial position.

Contingent equity consideration, comprising up to 238,035 new Ordinary Shares, will be allotted on 30 June 2018, subject to Group performance in the year ending 31 December 2017 as further disclosed in note 23. The fair value of this contingent obligation is shown under non-current liabilities.

On 26 October 2016, 1,897,500 new Ordinary Shares at £0.80 per share, raising gross proceeds of £1.52 million (€1.53 million net of expenses), were allotted pursuant to a placing of 1,647,500 Ordinary Shares and subscription of 250,000 Ordinary Shares approved at an EGM held that day. The subscription was taken up by the Executive Directors of the Company as further disclosed in note 25.

Also on 26 October 2016, a total of 164,750 warrants over Ordinary Shares were issued to the Company's brokers, WH Ireland Limited and Beaufort Securities Limited, as part consideration for their broking services. These five-year warrants have an exercise price of £0.80. Separately, as part of Beaufort Securities Limited appointment to act as joint-broker to the Company, a further 40,000 five-year warrants with exercise prices of between £1.25 and £2, were issued (note 21).

Share issue costs of €169,489 (2015: €366,817) have been charged against the share premium account.

Deferred share capital (see note 26)
The deferred shares of £0.0001 carry no right to vote, no right to share in any distribution of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up. The shares are denominated in Sterling. Deferred shareholders have the right for five years from issue to convert their shares into Ordinary Shares for a consideration of £0.10 per share less the amount paid for each deferred share on an eight for one basis. The Company must give prior notice to deferred shareholders in the event of a sale.

	Number of shares	Share capital €	Share premium €
As at 1 January 2015	**2,400,000**	**295**	**–**
Change in functional currency	–	12	–
As at 31 December 2015	**2,400,000**	**307**	**–**
As at 31 December 2016	**2,400,000**	**307**	

The Company has not issued any partly paid shares nor any convertible securities or exchangeable securities. The Company does not hold any treasury shares.

21. Share-based payments
Defenx has established EMI and Unapproved Option Schemes as part of the Group's incentive and retention strategy.

Under the option schemes, the Group has granted share options over the Ordinary Shares of Defenx PLC to employees and Directors. The share options vest over 36 months, either from inception or from the first anniversary of grant, provided the holder remains in employment. There are currently no performance conditions. The exercise price of the share options was equal to the market price of the underlying shares on the date of grant. The contractual term of the share options is 10 years and there are no cash settlement alternatives.

The Company also issued 60,989 warrants to advisers as part of its admission to AIM and 204,750 warrants as part of the placing and subscription completed during 2016.

The fair value of the options and warrants is estimated at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted, and the estimated share price volatility of the Company relative to that of its competitors.

The fair value of options and warrants issued was estimated on the date of grant using the following assumptions:

	31 December 2016	31 December 2015
Weighted average share price	**£0.910**	£1.319
Weighted average exercise price	**£0.943**	£1.319
Expected volatility	**40%**	34%
Risk free rate of return	**1.50%**	1.76%
Expected life (years)	**5**	5
Expected dividend yield	**0%**	0%

The expected life of the share options is based on current expectations and is not necessarily indicative of exercise patterns that may occur. The full contractual life of options is 10 years and warrants is five years. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. Expected volatility was determined by referring to the share prices of a selection of comparable AIM quoted companies.

	Year ended 31 December 2016		Year ended 31 December 2015	
	Number	**WAEP***	Number	WAEP*
Outstanding at 1 January	**526,614**	**£1.319**	–	–
Granted during the year	**204,750**	**£0.943**	526,614	£1.319
Forfeited during the year	**(208,000)**	**£1.209**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 December	**523,364**	**£1.215**	526,614	£1.319
Vested at 31 December	**357,447**	**£1.135**	94,489	£1.023
Exercisable at 31 December	**357,447**	**£1.135**	94,489	£1.023

* Weighted average exercise price

Notes to the consolidated financial statements continued

21. Share-based payments continued

The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 was 6.7 years (2015: 9.3 years).

The range of exercise prices for options outstanding at the end of the year was £0.80 to £2.00 (2015: £0.80 to £1.48).

In the year ended 31 December 2016, 204,750 warrants were issued on 26 October at £0.80, £1.25 and £1.50 and £2.00 each. No options were granted during the year. The aggregate of the estimated fair values of the warrants issued is €59,253 (2015: €316,756). The total share-based payment expense recognised was €96,060 (2015: €60,343) related to equity-settled share-based payment transactions in 2016.

National Insurance is payable on gains made by employees on exercise of share options granted to them. The Company has entered into a reciprocal arrangement with employees such that the employees will reimburse any National Insurance liability.

22. Reserves

The following describes the nature and purpose of each reserve within equity:

Share premium	The amount of capital contributed in excess of the nominal value of each Ordinary £0.018 Share.
Merger reserve	The amount arising from the use of merger accounting (as set out in note 1) being the difference between the parent's cost of investment in Defenx SA and the issued share capital of Defenx SA. The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the parent, thereby attracting merger relief under the Companies Act 2006.
Foreign exchange reserve	Foreign exchange translation reserve resulting in the translation of the financial information from the functional to the presentation currency. Upon the adoption of the Euro as the Group's functional currency, the balance on the foreign exchange reserve was eliminated.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

23. Business combinations

Acquisition of Memopal SRL

On 1 August 2016, the Group acquired 95.2% of the voting equity of Memopal SRL (Memopal), an unlisted company whose principal activity is the development and sale of cloud-based backup and synchronisation software. The principal reason for this acquisition was to diversify the Group's product portfolio with proprietary technology and grow the Group's customer base with the addition of Memopal's channel partners. In addition, Memopal's team of seven staff and three consultants significantly increased the Group's internal development and customer support capacity that the Group would otherwise have needed to recruit. Memopal is based in Rome, Italy.

Since the acquisition date, Memopal has contributed €198,394 to Group revenues and a net loss of €238,830 to Group profits. If the acquisition had occurred on 1 January 2016, Group revenue would have been €611,240 higher and Group net profit would have been €293,230 higher.

Net assets acquired

Details of the fair value of identifiable assets and liabilities acquired are as follows:

	Book value €	Adjustment €	Fair value €
Intangible assets	639,212	(285,279)	353,933
Tangible assets	135,364	–	135,364
Current assets	1,252,156	(70,190)	1,181,966
Cash	353,788	–	353,788
Current liabilities	(469,897)	–	(469,897)
Loans	(961,783)	–	(961,783)
Deferred tax	–	78,452	78,452
Total identifiable net assets	948,840	(277,017)	671,823
Non-controlling interest measured at 4.8%			(32,248)
Total identifiable net assets attributable to the Group			639,575

The Group has elected to measure the non-controlling interests in Memopal at the proportionate share of net assets of the acquiree.

Fair value adjustments
As at the acquisition date, the fair value of certain B2B customer contracts in Memopal was estimated to be €353,933 with a related deferred tax liability of €97,331. The fair value is determined using the DCF method. Significant unobservable valuation inputs were:
- Contracted contribution to profit per annum of €264,000.
- Contract renewal probabilities of 75%, 50% and 25% in years 1, 2 and 3 respectively.
- Discount rate of 10.3% being the estimated WACC of the Group.

Upon consolidation, the Group held two assets representing essentially the same underlying source code: a perpetual licence in Defenx SA and the net book value of €639,212 capitalised development costs in Memopal. On the basis that the €900,000 consideration, shown within current assets above, was negotiated prior to the acquisition of Memopal on an arms-length basis, the Directors have chosen to eliminate the net book value in Memopal, which resulted in deferred tax asset of €175,783, both at the date of acquisition. In addition, post-acquisition amortisation of €136,878 relating to the acquired development costs has also been reversed leaving the licence amortisation of €75,000 in Defenx SA and post-acquisition capitalised development costs in Memopal.

As at the acquisition date, Memopal held trade receivables with a book value of €270,357. Whilst the Group will make every effort to collect all contractual receivables, it considers it unlikely that the €70,190 will ultimately be received.

Consideration and goodwill

	Fair value €
Cash payable over two years	438,217
Shares issued at fair value	959,731
Contingent equity consideration	380,856
Total consideration	1,778,804
Net assets acquired	(639,575)
Goodwill arising on acquisition	1,139,229

Acquisition costs of €188,590 were expensed and are shown separately on the face of the statement of income.

The main factors leading to the recognition of goodwill are:
- the presence of certain intangible assets, such as the Memopal brand, a portfolio of B2C web customers and the development team within Memopal, that do not qualify for separate recognition;
- overhead cost savings that result in the Group being prepared to pay a premium; and
- the fact that a lower cost of capital is ascribed to the expected future cash flows of Memopal's entire operations than might be to individual assets.

The goodwill arising on the acquisition of Memopal will not be deductible for tax purposes.

Contingent equity consideration
Contingent equity consideration of up to €380,856 is payable on 30 June 2018 in up to 238,035 Ordinary Shares based on the average mid-market closing share price and the average GBP:EUR spot rate for each of the previous five business days or, at the Company's option, in cash.

The contingent equity consideration is payable if Group EBITDA for the year ending 31 December 2017 exceeds €3.4 million and is calculated as 50% of the excess group EBITDA up to the maximum consideration of €380,856.

Based on current market expectations for the Group's 2017 results, the Directors believe that the full contingent equity consideration will be payable. The fair value of this contingent obligation is shown under non-current liabilities.

24. Commitments and contingencies
Operating lease commitments – Group as lessee
The Group has operating leases on office premises in London (UK), Balerna (Switzerland) and Rome (Italy) on three, six and three months' notice respectively. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are €30,403 (2015: €13,453) within one year.

Finance lease and hire purchase commitments
The Group has no finance lease or hire purchase commitments.

Other commitments
At 31 December 2016, the Group had commitments of €1.42 million (2015: €1.30 million) relating to software development.

Notes to the consolidated financial statements continued

25. Related-party transactions

On 26 October 2016, the Executive Directors, Andrea Stecconi and Philipp Prince, subscribed for 218,750 and 31,250 Ordinary Shares respectively pursuant to the placing and subscription approved by shareholders at an EGM that day. The issue price for the placing and subscription was £0.80 per share.

Key management personnel – Group

In the opinion of the Board, only the Executive Directors of the Company are regarded as key management personnel. The Executive Directors have service agreements that require three-months' notice of termination from either party, except Andrea Stecconi, for whom the notice period is six months.

Key management personnel compensation, including social security, comprised the following:

	31 December 2016 €	31 December 2015 €
Wages and salaries	**381,988**	349,229
Benefits	**14,328**	6,272
Share-based payments expense	**18,069**	17,376
	414,385	372,877

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Other related-party transactions – Group

Defenx SA entered into a rental agreement with Andrea Stecconi in respect of its offices in Switzerland. Defenx SA paid Andrea Stecconi €21,769 (2015: €22,003). There was no balance outstanding at the year end (2015: €nil).

All transactions were on arm's-length terms.

Other related-party transactions – Company

	31 December 2016 €	31 December 2015 €
Transactions between Defenx PLC and Defenx SA		
Income – invoiced by Defenx PLC	**366,133**	356,487
Expenses – invoiced by Defenx SA	**(4,320)**	(24,374)
Interest receivable – invoiced by Defenx PLC	**269,984**	25,809
Long-term loans from Defenx PLC to Defenx SA	**2,735,226**	2,130,013
Transactions between Defenx SA and Memopal SRL		
Income – invoiced by Defenx SA	**566,352**	–
Expenses – invoiced by Memopal SRL	**(118,256)**	–
Net trade receivables in Defenx SA with Memopal SRL	**448,096**	–

26. Events after the reporting date

On 3 January 2017, MBooster Srl (MBooster) was appointed as strategic adviser to the Company. MBooster will receive a semi-annual fee of €37,500 to be settled by the issue of new Ordinary Shares at the average mid-market price for the last five business days of each half year. The engagement commenced on 1 January 2017 and may be cancelled with three-months' notice by either party.

On 11 April 2017, the Company announced a long-term strategic partnership with BV-Tech SpA, a leading independent Italian corporate IT and cyber security solutions provider, initially comprising a conditional software acquisition for €2.65 million (£2.26 million) and an equity subscription for 861,666 new Ordinary Shares to raise €1.15 million (£0.98 million) before expenses. The software was formally accepted on 3 May 2017 and the consideration settled through the issue of 1,982,222 new Ordinary Shares at 114 pence per share.

Also on 11 April 2017, valid conversion notices were received from the holders of 2,400,000 deferred shares. Accordingly, all deferred shares were converted into new Ordinary Shares on an eight for one basis for a consideration of 79.92 pence per resultant Ordinary Share (£239,760 in aggregate), following which, there are no deferred shares in issue.

Notice of AGM

DEFENX PLC
(the Company)

(Company number 8993398)

Notice is given that the AGM of the members of the Company will be held at the offices of Taylor Vinters LLP at 12pm on Tuesday 27 June 2017, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 6 (inclusive) will be proposed as ordinary resolutions and resolutions 7 and 8 will be proposed as special resolutions:

Ordinary resolutions:

Report and accounts

1. To receive the audited Accounts and Reports of the Directors and auditors for the year ended 31 December 2016.

Remuneration report

2. To approve the report on Directors' remuneration for the year ended 31 December 2016.

Re-election of Director

3. To re-elect as a Director Mr. Franco Francione who is retiring in accordance with Article 25.8 of the Company's Articles of Association and, being eligible, is offering himself for re-election.

Re-appointment of auditor

4. To re-appoint haysmacintyre as auditor until the conclusion of the next AGM of the Company at which accounts are laid.

Auditor's remuneration

5. To authorise the Directors to determine the remuneration of the auditor.

Directors' authority to allot shares

6. That in substitution for all existing authorities, the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the Act) to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £70,570.15 during the period from the date of the passing of this resolution and expiring on the date of the next AGM or on 30 June 2018, whichever is earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would, or might, require shares to be allotted or rights to subscribe for or convert security into shares to be granted after such expiry.

Special resolutions

Authority to dis-apply pre-emption rights

7. That, subject to resolution 6 above being passed and Section 551 of the Act, the Directors be empowered, pursuant to Section 570 of the Act, to allot equity securities (as defined in Section 560 of the Act) as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
   (a) during the period expiring on the date of the next AGM of the Company or, if earlier, on 30 June 2018 but so that this power shall enable the Company to make offers or agreements which would or might require equity securities to be allotted after the expiry of this power;
   (b) up to an aggregate nominal amount of £21,171.04 representing the nominal value of 10% of the Company's issued share capital at the date of this notice; and
   (c) shall include the power to sell treasury shares under Section 727 of the Act.

Purchase of own shares

8. That the Company be generally and unconditionally authorised to make one or more market purchases, within the meaning of Section 693(4) of the Act, of Ordinary Shares of 1.8p each in the Company (Shares) and to hold such Shares as treasury shares, provided that:
   (a) the maximum number of Shares to be repurchased shall be 588,084 Shares representing the nominal value of 5% of the Company's issued share capital at the date of this notice;
   (b) the minimum price (exclusive of expenses) which may be paid for a Share shall be 1.8p per share;
   (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be an amount equal to 105% of the average market value of the Shares (as derived from the mid-market price) for the five business days immediately preceding the date on which the Share is purchased;
   (d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share as determined by the Directors;
   (e) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or, if earlier, on 30 June 2018; and
   (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of Shares pursuant to any such contract notwithstanding such expiry.

22 May 2017

Registered office:
Ashley Park House
42-50 Hersham Road
Walton-on-Thames, Surrey KT12 1RZ

By order of the Board
Tim Hughes
A duly authorised signatory of David Venus & Company LLP
Company Secretary

Notice of AGM continued

Notes:
1. A member entitled to attend and vote at the above meeting has the right to appoint a proxy or proxies to attend and vote in his place. A proxy need not be a member of the Company.
2. The form of proxy and the power of attorney or other authority, if any, under which it is signed, or a copy of such power or authority certified by a notary, must be completed and returned to the offices of the Company's registrars, SLC Registrars, Ashley Park House, 42-50 Hersham Road, Walton-on-Thames, Surrey KT12 1RZ, to arrive no fewer than 48 hours before the date set for the meeting or adjourned meeting.
3. In accordance with regulation 41 of the Uncertificated Securities Regulations 2001, (as amended) only those persons entered in the register of members of the Company as the holders of Ordinary Shares at 6.00pm on the pre-penultimate day of the AGM, are entitled to attend and vote at the meeting in respect of the Shares held by them at the relevant time. Any changes made to the register of members of the Company after that time will be disregarded in determining the right of any person to attend or vote at the meeting.
4. **Resolution 3** – Under Article 25.8 of the Company's Articles of Association, any person who is appointed as a Director holds office only until the next AGM following his/her appointment and, if eligible, may offer himself/herself for re-election.
5. **Resolutions 4 and 5** – The auditors are required to be reappointed at each AGM at which accounts are presented. The Board on the recommendation of the Audit Committee, which has evaluated the effectiveness and independence of the external auditors, is proposing the re-appointment of haysmacintyre. Resolution 5 is proposed to authorise the Board to fix the remuneration of the auditors.
6. **Resolution 6** – This resolution is to renew the authority given to the Directors to allot Shares or rights to subscribe for or convert security into Shares in the capital of the Company subject to the conditions of the Act. The authority to be given by this resolution is limited to the allotment of 3,920,564 Ordinary Shares representing one third of the issued Share capital at the date of this notice and shall be in substitution for all existing authorities but shall be without prejudice to any allotment of Shares or grant of rights to subscribe for or convert security into Shares already made or offered or agreed to be made pursuant to such authorities. The authority shall expire at the next AGM or on 30 June 2018, whichever is earlier.
7. **Resolution 7** – When Shares are to be allotted for cash, section 561(1) of the Companies Act 2006 provides that existing shareholders have pre-emption rights and that any new Shares are offered first to such shareholders in proportion to their existing shareholdings. This resolution is seeking to authorise the Directors to allot Shares of up to an aggregate nominal amount of £21,171.04 otherwise than on a pro-rata basis. This represents 10% of the Company's issued Share capital on the date of this document. This authority shall expire at the next AGM or on 30 June 2018, whichever is earlier.

   Whilst the Directors have no intention at the present time of issuing relevant securities, other than pursuant to existing rights under employee share schemes, they are seeking annual renewal of this authority in accordance with best practice and to ensure the Company has maximum flexibility in managing capital resources.

8. **Resolution 8** – This resolution is to authorise the Company to make market purchases of up to 5% of its own Shares in issue as set out in the resolution. The authority shall expire at the next AGM or on 30 June 2018, whichever is earlier.

   The Directors consider that in certain circumstances it may be advantageous for the Company to purchase its own Shares at a discount to net asset value. Purchases will only be made on the London Stock Exchange within guidelines established from time to time by the Board.

   The Directors would only consider exercising this authority if it is considered that such purchases would be to the advantage of the Company and its shareholders as a whole. The principal aim of this Share buyback facility is to enhance shareholder value by acquiring Shares at a discount to net asset value, as and when the Directors consider this to be appropriate. The purchase of Shares when they are trading at a discount to net asset value per Share, and their cancellation, should result in an increase in the resulting net asset value per Share for the remaining Ordinary Shares. The Company will also be in a better position to address any imbalance between supply and demand for the Shares that may be reflected in the discount to net asset value at which the Company's Shares trade on the London Stock Exchange.

   The Directors intend that any Shares purchased under this authority will be held by the Company as treasury shares, within the limits allowed by the law, unless the Directors consider that purchasing the Shares and cancelling them would be to the advantage of the Company and its shareholders. The Directors may dispose of treasury shares in accordance with relevant legislation and the authority relating to rights of pre-emption granted by shareholders in general meeting (see Resolution 8 and the note thereto).

Documents

9. The following documents, which are available for inspection during normal business hours at the registered office of the Company on any business day, will also be available for inspection on the day of the meeting until the Company's normal close of business:
   (a) copies of Executive Directors' service contracts with the Company;
   (b) copies of Non-executive Directors' letters of appointment; and
   (c) a copy of the Company's current Articles of Association.

Company information

Directors
Anthony Reeves
Andrea Stecconi
Philipp Prince
Leonard Seelig
Franco Francione

Secretary
David Venus & Company LLP
42–50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

Registrars
SLC Registrars
42–50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

Registered office
42–50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

Registered number
08993398

Share capital
The Ordinary Share capital of Defenx PLC is listed on AIM, a market operated by London Stock Exchange Group plc. The shares are listed under the trading ticker DFX.
The ISIN number is GB00BYNF4J61 and SEDOL number is BYNF4J6.

Auditors
haysmacintyre
6 Red Lion Square
London WC1R 4AG

Nominated adviser
Strand Hanson Limited
26 Mount Row
London W1K 3SQ

Joint brokers
WH Ireland Limited
11 St James's Square
Manchester M2 6WH

Beaufort Securities Ltd
63 St Mary Axe
London EC3A 8AA

Solicitors
Taylor Vinters LLP
Tower 42, 33rd Floor
25 Old Broad Street
London EC2N 1HQ

Bankers
National Westminster Bank
135 Bishopsgate
London EC2M 3UR

Credit Suisse AG
SGCT 1
Viale Stazione 19
6501 Bellinzona
Switzerland

Website
investors.defenx.com

Five-year track record

		2016	2015	2014	2013	2012
As at 31 December						
Revenue unit	€000s	**7,088**	4,490	2,382	2,077	891
Revenue growth		**+58%**	+88%	+15%	+33%	-
Gross profit	€000s	**5,848**	3,977	2,034	1,557	4.39
Gross margin	%	**82.5%**	88.6%	85.4%	75.0%	44.3%
Operating profit (before transaction costs)	€000s	**1,840**	979	805	410	114
Operating profit margin (before transaction costs)	%	**26.0%**	21.8%	33.8%	19.7%	12.8%
Profit before tax	€000s	**1,590**	362	761	409	113
Earnings per share						
Basic		**€0.185**	€0.042	€0.167	€0.115	€0.045
Diluted		**€0.169**	€0.039	€0.159	€0.115	€0.045
Net cash flow from operating activities	€000s	**2,322**	(1,022)	388	661	(149)
Free cash flow (after capitalised development costs)	€000s	**(1,667)**	(2,372)	(823)	3	(135)
Net cash used in investing activities	€000s	**(4,558)**	(1,351)	(1,211)	(658)	69
Net cash from financing activities	€000s	**1,916**	3,512	1,026	-	75
Net increase in cash and cash equivalents	€000s	**(319)**	1,139	203	3	(5)
Cash and cash equivalents at year end	€000s	**1,015**	1,334	206	2	1
Net assets	€000s	**9,651**	5,812	2,048	457	129
Net assets per share		**€1.120**	€0.953	€0.512	€0.160	€0.045

digital protection

Defenx PLC
42-50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

www.defenx.com