



Annual Report 2017

**Defenx PLC**



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## Chairman's statement

### A year of significant challenge and change

2017 was a difficult year for Defenx. I am acutely aware that investors, who have placed their trust in the Board, want to understand the past and hope to look forward to the future with confidence.

We began the year expecting to build on the strong results of 2016, well-funded by the new equity secured in October 2016. However, as in prior years, slow collections from our B2B2C customers continued significantly to delay the conversion of profits into cash. This was a key reason behind the Board's decision to enter into the strategic partnership with BV Tech SpA ("BV Tech") in April 2017, which provided further equity funding and the opportunity to diversify our business model into the corporate sector, with a view to reducing seasonality and improving cash conversion.

The majority of our business, however, remained seasonal in the 2017 financial year, given the inevitable time required to take advantage of potential opportunities resulting from the BV Tech partnership, and results were therefore dependent again on billings in the second half of the year driven predominately by the existing B2B2C business.

Following the release of our interim results in September 2017, it became clear that previously anticipated sales orders from our B2B2C customers were not materialising as had been expected, with a consequent further adverse impact on the Group's financial performance from this part of the business.

As previously announced and as further detailed in the Financial Review, this has resulted in revenues for 2017 being materially below prior year with revenues for 2017 being €2.93 million (2016: €7.09 million).

As a result, the Group has made an impairment of its intangible fixed assets of €6.29 million and impairment of trade receivables of €3.02 million, resulting in an operating loss (before transaction costs) for 2017 of €11.75 million (2016: €1.84 million profit). Regarding the trade receivables, the Company has now agreed with certain customers to receive €1.40 million over a period of up to 48 months and the Company will keep the market apprised of delivery against these agreements.

The Company then raised £1.2 million, pursuant to a subscription and open offer in April 2018, to raise funds for general working capital purposes, following which BV Tech became the Company's majority shareholder as detailed below.

In addition, BV Tech has now agreed to provide an unsecured loan of €0.95 million for general corporate purposes. As BV Tech is a substantial shareholder of the Company as defined in the AIM Rules for Companies, the loan is classified as a related party transaction pursuant to AIM Rule 13.

Following publication of these accounts, the Company is pleased to announce that it is expected that trading in the Company's ordinary shares on AIM will be restored at 7.30 a.m. on 2 October 2018.

### Re-building and re-focusing the product portfolio

On 25 October last year, we announced that the delivery of product updates to address certain recently-identified performance issues and back-end integration took longer than expected. Together with delays in broadening of the Group's product portfolio, notably to address the corporate sector, we advised that the conversion of opportunities into firm orders was taking longer and requiring more investment than was initially anticipated.

Since then, progress in addressing the performance issues has been slow due to the constrained financial and management resources of the Group and because we were not able to agree acceptable terms for continuing development and support from our existing external developer in Romania. Support work switched initially to our small internal development team, but following significant staff losses, was assumed by BV Tech's developers.

The first half of 2018 has, therefore, been focused on remediating the performance issues of the past and broadening the Group's product portfolio to address the corporate sector. While this has taken far longer than originally expected, we currently anticipate launching new products, focusing on the corporate sector, in Q1 2019.



### Strategic partnership with BV Tech

BV Tech is a leading independent Italian corporate IT and cyber security solutions provider. Our relationship commenced in April 2017 with a cash subscription by BV Tech and a software acquisition by Defenx from BV Tech which was settled through the issue of new ordinary shares.

This resulted in BV Tech holding 26.7% of the Company's then issued share capital.

In August 2017, as part of wider equity fundraise, raising, in aggregate, £1.74 million, BV Tech subscribed for a further £250,000 to increase its then shareholding to 28.6%. In addition, the Company also secured £1.25 million via the issue of a 10% convertible bond during August 2017 through the UK Bond Network platform.

In June 2017, the Group's Italian subsidiary, Defenx Italia SRL, entered into a three-year software distribution contract with BV Tech to offer its product range for sale by BV Tech on a global, non-exclusive basis, in line with the terms offered to other major Defenx customers. In September 2017, Defenx entered into a master services agreement with BV Tech, creating the framework under which Defenx would allocate work to BV Tech on an arm's length basis as preferred supplier and a related party in accordance with the AIM Rules.

Following BV Tech's participation in the subscription and open offer in April 2018, pursuant to which BV Tech invested a further £0.94 million, BV Tech's aggregate investment in the Company's equity stands at €2.65 million and it now holds 54.7% of our issued shares. BV Tech remains committed to continuing to support Defenx, providing development activities, promoting sales activities, notably to corporate customers, and, in October 2018, providing further funding via an unsecured 6% loan of €0.95 million to provide the Group with working capital for general corporate purposes as it seeks to deliver on its strategy. It is anticipated that the loan will shortly be amended such that it becomes a convertible loan of the same quantum and on the same material terms.

### Defenx 2020 strategy

Following the challenges of 2017, the Board is now looking to develop further its strategic plan, *Defenx 2020*, which aims to refocus sales from B2B2C distributors to selling our relaunched products, which are building on our existing cloud backup products, in a compound model of Software-as-a-Service to smaller customers and direct sales to large corporates and the public sector.

The revised product suite we are developing, with the technical support of BV Tech, has the following key features:

- EU based, General Data Protection Regulation ("GDPR") compliant, data storage;
- Integrated security (1st line of defence);
- Automated backup (2nd line);
- Flexible, scalable storage solutions;
- Competitive pricing; and
- White-labelling to reflect a customer's own branding.

Gartner Inc estimate that the Western European security & storage market will grow to €3.7 billion in 2019, largely driven by ongoing GDPR compliance. While the major players – Amazon Web Services, Google, Microsoft – dominate the market, the Board strongly believes there is space in the market for niche players such as Defenx.

### The Board, management and staff

In November 2017, the Company announced the appointment of Alessandro Poerio, a finance and management executive in the technology sector, to replace Andrea Stecconi as CEO. Andrea remained on the Board in a customer relationship role until April 2018 following the EGM approving the subscription and open offer. Subsequently, Alessandro tendered his resignation in order to pursue other interests and left the Group at the end of May 2018.

Therefore, from 1 June 2018 I became interim Executive Chairman to oversee the appointment of a new Board and executive team to re-focus the business and, on an interim basis, to lead Defenx.

On 11 July 2018, the Company announced that, as was set out in the April 2018 circular to shareholders, Philipp Prince and Leonard Seelig had resigned from the Board. Philipp, who had been Chief Financial Officer since July 2015, was replaced by Clive Eplett as interim-Chief Financial Officer. Given the interim nature of his appointment, it is not expected that Clive will join the Board.

On 1 August 2018, Nic Hellyer and Giorgio Beretta, two high calibre individuals, were appointed as independent Non-executive Directors and chair of the Remuneration and Audit Committees respectively, filling the vacancies left by Leonard Seelig.

Under the relationship agreement entered into with BV Tech in April 2017, BV Tech has the right to nominate two Directors to the Board. Raffaele Boccardo, Founder and President of BV Tech, was appointed in August 2017 to fill one of these positions. In addition, on 11 July 2018, Raffaele assumed the role of interim Executive Deputy Chairman. Raffaele is working closely with me and the rest of the Board, as we seek to identify the right team to deliver our strategy and drive value for all stakeholders, particularly with regard to the appointment of a CEO and a permanent CFO.

### Current trading, outlook and funding

The substantial loss for 2017 and the resultant cash outflow has clearly weakened the Group's financial position. The Board's focus, in 2018 to date, has been to evaluate strategies to return the business to profitability and secure long-term funding.

On 28 February 2018, we announced a new strategy, *Defenx 2020*, which we believe will see the Group build on its existing cloud backup product with a focus on corporate customers. This strategy reflects the changing competitive landscape, growing demand for cloud-based services, feedback from existing and potential customers and the support of BV Tech, now the Company's largest shareholder.

As a result of the issues raised above, the results for 2018 are expected to show significantly lower revenues and an operating loss. However, as a result of the initiatives put in place as part of *Defenx 2020*, the Board believes that the business will become cashflow positive during 2019.

As at 31 August 2018, the Group had €210,000 of cash and undrawn facilities of approximately €0.27 million (consisting of €250,000 invoice discounting facilities and an overdraft of €20,000). The Group has also secured further funding of €0.95 million via an unsecured loan from BV Tech. The loan, which accrue interest at rate of 6% per annum, will be used for general corporate purposes and the Board anticipates that the loan will shortly be replaced by a convertible loan from BV Tech of the same quantum and on the same material terms. Conversion of the convertible loan into ordinary shares will be subject to shareholders providing the Directors with the authority to allot such shares on a non pre-emptive basis at the upcoming AGM.

Finally, I would like to thank our investors and staff for their continued patience and look forward to reporting on progress later in 2018. I can confirm that the Company's AGM will be on 31 October 2018 and the Notice of AGM will be posted to shareholders shortly.

### Anthony Reeves

Interim Executive Chairman  
1 October 2018



## Products and technology

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

Defenx acquired Memopal SRL (now renamed Defenx SRL) in August 2016 and announced a strategic partnership with BV Tech in April 2017, with the aim of enhancing and diversifying its product offering, growing its customer base into the corporate sector and expanding its development resources.

### Broad product portfolio

The Defenx proposition is to solve our end-users' data security needs on all their connected devices.

Our products fit into three complementary segments:

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

By developing a range of products within these three segments we look to address the varied needs of consumer and corporate users. Following the strategic partnership with BV Tech, our focus is shifting towards targeting corporate and public-sector customers.

To make the product portfolio attractive for corporate and public-sector customers and to ensure lowest management and maintenance costs over the medium term, a significant amount of activity is being carried out with the support of BV Tech, which is experienced in serving this market, under the master services agreement, including:

1. Product portfolio industrialisation to allow best corporate market use and compliance;
2. Infrastructure and Services consolidation (optimisation of the hardware and reduction of maintenance and management costs);
3. Introduction of new services and strengthening of the existing functionality;
4. Product upgrades to ensure compatibility with the latest available operating systems;
5. Update and development of new apps (e.g. Cloud Mobile App); and
6. Strengthening of the server side of the products in order to support the introduction of new services and the integration of new software engines.

Our current portfolio comprises the following products:

Product	Key features
Defenx Mobile Security Suite	Defenx Mobile Security Suite includes antivirus, anti-phishing, webcam protection, mic capture, and anti-theft protection as well as SIM protection and safe browsing. Available in 12 languages for Android, iOS.
Defenx PC Antivirus & Security Suite	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.
Defenx Cloud Backup	Defenx Cloud Backup (Memopal) 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. 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 one NAS platform.
Defenx Privacy Advisor	Defenx Privacy Advisor 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.
Defenx SOS Help Me	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.
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. 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 for Android and iOS (the latter in beta version).
Defenx ECS/ECM	Defenx ECS/ECM, built on the software acquired from BV Tech, employs standard protocols, encryption algorithms and open-source software components to provide secure telephone conversations and encrypted messages and attachments. Available in three languages for Android, iOS and Blackberry smartphones.



## Our market and opportunity

### Global and regional drivers

Our target markets are huge, comprising consumer, corporate and public-sector users of digital devices. Opportunity lies in the increasing number of connected devices, the volume and sophistication of cyber-attacks, the growth in users' willingness to use online services and regulation.

#### *More connected devices*

- According to the GSMA<sup>1</sup>, at the end of 2017, two-thirds of the world's population had a mobile subscription – a total of 5.0 billion unique subscribers. By 2025, GSMA forecast this to rise to nearly 6.0 billion. Smartphone penetration also continues to grow with an estimated 3.3 billion mobile internet users in 2017 increasing to 5.0 billion by 2025.
- It is not just mobile devices, but the internet of things ("IoT") too. GSMA forecasts that the IoT market will grow from an installed base of 7.5 billion devices<sup>2</sup> in 2015 to 25.1 billion devices by 2025, the implications of which are only just beginning to be felt.

#### *Industrialisation of cyber-crime*

Computer fraud is becoming industrialised.

- Some concentrate on developing new methods of attack and seeking to stay ahead of the legitimate software industry and cyber-security providers, who then franchise their methodologies to operators who can use them in a variety of ways.
- Those franchisees then operate the bought-in technologies and exploit them for criminal gain.

#### *More attacks and data breaches*

- Ransomware continues to plague businesses and consumers with Symantec<sup>3</sup> reporting a 46% increase in infections during 2017, most notably the WannaCry and Petya/NotPetya attacks.
- The number of mobile vulnerabilities reported by Symantec grew by 54% from 2016 to 2017. Android remains the key target for hackers because so many devices are not regularly updated to the latest software. Android's dominant market share makes it our key focus.
- Adoption of IoT technology continues with many devices having poor security; once connected to home or corporate networks, they offer an easy way in for hackers. Symantec found a 600% increase in IoT attacks from 2016 to 2017.
- Symantec has also identified a shift to 'coin mining' as an alternative revenue source for cyber criminals driven by the rise in cryptocurrency values. While the immediate impact is typically performance related, corporate networks are at risk of shutdown from coin miners spreading across their environment and being billed for cloud CPU usage by coin miners.

#### *More data/online digital services*

- Migration to smartphones that operate on highspeed mobile networks, coupled with increasing consumer propensity to engage in the digital world, is driving mobile data traffic up in all regions. According to Ericsson<sup>4</sup>, global mobile data traffic for all devices will increase eight-fold between 2017 and 2023, reaching 110 exabytes per month. Smartphones will account for close to 95% of total mobile data traffic by 2023.

#### *More regulation*

- Regulatory compliance has been stimulating spending on security, notably in Europe with the GDPR that came into effect 25 May 2018.

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<sup>1</sup> GSMA The Mobile Economy 2018

<sup>2</sup> IoT connections include cellular and non-cellular connections. The term IoT connections refers to devices capable of two-way data transmission (excluding passive sensors and RFID tags). It includes connections using multiple communication methods such as cellular, short-range and others. Excludes PCs, desktops, tablets, laptops, e-readers and smartphones.

<sup>3</sup> Symantec Internet Security Threat Report, March 2018

<sup>4</sup> Ericsson Mobility Report, November 2017

- The Facebook-Cambridge Analytica scandal is just one example where data privacy concerns may well see further regulation likely to affect security costs on corporates and public sector organisations.



## Financial review

### Key performance indicators

		2017	2016
Revenue	€m	<b>2.93</b>	7.09
<i>Revenue growth</i>	%	<b>(58.7%)</b>	57.9%
Operating (loss)/profit (before impairment and transaction costs)	€m	<b>(2.45)</b>	1.91
<i>Operating margin (before impairments and transaction costs)</i>	%	<b>(83.5%)</b>	27.0%
Operating (loss)/profit (before transaction costs)	€m	<b>(11.75)</b>	1.84
<i>Operating margin (before transaction costs)</i>	%	<b>(401.4%)</b>	26.0%
(Loss)/earnings per share	¢	<b>(103.0¢)</b>	18.5¢
Operating cash flow	€m	<b>(2.33)</b>	2.32
Free cash flow (after capitalised development costs)	€m	<b>(4.16)</b>	(1.67)

### Revenues

Group revenues fell 59% to €2.93 million (2016: €7.09 million) driven primarily by the previously announced performance and back-end integration issues. While Backup segment revenues were affected indirectly, the predominant impact was in Security segment revenues.

Revenues for the year comprised:

		2017	2016
Billings (invoiced during the year)	€m	<b>4.03</b>	7.36
Penalties deducted from revenue in the first half	€m	<b>(0.56)</b>	-
Released from prior periods – existing policy	€m	<b>0.53</b>	0.25
Deferred to future periods – existing policy	€m	<b>(0.45)</b>	(0.52)
Deferred to future periods – exceptional deferral	€m	<b>(0.62)</b>	-
Revenue	€m	<b>2.93</b>	7.09

The revenue shortfall arose from delays in the delivery of product updates to address performance issues in the Group's security products, back-end integration with certain customers' systems and other commitments made by the sales team. This resulted in the cancellation of around €4.60 million in confirmed but un-invoiced orders, the return of €1.03 million in invoiced sales from the first half of 2017 and customer claims for further returns and compensation.

In addition, PC Security Suite sales were reduced by one-off incentives to distributors amounting to €560,000 ahead of the launch of our in-house product. The PC Security Suite Windows client and network versions, which were due to be launched together in early 2018, continue to be delayed due to the lack of development resources. The Board now expects that PC Security Suite will be launched by early 2019.

In finalising the 2017 results, the Directors have taken the view that sales invoiced following the announcement of the performance and integration issues in October 2017 did not satisfy the criteria to be recognised as revenue. In addition, the Group's revenue recognition accounting policy has been updated to state explicitly that deferred revenue is only released to the income statement once the underlying receivable has been collected. Together, this has resulted in an amount of €619,000 being carried forward instead of being recognised as revenue. This amount has been transferred from deferred revenue and presented as a deduction from trade receivables until the underlying receivable is collected (see note 18). Consequently, the net deferred revenue provision fell to €504,000 (2016: €590,000).

IFRS 15 *Revenue from contracts with customers*, became effective for annual periods beginning on or after 1 January 2018. Having assessed the commercial arrangements with customers in the context of IFRS 15, the board have concluded that the existing accounting policy and methodology continues to be equally appropriate under the new accounting standard. Accordingly, no change in accounting treatment arises or has been applied as a consequence of IFRS 15 and no adjustment made to either sales or deferred revenue.

### Gross margin

Cost of sales includes sales commissions, expensed customer integration and software maintenance costs and software amortisation (excluding impairment) charges. For the Backup segment, there are additional storage, connectivity and labour costs of sales. The Group expects to be able to analyse cost of sales by segment for 2019.

The Group's gross margin fell significantly to 12.8% (2016: 82.5%) primarily due to the increase to €1.30 million (2016: €1.01 million) in software amortisation charges, which are largely fixed once a product is launched, and €791,000 (2016: €nil) in external development costs, without the anticipated increase in revenues.

The impairment charges in 2017, discussed further below, will result in reduced asset carrying values and lower amortisation charges in 2018. The Board believes that the strategic partnership with BV Tech will result in reduced development spending overall going forward and a better product offering.

### Expenses

Sales & marketing expenses, primarily contributions towards developing the Defenx brand that are generally paid to B2B2C customers only upon the achievement of pre-agreed sales targets, decreased to €1.97 million (2016: €2.22 million). While a proportion of the marketing contributions accrued in the first half were released in the second half, the majority were contractually committed resulting in a full year charge amounting to 67.4% (2016: 31.4%) of revenues. It is expected that marketing costs will fall substantially below this level under the corporate focused, *Defenx 2020*, strategy.

Research and development expenses, increased to €712,000 (2016: €470,000), reflecting a full year of costs for Defenx Italia acquired in August 2016 net of cost saving measures implemented towards the end of 2017.

Administrative expenses include the costs of maintaining our AIM listing of €234,000 (2016: €168,000), which increased following the appointment of Beaufort Securities as joint-broker at the end of 2016 and the outsourcing of company secretarial services. Excluding these AIM costs, administrative expenses were reduced year on year despite the full year costs for Defenx Italia.

Overall staff costs increased to €1.28 million (2016: €943,000) due to the full year effect of the Defenx Italia staff costs. There were no performance-related bonuses for the year (2016: €191,000).

### Impairments

Due to their magnitude, the impairments against trade receivables and intangible assets are shown on the face of the income statement.

Customers accounting for the majority of the year end gross trade receivables balance lodged claims against the Group relating to software performance issues. Since mid-November 2017, there have been only limited collections from these customers. On this basis, the Directors anticipate only modest recovery and have provided against substantially all of the balances due as summarised under 'current assets and liabilities' below. Subsequent to the year end, settlements have now been reached with certain of these customers as further described under 'Current assets and liabilities' below.

As a result of the performance and back-end integration issues and subsequent cancellation of orders, the valuation of the Group's intangible development costs, when assessed against future sales forecasts, shows significant impairment.

The impairment of intangible fixed assets of €6.29 million relates to Security (€4.64 million) and Protection (€0.32 million) segment software and the Backup segment customer relationships and goodwill (€1.33 million) arising upon the acquisition of Defenx Italia, which was partially supported by the development team, most of whom have now left the Group.

### Operating loss

The operating loss before impairment charges and transaction costs was €2.45 million (2016: profit of €1.91 million) reflecting the significant reduction in revenue notwithstanding the cost savings achieved towards the end of the financial year.



The transaction costs of €101,000 relate to the strategic partnership with BV Tech. Transaction costs of €234,000, relating to the subscriptions by BV Tech in April and August 2017 and placing in July 2017, were charged to the share premium account and €167,000 were allocated to the liability and equity component of the convertible bonds, with the liability component fees charged to the income statement over the three-year term.

The net interest expenses increased to €184,000 (2016: €62,000) due to greater usage of the UK supply chain finance facility (now withdrawn), a full year's vendor loan expense and the convertible bond expense of €77,000 for the period from 31 August 2017.

The loss before tax, stated after impairment charges, transaction costs and net interest expense, was €12.04 million (2016: profit €1.59 million).

### Taxation

There is no current tax charge for the year. The release of excess provisions for Swiss tax resulted in a current tax credit of €224,000 (2016: expense of €336,000). Deferred tax assets have not been recognised on temporary timing differences or accumulated tax losses as it is not sufficiently certain that the Group will be able to utilise them in the near future.

During the year, the Board approved a group re-organisation to locate all intangible assets, future development, maintenance and support with Defenx Italia. This has resulted in research and development credits of €771,000 that can be offset against social security, VAT and corporate taxes due in Italy.

### Net loss and loss per share

The loss after tax attributable to ordinary shareholders of Defenx was €11.64 million (2016: profit €1.23 million). This equates to a loss per share of €1.030 (2016: €0.185 profit per share) undiluted and €0.976 (2016: €0.169 profit per share) diluted.

In light of the Group's substantial loss for the year and profit and loss reserves deficit, the Board cannot propose a dividend. Future dividend policy will be kept under review.

### Cash flow

The net cash outflow from operating activities was €2.33 million (2016: €2.32 million inflow) reflecting falls in receivables of €1.01million (2016: €1.44 million increase) and a decrease in payables and provisions of €1.82 million (2016: €1.04 million increase).

During the year, capitalised software development costs were €1.83 million (2016: €4.89 million).

The net cash inflow from financing activities reflects the placing, subscription and issue of convertible bonds that raised, in aggregate, €4.1 million net of expenses, the drawdowns and repayments of debt facilities and the continued repayment of the vendor loans in respect of the acquisition of Defenx Italia.

The free cash outflow, defined as net cash flow from operating activities less internally capitalised development costs, was €4.16 million (2016: €1.67 million).

### Intangible assets

The net book value of capitalised development costs reduced to €4.90 million (2016: €6.54 million) reflecting the impairments outlined above. At the year end, the post-impairment book values were as follow:

<i>Segment and product</i>		<b>2017</b>	2016
Mobile Security Suite	€m	<b>0.79</b>	0.94
PC Security Suite	€m	<b>1.51</b>	1.83
Network (NAS) Security	€m	-	1.33
Encrypted Calling & Messaging (acquired from BV Tech)	€m	<b>1.67</b>	-
Security segment	€m	<b>3.97</b>	4.10
Backup segment	€m	<b>0.85</b>	1.21
Other	€m	<b>0.08</b>	1.23
	€m	<b>4.90</b>	6.54

Since the year end, BV Tech has assisted our team to remediate technical issues and develop an enhanced product portfolio. BV Tech is formally contracted, in accordance with the master services agreement, to supply technical staff and an interim-CTO to the Group.

At the end of 2017, the Group's intellectual property, including all software source code was transferred to Defenx Italia. This enabled the Group to claim research and development tax credits in Italy that can be offset against corporate, VAT and payroll taxes there.

### Current assets and liabilities

Current assets decreased to €2.37 million (2016: €6.68 million) including year end net trade receivables of €998,000 (2016: €5.33 million) and cash balances of €0.95 million (2016: €1.18 million).

At the year end, the trade receivables balance was as follows:

		2017	2016
Not due at reporting date	€m	1.73	4.65
Overdue at reporting date	€m	3.10	0.88
Gross trade receivables	€m	4.83	5.53
Offset deferred revenue	€m	(0.62)	-
Provision for impairment	€m	(3.21)	(0.20)
Net trade receivables	€m	1.00	5.33

Deferred revenues due to be recognised in the statement of comprehensive income, for which the related trade receivables had not been settled in cash at the year end, were transferred from the deferred revenue balance and offset against trade receivables.

Since the trading update in October 2017, in which we announced performance and back-end integration issues, the collection of trade receivables has been challenging, with limited collections since mid-November 2017. Management explored multiple options, including legal proceedings, to secure acceptable settlements that balance the collection of receivables, product returns and, where appropriate, compensation.

At the year end, no material progress had been made and the Directors determined that the significant impairment shown above against trade receivables was appropriate. As further explained in note 26, the Directors do not consider the claims received from customers require provision in the income statement during the year.

The Company has entered into settlement agreements with four B2B2C customers in regarding of €1.40 million of the trade receivables. As further described in notes 26 and 27, these agreements waived the parties' claims against each other and set out payment schedules for the collection over a period of up to 48 months of approximately €1.40 million of the €4.41 million in dispute at the year end.

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.

Current liabilities decreased to €2.52 million (2016: €4.07 million) including trade creditors and accruals of €851,000 (2016: €1.39 million), the current proportions of deferred revenue, loans and borrowings, and taxation of €385,000 (2016: €773,000).

### Financing

The Group entered into new debt facilities of, in aggregate, €1.62 million during the year. On 31 August 2017, the Company issued 1,250,000 secured convertible bonds of 10% at a face value of £1 each on the UK Bond Network platform. Defenx Italia entered into a €500,000 five-year term loan with Banca Sella.

Gross debt, including the convertible bonds and vendor loans, was €2.20 million (2016: €1.95 million) at the year end (see note 19). Net debt was €1.24 million (2016: €774,000), equivalent to a debt-to-equity ratio of 30.9% (2016: 8.0%) compared to the Board limit of 25%. The weighted average interest rate payable for the year was 8.4% (2016: 9.8%).

Total equity attributable to ordinary shareholders of Defenx decreased to €4.16 million (2016: €9.63 million) representing a net asset value per share of €0.31 (2016: €1.12).



As at 31 August 2018, the Group held cash of €210,000, with term and vendor loans owing of €19,000 and bond debt of €1.41 million. The Group currently has undrawn facilities of approximately €0.27 million (consisting of €250,000 invoice discounting facilities and an overdraft of €20,000).

The Group has also secured further funding of €0.95 million via an unsecured loan from BV Tech. The loan, which accrue interest at rate of 6% per annum, will be used for general corporate purposes and the Board anticipates that the loan will shortly be replaced by a convertible loan from BV Tech of the same quantum and on the same material terms.

## Principal risks and uncertainties

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

Principal risk	Mitigation	Movement
<p><b>Technology</b></p> <p>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.</p> <p>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.</p>	<p>New products and features are assessed against their target markets and in response to customer feedback prior to development.</p> <p>Defenx works with expert development support from BV Tech, which has a track record of assessing and integrating software to meet customer demand.</p>	▲
<p><b>Building sales</b></p> <p><b>The Group's historical B2B2C sales model has been shown to involve greater sales and cash collection risk than was anticipated at the time.</b></p> <p>Under <i>Defenx 2020</i> the Group will seek to achieve sales a mix of <b>Software-as-a-Service (SaaS) and direct corporate sales. There is a risk this alternative route to market proves difficult to implement.</b></p>	<p>Under <i>Defenx 2020</i>, reliance on this channel is likely to be reduced significantly, with more stringent credit control on the remainder.</p> <p>BV Tech's sales and marketing resources and existing trading relationships enable access that would otherwise be difficult for the Group to obtain.</p>	▲
<p><b>Competition</b></p> <p><b>The markets in which Defenx operates are competitive and rapidly evolving. The Group's existing products have become less competitive and could become obsolete as competitors introduce new products and customer behaviour changes.</b></p> <p><b>Many 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.</b></p>	<p>Defenx's products are being optimised for mobile devices, the fastest growing product and highest volume category.</p> <p>The relationship with BV Tech effectively provides scale and those resources Defenx does not itself have.</p>	▲
<p><b>Recruitment and retention of staff</b></p> <p>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 attract and retain high calibre individuals into key roles will adversely affect the Group's performance and profitability.</p>	<p>The Board, including the new Non-executive Directors, are highly experienced. The recruitment process, particularly the recruitment of a CEO and a permanent CFO, is a key area of Board focus.</p>	▲



Principal risk	Mitigation	Movement
<b>Working capital and funding</b> <b>Even with the latest funding support from BV Tech in the form of the unsecured loan, if building new sales channels takes significantly longer than anticipated, further funding may be needed.</b>	Costs and cash resources are being managed closely.  A SaaS sales model negates trade credit risk and accelerates customer payments so that the Group is paid in advance.	▲
<b>Cyber security and data protection</b>  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: <ul style="list-style-type: none"><li>• monitors suspicious activities</li><li>• investigates and reports on any actual or suspected incidents</li><li>• regularly implements improvements in the Group's security infrastructure.</li></ul> Staff are trained to mitigate cyber risks by adopting appropriate best-practice.	-
<b>Operations overseas</b>  A proportion of Defenx's revenues are generated outside the UK, which is currently negotiating Brexit. 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, 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.	The Group has operating subsidiaries in the UK, Italy and Switzerland, providing operating options within and outside the EU.  Selling into different national markets mitigates the risk of adverse changes in one.  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.	-

## Board of Directors

Anthony (Tony) Reeves

Interim Executive Chairman

**Appointed to the Board:** 7 October 2015

**Committee Membership:** None

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.

Raffaele Boccardo

Interim Executive Deputy Chairman

**Appointed to the Board:** 4 August 2017

**Committee Membership:** None

Raffaele is an entrepreneur and President of the BV Tech Group, which he founded in 2005. It has become one of Italy's leading independent corporate IT solutions providers. He received the Order of Merit of the Republic from the President of Italy in 2010. He is one of BV Tech's nominated Directors and speaks fluent Italian and English.

Giorgio Beretta

Non-executive Director

**Appointed to the Board:** 1 August 2018

**Committee Membership:** Audit (chairman), Remuneration

Giorgio is a qualified accountant with over 30 years' experience and is a partner at BDO Italia. He has a breadth of public company and advisory experience, having advised on numerous IPOs, M&A transactions and fund raisings, as well as sitting as Chairman of VR Way SA, the first AIM Milan listed company.

Nicholos (Nic) Hellyer

Non-executive Director

**Appointed to the Board:** 1 August 2018

**Committee Membership:** Audit, Remuneration (Chairman)

Nic is a Chartered Accountant and investment banker with over 25 years' experience. He spent the majority of his banking career at UBS and HSBC and has also spent time in industry as a CFO. He is currently a consultant to Opus Corporate Finance and Finance Director of AIM quoted Pelatro Plc, a global precision marketing software specialist.

As set out in the Directors' report on page 33, Philipp Prince, Chief Financial Officer, and Leonard Seelig, Non-executive Director, resigned from the Board on 11 July 2018.



## 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"), as updated in April 2018, 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 from page 22 and explain how Defenx is seeking to develop its governance framework following the strategic partnership with BV Tech. We see the evolution of good governance going hand-in-hand with renewed 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 in April 2017, which entitles them to nominate two Directors to the Board, 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 to the Board as a Non-Executive Director on 22 May 2017 and Raffaele Boccardo was appointed to the Board as Deputy Chairman and Non-Executive Director on 4 August 2017. Franco Francione subsequently resigned from the Board on 20 November 2017 in order to focus on his responsibilities as Chief Financial Officer of BV Tech, which leaves BV Tech entitled to appoint one more Director to the Board, subject to the approvals outlined above.

On 24 May 2018, Alessandro Poerio tendered his resignation in order to pursue other interests and left the Company on 31 May 2018. As set out in the circular sent to shareholders on 6 April 2018, it was envisaged that Philipp Prince, Chief Financial Officer, and Leonard Seelig, independent Non-executive Director, would step down from the Board. As announced on 11 July 2018, Philipp Prince completed the handover of his responsibilities to our interim Chief Financial Officer, Clive Eplett, and resigned from the Board. Leonard Seelig, resigned from the Board at the same time.

On 1 August 2018, Giorgio Beretta and Nic Hellyer were appointed to the Board as Non-executive Directors.

As outlined below, the Company has chosen to follow the QCA Code, to the extent relevant for a company of Defenx's size and stage of development. A statement detailing both how the Company complies with the QCA Code, and areas where it does not comply, has been uploaded to the Company's website in compliance with the recently updated AIM Rule 26.

**Anthony Reeves**

Interim Executive Chairman

1 October 2018

## The Board

The Board comprises a balanced mix of Executive and Non-executive Directors with a combination of relevant skills and experience, designed to ensure there is effective leadership of the Group. Directors' biographies appear on page 17.

Anthony Reeves (formerly a non-executive director), Giorgio Beretta and Nic Hellyer are 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. Raffaele Boccardo is not considered to be independent by virtue of his employment as CEO of BV Tech and his majority ownership stake in BV Tech, the company's majority shareholder.

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 interim Executive Chairman is responsible for the leadership of the Board, ensuring its effective operation and setting the agenda. The Directors have access to the services of a company secretary through ONE Advisory Limited who provide advice on company secretarial 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 each contracted to spend a minimum of 12 days per annum on Defenx business.

## Board meeting attendance

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

Director	Position	Board meetings attended in 2017
Anthony Reeves	Non-Executive Chairman (until 31 May 2018) Interim Executive Chairman (from 1 June 2018)	7/7
Raffaele Boccardo (appointed 4 August 2017)	Deputy Chairman & Non-Executive Director (until 11 July 2018) Interim Executive Deputy Chairman (from 11 July 2018)	3/3
Alessandro Poerio (appointed 20 November 2017; resigned 24 May 2018)	Chief Executive Officer	1/1
Andrea Stecconi (resigned on 24 April 2018)	Chief Executive Officer (until 20 November 2017) Executive Director (from 20 November 2017)	7/7
Philipp Prince (resigned 11 July 2018)	Chief Financial Officer	7/7
Franco Francione (appointed 22 May 2017; resigned 20 November 2017)	Non-executive Director	3/4
Leonard Seelig (resigned 11 July 2018)	Non-executive Director	7/7

There were also two ad-hoc Board meetings convened in relation to the placing and subscription announced in August 2017 and in relation to the Board changes in November 2017, which were attended by all Directors, save for Franco Francione who was not present for the unscheduled August Board meeting.



### 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 in the 2019.

### 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 page 16. 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; and
- 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.

In reaching this conclusion, the Directors have weighed the facts of BV Tech's commitment to a new loan facility of €0.95 million in October 2018, its aggregate investment of €2.65 million in the Company's equity since April 2017 and documented commitments to continue to support the Group's development activities (under the master services agreement) and to promote its sales activities, notably to corporate customers.

### Relations with shareholders

The Directors are committed to regular engagement with existing shareholders and prospective investors and will make themselves available as appropriate.

In accordance with good governance, the Company entered into a relationship agreement with its major shareholder, BV Tech, 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.

BV Tech is the Company majority shareholder and is currently interested in 15,413,526 ordinary shares representing approximately 54.74% of the Company's issued share capital. Of the shares held by BV Tech, 3,480,388 ordinary shares are subject to orderly market provision thought to 11 April 2019, when any transfer of such shares must be made through the Company's broker.

In October 2018 BV Tech agreed to provide the Company with an unsecured loan of €0.95 million with repayment due by 1 January 2020. It is anticipated that the loan will shortly be amended such that it becomes a convertible loan of the same quantum and on the same material terms.

### Information received by the Board

The Board receives information on at least a monthly basis enabling 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](http://investors.defenx.com) provides access to Company information, public announcements, published financial reports and contact details.

### AGM

The forthcoming AGM on 31 October 2018 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 the recently appointed Chairman of Defenx's Audit Committee, I present my first Audit Committee Report for the year ended 31 December 2017, 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 the Committee's ongoing duties, the Committee will:

- consider significant issues and areas of judgement with the potential to have a material impact on the financial statements, including impairments of the Company's investments and technologies;
- continue to consider the impact on the Group of the introduction of International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers*; and
- keep the need for an internal audit function under review, having regard to the Company's strategy and resources.

**Giorgio Beretta**

Chairman of the Audit Committee

1 October 2018

### Audit committee and attendance

The Audit Committee currently comprises Giorgio Beretta (Chair) and Nic Hellyer. Anthony Reeves and Raffaele Boccardo have agreed to step down from the Audit Committee pending the appointment of full time Executive Directors.

Prior to his resignation on 11 July 2018, Leonard Seelig chaired the Committee. Giorgio Beretta was appointed as chairman on 1 August 2018. The Board considers that Giorgio Beretta has sufficient relevant financial experience to chair the Audit Committee given that he is a qualified accountant with over 30 years' experience and is a partner at BDO Italia.

Franco Francione was a member of the Committee from the period 22 May 2017, until his resignation on 20 November 2017.

The Committee is required by its terms of reference to meet at least twice a year. During 2017, the Committee met twice with Anthony Reeves, Leonard Seelig and Franco Francione present for one Committee meeting and Anthony Reeves and Leonard Seelig present for the other, post Franco Francione's departure from the Company. In addition, Philipp Prince, Chief Financial Officer, attended both Committee meetings by invitation and each of Andrea Stecconi, Alessandro Poerio and Raffaele Boccardo attended one Committee meeting by invitation.

### Objectives and responsibilities

The Committee is responsible for monitoring the integrity of the Group's financial statements, including its Annual and Interim Reports, preliminary results 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](http://investors.defenx.com).

### Significant issues considered during the year ending 31 December 2017

During 2017, 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, including impairments of the Group's investments and technologies;
- 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 again discussed the limited information available on the activation of licences sold to B2B2C customers. The Committee also considered the change in policy wording to state explicitly that deferred revenues would not be released if the related trade receivable had not been collected. On this basis and under the Group's current revenue recognition policy, the Committee continued to be satisfied that the consequential judgement taken on licences sold and not activated and the timing of release of deferred revenue in the accounts was appropriate.

The Committee also considered the appraisal of the impact of adopting IFRS 15 prepared by management and related disclosures in the interim and these full year financial statements.

#### *Recoverability of debtors*

The Committee continued to review the track record of receipts from slow-paying debtors and deterioration following the announcement of performance and integration issues in October 2017. The Committee sought regular updates from management as to the status of trade receivables (and related customer claims) and negotiations with customers to reach commercially acceptable settlements. In light of this, the Committee reviewed and accepted management proposals for the exceptional impairment of trade receivables and was satisfied that net trade receivables were fairly stated.

#### *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 also considered the intra-group transfer of intangible assets to bring intellectual property together with the internal resources able to develop, maintain and support such assets.

In light of the performance and integration issues and the material resultant fall in revenues, the Committee considered the asset impairment calculations prepared by management. The Committee was satisfied that the full year impairments and resultant net book values were appropriately prepared on a reasonable basis.

#### *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.

#### *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 2016 and immediately prior to publishing this report in respect of the year ended 31 December 2017. 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 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 the recently appointed Chairman of Defenx's Remuneration Committee, I present my first Remuneration Committee Report for the year ended 31 December 2017, 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 2017

In light of the financial performance of the Group, no annual bonuses are payable for the year ended 31 December 2017.

The independent Non-executive Directors committed significant time to Defenx during the year and, in accordance with their letters of appointment, received fees for additional work performed.

There were no long-term incentive awards during the year.

### Remuneration policy for 2018 and future years

Defenx has changed considerably since admission to AIM, with the acquisition of Defenx Italia SRL (formerly Memopal SRL) in August 2016 and the announcement of the strategic partnership with BV Tech in April 2017.

In recognition of his switch from Non-executive to interim Executive Chairman, and his additional time commitment in the management of Defenx, Anthony Reeves' remuneration was increased commensurately from £30,000 per year to £90,000 per year.

Future salary awards and increases will be set in line with relevant market levels and to retain and attract high quality executives. The future policy table on page 27 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.

There have been no long-term incentive awards since admission to AIM. It remains our intention to make performance-based awards once the Board has been rebuilt.

**Nic Hellyer**

Chairman of the Remuneration Committee  
1 October 2018

### Future policy table

In the longer term, and once the business is restored to profitability and with more stable cash flows, the Committee would expect to base the remuneration policy on the principles set out below.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Fixed pay</b>			
<b>Base Salary</b> 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 should reflect the market norm for Defenx's situation, size and resources.	Individual and Group performance is taken into account in determining the rate of salary rises towards the relevant market norm.
<b>Benefits</b> 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
<b>Pension</b> 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
<b>Variable pay</b>			
<b>Annual bonus</b> 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 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.



Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Long-Term Incentive Plan (LTIP)</b></p> <p>To align the interests of executives with shareholders in growing the long-term value of Defenx.</p>	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p>	<p>Future LTIP awards will vest on performance only with no further time-based awards.</p> <p>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.</p>
<b>Other arrangements</b>			
<p><b>Shareholding guidelines</b></p> <p>To align Directors' interests with the long-term interests of shareholders</p>	<p>Executive Directors are required to attain or accumulate 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.</p>	n/a	n/a
<p><b>Non-executive Directors' fees</b></p> <p>To reflect the time commitment in preparing for and attending meetings, in supporting the Executive Directors and the responsibilities of the role.</p>	<p>Annual base fee with additional fees for Committee chairs. Additional fees if there is a material increase in the time commitment required.</p>	<p>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.</p>	None

### Committee members and attendance

During the year, the members of the Committee were Anthony Reeves (Chairman), Leonard Seelig and, with effect from 26 September 2017, Raffaele Boccardo. The Committee were aware that the Company Chairman should not chair the Remuneration Committee. Following Leonard Seelig's resignation on 11 July 2018 and the appointment of Nic Hellyer and Giorgio Beretta on 1 August 2018 both joined the Remuneration Committee and the former took over the role of Chairman. Anthony Reeves and Raffaele Boccardo have agreed to step down from the Committee pending the appointment of full time Executive Directors.

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 Anthony Reeves (Chairman) and Leonard Seelig attending on the first meeting and all three Committee members at that time attended the second meeting, with the first meeting taking place prior to Raffaele Boccardo's appointment to the Committee.

The terms of reference are reviewed annually and are available on the Company's website at [investors.defenx.com](http://investors.defenx.com).

### Single total figure of remuneration for the Directors

The table below sets out the total single figure remuneration received by each Director who served during the year ended 31 December 2017.

€	Salary or fees	Benefits	Pension	Annual bonus	Cash total	Long-term incentive	Total
<b>Executive</b>							
Alessandro Poerio (appointed 20 November 2017, resigned 24 May 2018)	20,465	-	-	-	20,465	-	20,465
Andrea Stecconi (resigned 24 April 2018)	122,264	-	5,240	-	127,504	-	124,504
Philipp Prince (resigned 11 July 2018)	120,405	2,062	9,354	-	131,821	33,309	165,130
<b>Sub-total</b>	<b>263,134</b>	<b>2,062</b>	<b>14,594</b>	<b>-</b>	<b>279,790</b>	<b>33,309</b>	<b>313,099</b>
<b>Non-executive</b>							
Anthony Reeves	62,029	-	-	-	62,029	3,517	65,546
Leonard Seelig (resigned 11 July 2018)	59,707	-	-	-	59,707	2,824	62,531
<b>Sub-total</b>	<b>121,736</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>121,736</b>	<b>6,341</b>	<b>128,077</b>
<b>Total</b>	<b>384,870</b>	<b>2,062</b>	<b>14,594</b>	<b>-</b>	<b>401,526</b>	<b>39,650</b>	<b>441,176</b>

Alessandro Poerio was appointed to the Board as Chief Executive Officer on 20 November 2017 replacing Andrea Stecconi, who remained on the Board as an Executive Director during the year but resigned from the Board on 24 April 2018. There were no termination payments during the year. Subsequent to the year end, Alessandro Poerio and Philipp Prince received termination payments of €40,000 and €29,000 respectively.



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
<b>Executive</b>							
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
<b>Sub-total</b>	<b>299,004</b>	<b>3,978</b>	<b>-</b>	<b>93,334</b>	<b>396,316</b>	<b>18,069</b>	<b>414,385</b>
<b>Non-Executive</b>							
Anthony Reeves	29,883	-	-	-	29,883	3,224	33,107
Leonard Seelig	29,883	-	-	-	29,883	2,588	32,471
<b>Sub-total</b>	<b>59,766</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,766</b>	<b>5,812</b>	<b>65,578</b>
<b>Total</b>	<b>358,770</b>	<b>3,978</b>	<b>-</b>	<b>93,334</b>	<b>456,082</b>	<b>23,881</b>	<b>479,963</b>

### Base salary

The Executive Directors' service agreements are as follows:

	with Defenx PLC		with Defenx SA		with Defenx Italia SRL	
	2017	2018	2017	2018	2017	2018
Alessandro Poerio	£25,000	<b>£25,000</b>	-	-	€100,000	<b>€100,000</b>
Andrea Stecconi	£15,000	<b>£15,000</b>	CHF130,000	<b>CHF130,000</b>	-	-
Philipp Prince	£105,000	<b>£105,000</b>	-	-	-	-

Andrea Stecconi resigned from the Board on 24 April 2018. Alessandro Poerio resigned from the Board on 24 May 2018. Philipp Prince resigned from the Board on 11 July 2018.

### Benefits and pension

Alessandro Poerio and Andrea Stecconi received customary benefits by way of social contributions to relevant authorities in Italy and Switzerland respectively. Philipp Prince received medical and life insurance cover and was entitled to pension contributions of 5% of salary plus up to a further 5% of salary on a matched basis consistent with other UK staff.

### Annual bonus

#### For the year ended 31 December 2017

The financial performance targets, primarily based on revenue growth and free cash flow, have not been met. Accordingly, no annual bonuses are payable for the year ended 31 December 2017.

### For the year ended 31 December 2018

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 2018 budget and market expectations. The Committee believes that the financial performance targets for 2018 are commercially sensitive and accordingly will only be disclosed in the 2018 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	2017	2018
Anthony Reeves	7 October 2015	£30,000	£30,000
Raffaele Boccardo	4 August 2017	-	-
Franco Francione	22 May 2017	-	-
Leonard Seelig	7 October 2015	£28,000	£28,000

Following the resignation of Alessandro Poerio, from 1 June 2018, Anthony Reeves became Interim Executive Chairman, involving a greater time commitment. In recompense, his base remuneration was increased from £2,500 per month to £7,500 per month with effect from that date. With effect from 11 July 2018, when Raffaele Boccardo became Interim Executive Chairman, it was agreed that the company would pay BV Tech SpA £7,500 per month for his services, subject to a maximum of £70,000 in any 12 month period.

### Long-term incentives for Executive and Non-executive Directors

#### Option Schemes

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	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 EMI status of the EMI Option Scheme ceased upon the approval of the subscription and open offer at an EGM on 23 April 2018 as a result of BV Tech's resultant shareholding exceeding 50%.



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

	Date of grant	Number	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

As a result of their resignation, any unexercised options (in either scheme) held by Philipp Prince and Leonard Seelig will lapse no later than 31 December 2018.

#### Directors' interests in shares and share scheme interests

The Directors' beneficial interests in shares, together with their respective families, as at 31 December 2017 are shown below together with their interests in share schemes.

	Long-term incentives				Required holding (% salary)	Current holding (% salary)
	Subject to continued employment	Vested but not yet exercised	Beneficially owned	Total interest		
Andrea Stecconi	-	-	1,826,836	1,826,836	200%	12.75%
Philipp Prince	49,833	117,167	71,255	238,255	200%	0.55%
Anthony Reeves	5,208	10,417	31,250	46,875	-	0.24%
Raffaele Boccardo*	-	-	3,636,638	3,636,638	-	28.08%
<b>Leonard Seelig</b>	4,167	8,333	25,000	37,500	-	0.19%

\*Raffaele Boccardo is President and CEO of BV Tech and is deemed to be beneficially interested in the shares in the company held by BV Tech on account of his 86% interest in BV Tech.

BV Tech have acquired a total of 15,413,526 ordinary shares, representing 54.74% of the Company's issued share capital, between 31 December 2016 and 23 April 2018. Save for this, there have been no changes to the Directors' shareholdings between 31 December 2016 and 31 August 2018.

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.

#### Terms of office for Executive and Non-executive Directors

Alessandro Poerio's and Andrea Stecconi's service agreements were subject to termination by either party on six-months' notice. Philipp Prince's service agreement was subject to termination by either party on three-months' notice. Anthony Reeves and Leonard Seelig, whilst acting as Non-executive Directors provided their services under letters of appointment, which were terminable on three-months' notice by either party. On becoming Interim Executive Directors, Anthony Reeves' and Raffaele Boccardo's revised service contracts provide for an initial notice period of three months followed by a rolling one-month period thereafter (and their Non-executive Director terms of appointment, should their roles revert as such, are terminable on three months' and one months' notice, respectively). Giorgio Beretta and Nic Hellyer's contracts are terminable on three months' notice.

## Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2017.

### Principal activity

Defenx PLC is a public limited company incorporated in England and Wales, registered number 08993398, with its registered office at 201 Temple Chambers, 3-7 Temple Avenue, London, EC4Y 0DT. 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 Defenx's main countries of operation are Italy and Switzerland.

### Review of business

The Strategic Report on pages 3 to 15 provides a review of the business, the Group's trading for the year ended 31 December 2017, 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 2017 are set out in the consolidated statement of comprehensive income on page 40. As the Company has no distributable reserves, the Directors are not able to recommend the payment of a dividend. Further, the Board believes it is in the Company's interests to retain future earnings to fund working capital needs and achieve capital growth.

### Directors

The Directors who served during the year ended 31 December 2017 and up to the date of signing the financial statements were as follows:

A Poerio (appointed 20 November 2017; resigned 24 May 2018)
A Stecconi (resigned 24 April 2018)
P Prince (resigned 11 July 2018)
A Reeves
R Boccardo (appointed 4 August 2017)
L Seelig (resigned 11 July 2018)
F Francione (appointed 22 May 2017; resigned 20 November 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.

Raffaele Boccardo, Giorgio Beretta and Nic Hellyer, each 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 from page 26. 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 from page 15. The Group's risk management policies and objectives including exposure to price risk, credit risk, liquidity and cash flow risk are contained in note 20 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 21 and 27 to the financial statements respectively. Details of employee share options and warrants are set out in note 22.

## Substantial shareholdings

At 31 August 2018, the Company's significant shareholders were:

	Number of shares	Holding
BV Tech SpA	15,413,526	54.74%
Andrea Stecconi	1,826,836	6.49%

## Political donations

During the year ended 31 December 2017 the Group made no political donations.

## Events after the reporting date

Details of significant events since the balance sheet date are contained in note 27 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 31 October 2018. The notice of AGM and the ordinary and special resolutions to be put to the meeting will be notified to shareholders separately from these accounts.

## Approval

The Directors' report was approved on behalf of the Board on 1 October 2018.

## Anthony Reeves

Interim Executive 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 IFRSs 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; and
- 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 1 October 2018.

**Anthony Reeves**  
Interim Executive Chairman

**Raffaele Boccardo**  
Interim Deputy Executive Chairman



## Independent auditors' report to the members of Defenx PLC

### Opinion

We have audited the financial statements of Defenx Plc (the 'parent company') and its subsidiaries (together the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Cash Flows, Company and Consolidated Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the Group and Company has prepared forecasts of its performance for the next two years and that these forecasts show a shortfall in funding under certain sales scenario sensitivities. These events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Revenue recognition*

The Group records significant revenues from business to business sales to third party distributors on a non-contingency basis which with a commitment to ongoing maintenance. Our response to this presumed risk of material misstatement arising from improper revenue recognition was to consider the nature of classes of sales transactions and review methodologies for recognition and where appropriate, the deferral of income.

### *Recovery of trade receivables*

The Group has continued to record slow recovery of trade receivable balances and has consequently made significant provision for those balances due at the reporting date.

Our audit work included but was not restricted to an assessment of the assumptions used in calculating bad debt provisions as well as referring to correspondence from third parties in respect to the likelihood of recoverability.

### *Going concern*

The Group has recorded significantly reduced revenues, an operating loss and net cash outflow during the year which results in a risk to its ability to continue as a going concern by being unable to meet its liabilities as and when they fall due from twelve months of the approval of these financial statements.

Our audit work included but was not restricted to a review forecasts over the forthcoming twelve months and compare to the overall business plan, analyse detailed budgets and working capital forecasts and consider the Group's capacity to continue trading over the forthcoming twelve months and review and confirm upcoming funding plans to ensure sufficient capital is available. We have noted a material uncertainty related to going concern which is highlighted in this audit report.

### *Valuation of intangible assets*

The Group has significant intangible assets arising both from internal development and acquisitions of third party entities (namely Defenx Srl, formerly Memopal Srl), including both goodwill and separately identifiable intangible assets. There is a risk that on consolidation the value of these assets is overstated.

Our audit work included but was not restricted to a review of impairment reviews prepared by management and giving scrutiny of associated calculations and forecasts used in determining expected future results. Our review was performed in conjunction with recent results and our understanding of the Group's business model.

### **Our application of materiality**

The scope and focus of our audit was influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Materiality for the Group Financial Statements as a whole was set at €70,000, determined with reference to the turnover of the Group on a consolidated basis and the loss for the year. We report to the Audit Committee any corrected or uncorrected misstatements arising exceeding €3,500.

Performance materiality was set at €53,000, being 75% of materiality.

### **An overview of the scope of our audit**

Our audit scope included all components and was performed to component materiality. Our audit work therefore covered 100% of group revenue, group profit and total group assets and liabilities. It was performed to the materiality levels set out above.



The audit of Defenx Srl, one of the Group's subsidiaries, was performed by a component auditor in accordance with our group audit instructions.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

- adequate accounting records have not been kept 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.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 35, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Use of our report**

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

Ian Cliffe (Senior Statutory Auditor)  
For and on behalf of haysmacintyre, Statutory Auditors  
1 October 2018

10 Queen Street Place  
London  
EC4R 1AG



## Consolidated statement of comprehensive income

		Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
	Note		
<b>Revenue</b>	5	<b>2,928</b>	7,088
Cost of sales	6	<b>(2,553)</b>	(1,241)
<b>Gross profit</b>		<b>375</b>	5,847
Other operating income	6	<b>772</b>	-
Sales & marketing expenses	6	<b>(1,975)</b>	(2,588)
Research, development & operations expenses	6	<b>(712)</b>	(470)
Administrative expenses	6	<b>(906)</b>	(875)
Impairment of trade receivables	6	<b>(3,020)</b>	(74)
Impairment of intangible fixed assets	6	<b>(6,286)</b>	-
Operating expenses before transaction costs		<b>(12,899)</b>	(4,007)
Operating (loss)/profit before transaction costs		<b>(11,752)</b>	1,840
Transaction costs	6	<b>(101)</b>	(188)
<b>Operating (loss)/profit</b>		<b>(11,853)</b>	1,652
Finance income	8	<b>1</b>	-
Finance expense	8	<b>(184)</b>	(62)
<b>(Loss)/profit before tax</b>		<b>(12,036)</b>	1,590
Income tax credit/(expense)	9	<b>235</b>	(369)
<b>(Loss)/profit and total comprehensive (loss)/profit for the year</b>		<b>(11,801)</b>	1,221
<i>Attributable to:</i>			
Equity holders of the parent		<b>(11,641)</b>	1,233
Non-controlling interests		<b>(160)</b>	(12)
<b>(Loss)/profit and total comprehensive (loss)/profit for the year</b>		<b>(11,801)</b>	1,221
<b>(Loss)/earnings per share – (loss)/profit for the year attributable to equity holders of the parent</b>			
Basic	10	<b>(€1.030)</b>	€0.185
Diluted	10	<b>(€0.976)</b>	€0.169

The (loss)/profit for the year arises from the Group's continuing operations.

There were no other items of comprehensive income.

## Consolidated statement of financial position

		31 December 2017 €000	31 December 2016 €000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	11	135	132
Intangible assets	12	4,904	7,980
Research and development tax credit income	17	1,596	-
		<b>6,635</b>	<b>8,112</b>
<b>Current assets</b>			
Trade and other receivables	14	1,243	5,504
Research and development tax credit income	17	179	-
Cash and short-term deposits	15	951	1,177
		<b>2,373</b>	<b>6,681</b>
<b>Total assets</b>		<b>9,008</b>	<b>14,793</b>
<b>Current liabilities</b>			
Trade and other payables	16	(851)	(1,393)
Deferred revenue	18	(621)	(462)
Loans and borrowing	19	(663)	(1,437)
Income taxes payable		(385)	(773)
		<b>(2,520)</b>	<b>(4,065)</b>
<b>Non-current liabilities</b>			
Deferred revenue	18	(887)	(129)
Loans and borrowing	19	(1,533)	(515)
Deferred consideration		-	(381)
Deferred tax liabilities	9	(42)	(53)
		<b>(2,462)</b>	<b>(1,078)</b>
<b>Total liabilities</b>		<b>(4,982)</b>	<b>(5,143)</b>
<b>Net assets</b>		<b>4,026</b>	<b>9,650</b>
<b>Capital and reserves</b>			
Called up share capital	21	287	197
Share premium	21	11,370	5,542
Merger reserve	23	1,641	1,641
Shares to be issued reserve	23	37	-
Convertible bond option reserve	19, 23	164	-
Share based payment reserve	22, 23	210	156
(Deficit in) retained earnings		(9,548)	2,093
<b>Equity attributable to equity holders of the parent</b>		<b>4,161</b>	<b>9,629</b>
Non-controlling interests		(135)	21
<b>Total equity</b>		<b>4,026</b>	<b>9,650</b>

**Anthony Reeves**  
Executive Chairman

**Raffaele Boccardo**  
Deputy Executive Chairman



## Company statement of financial position

Company registration number: 08993398

	Note	31 December 2017 €000	31 December 2016 €000
<b>Non-current assets</b>			
Intangible assets	12	-	1,830
Investments in subsidiary undertakings	13	1,779	1,844
		<b>1,779</b>	<b>3,674</b>
<b>Current assets</b>			
Trade and other receivables	14	79	71
Loans to subsidiary undertakings		3,135	2,735
Cash and short-term deposits	15, 24	860	1,043
		<b>4,074</b>	<b>3,849</b>
<b>Total assets</b>		<b>5,853</b>	<b>7,523</b>
<b>Current liabilities</b>			
Trade and other payables	16	(296)	(673)
Deferred revenue	18	(221)	-
Loans and borrowing	19	(154)	(717)
		<b>(671)</b>	<b>(1,390)</b>
<b>Non-current liabilities</b>			
Loans and borrowing	19	(1,062)	(153)
Deferred consideration		-	(381)
Deferred tax liabilities	9	(42)	-
		<b>(1,104)</b>	<b>(534)</b>
<b>Total liabilities</b>		<b>(1,775)</b>	<b>(1,924)</b>
<b>Net assets</b>		<b>4,078</b>	<b>5,599</b>
<b>Capital and reserves</b>			
Called up share capital	21	287	197
Share premium	21	11,370	5,542
Merger reserve	23	946	946
Shares to be issued reserve	23	37	-
Convertible bond option reserve	19, 23	164	-
Share based payment reserve	22, 23	210	156
Deficit in retained earnings		(8,936)	(1,242)
<b>Equity attributable to equity holders</b>		<b>4,078</b>	<b>5,599</b>

The Company's loss for the year ended 31 December 2017 was €7,694,000 (2016: €97,000).

**Anthony Reeves**  
Executive Chairman

**Raffaele Boccardo**  
Deputy Executive Chairman

## Consolidated statement of cash flows

		Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
	Note		
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		(11,801)	1,221
Income tax (credit)/expense		(235)	369
(Loss)/Profit before tax		(12,036)	1,590
<i>Adjustments to reconcile (loss)/profit before tax to net cash flows:</i>			
Net interest expense	8	184	62
Depreciation of property, plant and equipment	11	48	22
Amortisation of intangible assets	12	1,292	1,009
Impairment of intangible assets	12	6,286	-
Impairment of trade receivables	14	3,021	-
Share based payments expense	22	52	96
<b>Operating cash flows before movements in working capital</b>		(1,153)	2,779
Decrease/(increase) in trade and other receivables		1,011	(1,440)
(Decrease)/increase in trade and other payables		(1,738)	847
(Decrease)/increase in provisions		(86)	191
		(813)	(402)
Interest received		-	-
Interest paid		(146)	(55)
Tax paid		(215)	(1)
<b>Net cash flow from operating activities</b>		(2,327)	2,321
<b>Investing activities</b>			
Purchase of property, plant and equipment	11	(51)	(19)
Development costs – internally and contractor developed	12	(1,828)	(3,989)
Acquisition of intangible software assets	12	-	(900)
Acquisition of a subsidiary, net of cash acquired		-	354
<b>Net cash used in investing activities</b>		(1,879)	(4,554)
<b>Financing activities</b>			
Net proceeds from issue of share capital	21	3,440	1,529
Proceeds from borrowings	19, 0	1,750	648
Repayment of borrowings	19, 0	(1,070)	(261)
<b>Net cash from financing activities</b>		4,120	1,916
<b>Net increase in cash and cash equivalents</b>		(86)	(317)
Cash and cash equivalents at 1 January		1,015	1,332
<b>Cash and net cash equivalents at 31 December</b>	15	929	1,015



## Company statement of cash flows

		Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
	Note		
<b>Cash flows from operating activities</b>			
Loss for the year		(7,695)	(97)
Income tax credit		(5)	-
Loss before tax		(7,700)	(97)
<i>Adjustments to reconcile loss before tax to net cash flows:</i>			
Net interest income		(92)	(233)
Amortisation of intangible assets	12	101	-
Impairment of investments	13	65	-
Impairment of loans to subsidiary		6,404	-
Share based payments expense	22	54	96
<b>Operating cash flows before movements in working capital</b>		<b>(1,168)</b>	<b>(234)</b>
Decrease/(increase) in trade and other receivables		262	218
(Decrease)/increase in trade and other payables		(867)	352
Increase/(decrease) in provisions		17	(1)
		(588)	569
Interest received		-	-
Interest paid		(108)	(34)
Tax paid		-	-
<b>Net cash flow from operating activities</b>		<b>(1,864)</b>	<b>301</b>
<b>Investing activities</b>			
Development costs – internally and contractor developed	12	(1,869)	(1,830)
Investment in subsidiary		-	(438)
Loans to subsidiary		(533)	(605)
<b>Net cash used in investing activities</b>		<b>(2,402)</b>	<b>(2,873)</b>
<b>Financing activities</b>			
Net proceeds from issue of share capital	21	3,440	1,529
Proceeds from borrowings	19, 0	1,358	868
Repayment of borrowings	19, 0	(716)	-
<b>Net cash from financing activities</b>		<b>4,082</b>	<b>2,397</b>
<b>Net increase in cash and cash equivalents</b>		<b>(184)</b>	<b>(175)</b>
Cash and cash equivalents at 1 January		1,043	1,218
<b>Cash and net cash equivalents at 31 December</b>	15	<b>859</b>	<b>1,043</b>

## Consolidated statement of changes in equity

	Share capital €000	Share premium account €000	Merger reserve €000	Shares to be issued reserve €000	Convertible bond option reserve €000	Share based payment reserve €000	Retained earnings €000	Total €000	Non controlling interests €000	Total equity €000
<b>As at 1 January 2016</b>	<b>146</b>	<b>4,051</b>	<b>695</b>	-	-	<b>60</b>	<b>860</b>	<b>5,812</b>	-	<b>5,812</b>
Profit for the year	-	-	-	-	-	-	1,233	1,233	(12)	1,221
Acquisition of Memopal SRL	13	-	946	-	-	-	-	959	33	992
Shares issued	38	1,491	-	-	-	-	-	1,529	-	1,529
Share based payments	-	-	-	-	-	96	-	96	-	96
<b>As at 31 December 2016</b>	<b>197</b>	<b>5,542</b>	<b>1,641</b>	-	-	<b>156</b>	<b>2,093</b>	<b>9,629</b>	<b>21</b>	<b>9,650</b>
Loss for the year	-	-	-	-	-	-	(11,641)	(11,641)	(160)	(11,801)
Shares issued	<b>90</b>	<b>5,828</b>	-	-	-	-	-	<b>5,918</b>	<b>4</b>	<b>5,922</b>
Shares to be issued	-	-	-	<b>37</b>	-	-	-	<b>37</b>	-	<b>37</b>
Convertible bond issue	-	-	-	-	<b>164</b>	-	-	<b>164</b>	-	<b>164</b>
Share based payments	-	-	-	-	-	<b>54</b>	-	<b>54</b>	-	<b>54</b>
<b>As at 31 December 2017</b>	<b>287</b>	<b>11,370</b>	<b>1,641</b>	<b>37</b>	<b>164</b>	<b>210</b>	<b>(9,548)</b>	<b>4,161</b>	<b>(135)</b>	<b>4,026</b>



## Company statement of changes in equity

	Share capital €000	Share premium account €000	Merger reserve €000	Shares to be issued reserve €000	Convertible bond option reserve €000	Share based payment reserve €000	Retained earnings €000	Total €000
<b>As at 1 January 2016</b>	<b>145</b>	<b>4,051</b>	-	-	-	<b>60</b>	<b>(1,146)</b>	<b>3,110</b>
Loss for the year	-	-	-	-	-	-	(96)	(96)
Acquisition of Memopal SRL	14	-	946	-	-	-	-	960
Shares issued	38	1,491	-	-	-	-	-	1,529
Share based payments	-	-	-	-	-	96	-	96
<b>As at 31 December 2016</b>	<b>197</b>	<b>5,542</b>	<b>946</b>	-	-	<b>156</b>	<b>(1,242)</b>	<b>5,599</b>
Loss for the year	-	-	-	-	-	-	(7,694)	(7,694)
Shares issued	<b>90</b>	<b>5,828</b>	-	-	-	-	-	<b>5,918</b>
Shares to be issued	-	-	-	<b>37</b>	-	-	-	<b>37</b>
Convertible bond issue	-	-	-	-	<b>164</b>	-	-	<b>164</b>
Share based payments	-	-	-	-	-	<b>54</b>	-	<b>54</b>
<b>As at 31 December 2017</b>	<b>287</b>	<b>11,370</b>	<b>946</b>	<b>37</b>	<b>164</b>	<b>210</b>	<b>(8,936)</b>	<b>4,078</b>

## 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 Defenx Italia SRL (formerly Memopal SRL), a company incorporated in Italy (together referred to as the "Group"), for the year ended 31 December 2017.

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 period ended 31 December 2017 amounted to €7,694,498 (2016: €96,655).

### 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 note 3.

#### *Basis of measurement*

These financial statements have been prepared on a historical cost basis, except for the following items (refer to individual accounting policies for details):

- Financial instruments – fair value through profit or loss
- Financial instruments – available for sale
- Contingent consideration
- Net defined benefit liability
- Cash-settled share-based payment liabilities.

#### *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 strategic report 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 along with details of its cash flow and liquidity.



As at 31 December 2017 the Group had net assets of €4.03 million (31 December 2016: €9.65 million) as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's performance for the two years commencing 1 January 2019. The forecasts contain certain assumptions about the level of future sales, margins and the level of cash recovery from trading, taking a more conservative view than the forecasts considered in determining the impairment of intangible fixed assets.

During 2017, BV Tech subscribed for an aggregate €1.43 million in ordinary shares in the Company. In April 2018, by way of a subscription and underwritten open offer, BV Tech invested a further €1.08 million in the Company. On 1 October 2018 a loan agreement was entered into with BV Tech, whereby BV Tech will provide an unsecured loan of €0.95 million with repayment due by 1 January 2020. It is anticipated that the loan will shortly be amended such that it becomes a convertible loan of the same quantum and on the same material terms.

After considering the forecasts and the risks, the Directors recognise the uncertainty over future performance, consider it attainable and 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 included in administrative expenses.

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 reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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 cash-generating unit 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 in accordance with IAS18 *Revenue*. 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 in the statement of comprehensive income on a straight-line basis over the period of the relevant agreement.

To the extent that the related trade receivable has not been settled in cash, deferred revenue is not recognised in the statement of comprehensive income but transferred and offset against the trade receivables balance in the statement of financial position.

Customers have no right of return; once sold, licences are neither refundable nor returnable. However, where it is in the commercial interests of the Group, management may negotiate the return or exchange of unsold licences. A credit note provision is maintained to reflect the expected impact on revenue in line with IAS 18.

The anticipated impact of IFRS 15 *Revenue from Contracts with Customers* is set out in note 4 below.

### **c) Foreign currency**

The Group's and the Company's functional and presentation currency is the Euro.

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 profit or loss. 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.

### **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 profit or loss 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 profit or loss in the period in which the expenditure is incurred.

Research costs are expensed as incurred. Development expenditures 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 expenditure 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 of other assets, the Directors estimate the recoverable amount of the cash-generating unit 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 lower of the initial costs and the revised estimate of its recoverable amount.

### *h) Research and development tax credits*

Defenx SRL received R&D tax credits in Italy in the year. On the basis that these are not calculated as a function of profits and the benefit can also be offset against tax liabilities other than taxes on profits, the most appropriate basis for accounting is under IAS20 relating to government grants.

Accordingly, the recoverable amount is disclosed as a current or non-current asset as appropriate.

The tax credit also forms a subsidy against the cost of the underlying intangible asset. This element is shown separately within Deferred Revenue (rather than netted off against the carrying value of the asset) and is released to the consolidated statement of comprehensive income to offset the part of the amortisation charge relating to the subsidised element of the asset cost.

### *i) 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 represent the contributions payable by the Group and Company during the year.

### *j) 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 in the statement of income 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 with a corresponding increase in equity via the share-based payment reserve.

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 the 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.

### *k) 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.

### *l) 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.

### *m) 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.

#### *n) 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.

#### *o) Trade and other payables*

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

#### *p) 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.

#### *q) Convertible debt*

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the bond. The balance of the proceeds is allocated to the equity conversion option and is recognised in the 'Convertible debt option reserve' within shareholders' equity, net of income tax effects. Issue costs incurred are allocated between liability and equity in proportion to the value of each component.

### **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 B2B2C customers) 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 revenue attributable to upgrades and enhancements that is deferred represents a small proportion of total revenue. 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.

***Recovery of trade receivables***

In July 2018 compromise agreements were reached with four major customers, including a write down of the amount payable to Defenx by those customers. An impairment provision has been made to reduce the carrying value of these trade debtors to reflect the amount collectable under the agreements.

***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 2017 that had a significant effect on the Group's financial statements, although an amendment to IAS 7 *Statement of Cash Flows* has resulted in a reconciliation of liabilities disclosed for the first time in note 19.

***New standards, interpretations and amendments not yet effective***

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are:

- IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (both mandatorily effective for periods beginning on or after 1 January 2018); and
- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019).

The Group has made progress in implementing these three key new accounting standards since reporting its interim annual results for the 6 months ended 30 June 2017 and is able to provide the following information regarding their likely impact:

***IFRS 9 Financial Instruments***

IFRS 9 replaces IAS 39 for accounting periods commencing on or after 1 January 2018. It will impact the classification and measurement of financial instruments and requires certain additional disclosures. Whilst an assessment of the new standard is ongoing, the changes to recognition and measurement of financial instruments and changes to hedge accounting rules are not currently considered likely to have any major impact on the Group's current accounting treatment or hedging activities due to the simple nature of our financial instruments. The standard also requires entities to use an expected credit loss model for impairment of financial assets instead of an incurred credit loss model.



The Directors anticipate that IFRS 9 will not have a material impact on the financial statements due to the significant impairment against trade receivables in 2017. Future provisioning policy will reflect improved customer credit assessment and acceptance procedures as the Group shifts towards a corporate customer base.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard introduces a single, five-step revenue recognition model that is based upon the principle that revenue is recognised at the point that control of goods or services is transferred to the customer. The standard also updates revenue disclosure requirements.

Defenx currently sells products as conventional term licences or on a renewing subscription basis. The software licence portion of term licence sales is recognised at the time of delivery to third party distributors who assume the risks and rewards associated with the onward sale of these licenses to end users, with the portion attributable to upgrades and enhancements deferred and recognised on a straight-line basis over the activated licence term. Subscription sales and related direct costs are wholly recognised over the subscription term once all recognition criteria are met.

The Directors have specifically considered the adoption of IFRS 15 on the revenue recognition of the Group's term licence contracts. Having assessed the commercial arrangements with customers in the context of IFRS 15, the board concluded that the existing accounting policy and methodology continues to be equally appropriate under the new accounting standard. Accordingly, no change in accounting treatment arises or has been applied as a consequence of IFRS 15 and no adjustment made to either sales or deferred revenue.

#### *IFRS 16 Leases*

IFRS 16 will replace IAS 17 for accounting periods commencing on or after 1 January 2019 and will require all leases to be recognised on the balance sheet. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets.

During the year, the Group had only one operating lease within the scope of IFRS 16 with two vehicle leases entered into subsequent to the year end. For the year ended 31 December 2017, reported EBITDA would have increased by the amount of its current operating lease cost, which was approximately €135,000. Therefore, the Directors anticipate that IFRS 16 will not have a material impact on the financial statements.

#### *Other*

The Directors do not currently expect any of the following other standards issued by the IASB, but not yet effective, to have a material impact on the Group:

- IFRIC 22 Foreign Currency Translations and Advance Consideration (effective 1 January 2018)
- Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Property (effective 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019)
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019)
- IFRS 17 Insurance Contracts (effective 1 January 2021)

## 5. Segmental analysis

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

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

Accordingly, the Group has a single reportable segment. This is consistent with the internal reporting provided to the chief operating decision-maker, identified Executive Board Directors.

Revenue by product category for the Group is as follows:

	31 December 2017 €000	31 December 2016 €000
<b>Revenue by product category</b>		
Security	2,293	6,835
Backup	614	198
Other	21	55
	<b>2,928</b>	<b>7,088</b>

Revenue for the full year was impacted by the return of €1.03 million in invoiced sales from the first half of 2017, as a consequence of delays in the delivery of product updates to address performance issues in the Group's security products.

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

	31 December 2017 €000	31 December 2016 €000
<b>Non-current assets by product category</b>		
Security	4,002	4,103
Protection	44	1,130
Backup	993	2,655
Other	-	224
	<b>5,039</b>	<b>8,112</b>

Impairment losses by segment are disclosed in note 12. The Group does not analyse costs or assets other than intangible assets by product 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 2017 €000	31 December 2016 €000
<b>Revenue by geographic market (customer location)</b>		
Europe (EU including the UK)	2,203	4,698
Europe (Non-EU)	725	2,342
Other	-	48
	<b>2,928</b>	<b>7,088</b>



## 6. Operating profit

	31 December 2017 €000	31 December 2016 €000
The operating profit is stated after charging:		
<b>Cost of sales</b>		
External Development costs	791	-
Amortisation of intangible assets (note 12)	1,292	1,009
<b>Other operating income</b>		
Research & development tax credit income	(772)	-
<b>Operating expenses before transaction costs</b>		
Marketing contributions	1,550	2,224
Impairment of trade receivables (note 14)	3,020	(74)
Depreciation of property, plant and equipment (note 11)	48	22
Impairment of intangible assets (note 12)	6,286	-
Staff costs (note 7)	1,278	943
Lease payments – land and buildings	116	62
Lease payments – plant and machinery	139	56
AIM listing and related costs	234	168
Net foreign exchange (gains)	(61)	(21)
Share based payment expense (note 22)	54	96
<b>Transaction costs</b>		
Costs in respect of the strategic partnership with BV Tech	101	-
Costs in respect of the acquisition of Defenx Italia SRL	-	188
<b>Auditors' remuneration (included within administrative expenses)</b>		
<i>Audit services</i>		
Parent company and group audit	26	17
Audit of the parent company's subsidiary	23	27
<i>Non-audit services</i>		
Tax compliance and other fees	9	13
<b>Total auditors' remuneration</b>	<b>58</b>	<b>57</b>

In 2017, share issuance costs of €234,000 in respect of the subscriptions by BV Tech and placing in April and August 2017 were charged to the share premium account. In 2016, €169,000 in respect of the October 2016 placing and subscription were charged to the share premium account.

## 7. Staff Costs

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

	31 December 2017 €000	31 December 2016 €000
Wages and salaries	1,057	802
Social security costs	142	96
Pension costs	25	9
Share based payments expense	54	36
	<b>1,278</b>	<b>943</b>

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

	31 December 2017 Number	31 December 2016 Number
Executive Directors*	2	3
Sales & marketing*	4	3
Research, development & operations	7	8
Administration*	2	1
	<b>15</b>	<b>15</b>

\* of which employed by the Company

	€000	€000
<b>Directors' emoluments</b>		
Emoluments (including non-executive Directors' fees)	402	456
	€	€
<b>Highest paid Director</b>		
Emoluments	132	161

## 8. Finance income and expenses

	31 December 2017 €000	31 December 2016 €000
<b>Finance income</b>		
Interest income	1	-
<b>Finance expense</b>		
Bank overdrafts, loans, invoice discounting and other	18	12
Supply chain finance	49	24
Vendor loans	39	26
Convertible bond	78	-
	<b>184</b>	<b>62</b>



## 9. Taxation

No liability to UK, Swiss or Italian income tax arose on ordinary activities for the year ended 31 December 2017. The tax (credit)/charge for 2017 and 2016 was as follows:

	31 December 2017 €000	31 December 2016 €000
<b>Current tax</b>		
Current tax on (loss)/profit for the year	-	506
Adjustment for over provision in prior periods	(224)	(170)
	(224)	336
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(11)	33
<b>Total income tax expense</b>	<b>(235)</b>	<b>369</b>

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 2017 €000	31 December 2016 €000
(Loss)/profit for the year	(11,801)	1,221
Tax (credit)/expense	(235)	369
(Loss)/profit before tax	(12,036)	1,590
<b>Tax using Defenx PLC's domestic tax rate of 19.25% (2016: 20%)</b>	<b>(2,317)</b>	<b>318</b>
Expenses not deductible for tax purposes	217	90
Research & development tax credits	(185)	-
Adjustment for over provision in prior periods	(200)	(170)
Temporary timing differences	1,509	(46)
Effect of higher tax rates in Italy and Switzerland	(85)	-
Other overseas taxation	-	10
Utilisation of previously unrecognised tax losses	-	90
Losses carried forward for future offset	837	44
<b>At the effective income tax rate</b>	<b>(224)</b>	<b>336</b>

The aggregate tax rate in Switzerland was 20.0% during the year (2016: 20.4%). The corporation tax rate in the UK was reduced from 20% to 19% effective 1 April 2017 and 18% effective 1 April 2020.

The accumulated tax losses available to the Group at 31 December 2017 were €4.2 million (2016: €720,000). These losses relate to activities, and are available indefinitely for offsetting against future taxable profits, of Defenx PLC in the UK, Defenx SA in Switzerland and Defenx Italia SRL in Italy. Losses have, where permitted, been carried back for offset against prior year tax payable. Loss carry back is not permitted in Switzerland.

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 19% (2016: 20%), 24.0% (2016: 27.5%) and 20.0% (2016: 20.4%) being the respective effective rates of tax applicable in UK, Italy and Switzerland where the deferred tax arises. There were no deferred tax liabilities arising from these calculations at the year end.

No deferred tax asset is recognised in respect of either temporary timing differences or accumulated tax losses as it is not sufficiently certain that the Group will be able to utilise them in the near future. Accordingly, the deferred tax credit for the financial year relates to the release of the brought forward deferred tax liability as follows:

	Consolidated statement of financial position		Consolidated statement of income	
	31 December 2017 €000	31 December 2016 €000	31 December 2017 €000	31 December 2016 €000
Accelerated amortisation for accounts purposes	-	(80)	(80)	(5)
Deferred revenue	-	-	-	64
Disallowed bad debt provision	-	(59)	(59)	59
Other timing differences	(42)	7	49	(7)
Arising on acquisition of Defenx Italia Srl	-	79	79	(79)
Deferred tax (income)/expense			(11)	32
Net deferred tax (liability)	(42)	(53)		

If the Group were able to recognise all unrecognised deferred tax assets, the deficit in retained earnings would decrease by €0.76 million (2016: €153,070).

#### 10. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the (loss)/profit for the year attributable to ordinary equity holders of the parent company, Defenx PLC, by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the (loss)/profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year plus the number of shares that the convertible bond would convert into plus the weighted average number of ordinary shares that would be issued on the exercise of dilutive options (note 22).

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

	31 December 2017 €000	31 December 2016 €000
(Loss)/profit attributable to equity holders of the parent for basic EPS	(11,641)	1,233
Effect of:		
- interest on convertible bond	77	-
- tax effect of above items	(15)	-
	(11,579)	1,233
Weighted average number of ordinary shares for basic EPS	11,237	6,674
Effect of:		
- dilution from convertible bond	625	-
- dilution from deferred shares	-	300
- dilution from share options and warrants	-	62
- contingent shares on acquisition of Defenx Italia SRL	-	238
Weighted average number of ordinary shares for diluted EPS	11,862	7,274



The impact of the convertible bond has not been included in the calculation of diluted EPS because it is anti-dilutive. The convertible bond converts into 625,000 ordinary shares at a rate of one share per £2 of loan as further set out in note 19.

Relevant transactions involving ordinary shares or potential ordinary shares since 31 December 2017 are set out in note 27.

## 11. Property, plant and equipment

	Cloud equipment €000	Office equipment €000	Total €000
<b>Cost</b>			
At 1 January 2016	-	-	-
Acquired through business combinations	178	271	449
Additions	15	4	19
At 31 December 2016	193	275	468
Additions	41	10	51
<b>At 31 December 2017</b>	<b>234</b>	<b>285</b>	<b>519</b>
<b>Accumulated depreciation</b>			
At 1 January 2016	-	-	-
Acquired through business combinations	105	209	314
Depreciation charge	10	12	22
At 31 December 2016	115	221	336
Depreciation charge	23	25	48
<b>At 31 December 2017</b>	<b>138</b>	<b>246</b>	<b>384</b>
<b>Net book value</b>			
At 31 December 2016	78	54	132
<b>At 31 December 2017</b>	<b>96</b>	<b>39</b>	<b>135</b>

There was no property, plant and equipment held under finance leases. There was no property, plant and equipment in the statement of financial position of the Company.

## 12. Intangible assets

**Group**

	Goodwill	Development costs	Customer relationships	Total
	€000	€000	€000	€000
<b>Cost</b>				
At 1 January 2016	-	3,244	-	3,244
Additions – internally and contractor developed	-	3,989	-	3,989
Additions – purchased for cash	-	900	-	900
Arising on business combinations	1,139	-	354	1,493
At 31 December 2016	1,139	8,133	354	9,626
Additions – internally and contractor developed	-	1,828	-	1,828
Additions – purchased for shares	-	2,674	-	2,674
<b>At 31 December 2017</b>	<b>1,139</b>	<b>12,635</b>	<b>354</b>	<b>14,128</b>
<b>Accumulated amortisation</b>				
At 1 January 2016	-	637	-	637
Amortisation charge	-	960	49	1,009
At 31 December 2016	-	1,597	49	1,646
Amortisation charge	-	1,174	118	1,292
Impairment charge	1,139	4,960	187	6,286
<b>At 31 December 2017</b>	<b>1,139</b>	<b>7,731</b>	<b>354</b>	<b>9,224</b>
<b>Net book value</b>				
At 31 December 2016	1,139	6,536	305	7,980
<b>At 31 December 2017</b>	<b>-</b>	<b>4,904</b>	<b>-</b>	<b>4,904</b>

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

On 11 April 2017, the Company acquired a bespoke version of BV Tech's encrypted voice and messaging software with full control and rights over the source code and standard support undertakings for a consideration of €2.67 million (£2.26 million). The consideration was settled through the issue of new ordinary shares to BV Tech upon delivery on 3 May 2017 (see note 21 below).

Development costs of €6.9 million (2016: €1.13 million) for products under development at the year end have not yet been launched or amortised. The Group has no contractual commitments for development costs (2016: €nil).

**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 cash-generating unit 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 cash-generating unit.

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.

In October 2017, the Group announced that the delivery of product updates to address certain recently-identified performance issues and back-end integration was taking longer than expected and that previously anticipated sales orders were unlikely to be recognised in 2017, with a corresponding adverse impact on the Group's financial performance for the year to 31 December 2017. This had an adverse impact on the value in use of certain products resulting in the following impairments:

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
<b>Development costs</b>				
Security	3,292	-	-	-
Protection	1,668	-	-	-
Backup	1,326	-	-	-
	<b>6,286</b>	-	-	-

The key assumptions in the value in use calculations are:

	<b>31 December</b>	31 December
	<b>2017</b>	2016
Gross margin	<b>60-85%</b>	70-90%
Future marketing contributions	<b>0%</b>	0-35%
Discount rate	<b>25%</b>	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 WACC adjusted to reflect the Directors' assessment of specific risks related to the cash generating unit. 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 33% (2016: 30%) or the gross margin and marketing contribution assumptions would need to fall by an average 9 percentage points (2016: 15 percentage points) before affecting the carrying value of intangible assets.

## Company

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

	Development costs €000	Total €000
<b>Cost</b>		
At 1 January 2016	-	-
Additions – internally developed	1,830	1,830
At 31 December 2016	1,830	1,830
Additions – internally developed	1,869	1,869
Additions – purchased	2,674	2,674
Transferred to Defenx Italia SRL	(6,373)	(6,373)
<b>At 31 December 2017</b>	-	-
<b>Accumulated amortisation</b>		
At 1 January 2016	-	-
At 31 December 2016	-	-
Amortisation charge	101	101
Impairment charge	-	-
Transferred to Defenx Italia SRL	(101)	(101)
<b>At 31 December 2017</b>	-	-
<b>Net book value</b>		
At 31 December 2016	1,830	1,830
<b>At 31 December 2017</b>	-	-

## 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 Obino 14, Castel San Pietro 6874, Switzerland	100.0%	-
Defenx Italia SRL (formerly Memopal SRL)	Via Larga 7, 20122 Milan, 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 2017 €000	31 December 2016 €000
Opening balance 1 January	1,844	65
Additions	-	1,779
Impairment charge	(65)	-
Closing balance at 31 December	1,779	1,844

On 12 December 2017, the ordinary share capital of Defenx Italia SRL was increased to €100,000 with the Company's contribution settled in cash after the year end. There was no change in the Group's ownership interest.



## 14. Trade and other receivables

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
Gross trade receivables	<b>4,833</b>	5,528	-	1
Offset deferred revenue	<b>(619)</b>	-	-	-
Provision for impairment	<b>(3,217)</b>	(196)	-	-
<b>Net trade receivables</b>	<b>997</b>	5,332	-	1
Other receivables	<b>246</b>	172	<b>79</b>	70
<b>Total trade and other receivables</b>	<b>1,243</b>	5,504	<b>79</b>	71
<b>Provisions for impairment</b>				
Opening balance at 1 January	<b>196</b>	270	-	-
Utilised during the year	-	(25)	-	-
Net increase/(decrease) during the year	<b>3,021</b>	(49)	-	-
Closing balance at 31 December	<b>3,217</b>	196	-	-

Gross trade receivables of €4.41 million (2016: €nil) relate to customers with whom the Group is in dispute. Deferred revenues of €619,000 (2016: €nil) due to be recognised in the statement of comprehensive income relating to these customers have been transferred from the deferred revenue balance (note 18) and offset against gross trade receivables. The provision for impairment relating to these customers has been thereby reduced correspondingly.

The movement in the impairment provision for trade receivables has been included in operating 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 2017, €76,000 (2016: €149,000) 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.

At the year end, all amounts shown under receivables, except offset deferred revenue, are due within one year. Subsequent to the year end, as detailed in notes 26 and 27, the Company has now agreed with certain B2B2C customers to receive €1.40 million over a period of up to 48 months.

The carrying value of trade and other receivables classified as financial assets approximates to fair value.

## 15. Cash and cash equivalents

Cash and cash equivalents comprise balances on bank accounts, cash in transit and cash floats held in the business. Finance charges are accounted for on an accruals basis and charged to the statement of income when the liability is recognised.

Cash and cash equivalents are held in Euro, Sterling, Swiss Francs and US Dollars and placed on deposit in the UK, Italy and Switzerland. The carrying value of cash and cash equivalents classified as financial assets equals fair value.

## 16. Trade and other payables

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
Trade payables	<b>424</b>	1,056	<b>149</b>	666
Other payables and accruals	<b>427</b>	337	<b>147</b>	7
<b>Total trade and other payables</b>	<b>851</b>	1,393	<b>296</b>	673

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. Research and development tax credits

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
At 1 January	-	-	-	-
Received during the year	<b>1,775</b>	-	-	-
Offset against taxes payable	-	-	-	-
At 31 December	<b>1,775</b>	-	-	-
Current	<b>179</b>	-	-	-
Non-current	<b>1,596</b>	-	-	-

Research and development tax credits have been received in Defenx Italia SRL for amounts invested in developing the Defenx software product portfolio. The tax credit can be used to offset various Italian tax liabilities such as VAT, social security and income tax.

## 18. Deferred revenue

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
At 1 January	<b>590</b>	315	-	2
Billings deferred during the year	<b>918</b>	525	<b>221</b>	15
Billings released to the statement of income	<b>(384)</b>	(249)	-	(16)
Offset against trade receivables	<b>(619)</b>	-	-	-
Research and development tax credit deferred during the year	<b>1,775</b>	-	-	-
Research and development tax credit released to the statement of income	<b>(772)</b>	-	-	-
At 31 December	<b>1,508</b>	591	<b>221</b>	1
Current	<b>621</b>	462	<b>221</b>	1
Non-current	<b>887</b>	129	-	-

Deferred revenue of €619,000 (2016: €nil) relating to certain customers has been transferred and offset against gross trade receivables (see note 14).



## 19. Loans and borrowing

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

	Ultimate maturity	Group		Company	
		31 December	31 December	31 December	31 December
		2017	2016	2017	2016
		€000	€000	€000	€000
<b>Current</b>					
Overdrafts	On demand	22	163	-	-
Invoice discounting facility	Up to 120 days	77	149	-	-
Supply chain facility	Up to 90 days	-	498	-	498
Bank loans – unsecured	30/06/2019	200	98	-	-
Bank loans – unsecured	22/11/2021	122	-	-	-
Vendor loans from business combinations	31/07/2018	242	529	154	219
		<b>663</b>	<b>1,437</b>	<b>154</b>	<b>717</b>

	Ultimate maturity	Group		Company	
		31 December	31 December	31 December	31 December
		2017	2016	2017	2016
		€000	€000	€000	€000
<b>Non-current</b>					
Bank loans – unsecured	30/06/2019	103	302	-	-
Bank loans – unsecured	22/11/2021	368	-	-	-
Vendor loans from business combinations	31/07/2018	-	213	-	153
Convertible bonds	31/08/2020	1,062	-	1,062	-
		<b>1,533</b>	<b>515</b>	<b>1,062</b>	<b>153</b>
<b>Total loans and borrowing</b>		<b>2,196</b>	<b>1,952</b>	<b>1,216</b>	<b>870</b>

Overdrafts and other short facilities attract variable interest at between 3% and 6% per annum. The bank and vendor loans, both denominated in Euros, attract interest at 3% over 3-month EURIBOR and at 8% fixed per annum respectively. The convertible bonds (see below) carry a 10% per annum coupon. The average effective interest rate for the year ended 31 December 2017 was 8.4% (2016: 9.8%).

The currency profile of the Group's loans and borrowings was:

	Group		Company	
	31 December	31 December	31 December	31 December
	2017	2016	2017	2016
	€000	€000	€000	€000
Euro	1,134	1,434	154	372
Sterling	1,062	498	1,062	498
Swiss franc	-	20	-	-
	<b>2,196</b>	<b>1,952</b>	<b>1,216</b>	<b>870</b>

At 31 December 2017, the Group had available €720,000 (2016: €111,000) of undrawn committed borrowing facilities, of which a supply chain facility of £450,000 related to the Company. After the year end, the supply chain facility was withdrawn.

*UK Bond Network secured convertible bonds*

On 31 August 2017, the parent company issued 1,250,000 secured convertible bonds of 10% at a face value of £1 each. Interest is paid quarterly.

The bonds are repayable three years from their issue date at a total face value of £1.25 million, can be converted at any time into shares at the rate of one share per £2 of loan ("Conversion Price") at the holder's option and can be repaid by the Company at any time on or after 31 August 2019, subject to the share price being at least 130% of the Conversion Price for 20 consecutive dealing days. Subsequent to the year end, the Conversion Price was adjusted to £1.808 following the issue of new ordinary shares on 23 April 2018 as further set out in note 21 below.

The parent company, Defenx SA and Defenx Italia SRL each entered into an all assets debenture and guarantee and a security trust deed (each in customary form) to provide security in respect of the convertible bonds.

Under IAS 32, the convertible bonds are accounted for as a compound financial instrument. The value of the liability component and the equity conversion component were determined at the date the instrument was issued. The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for an equivalent instrument without conversion option with the balance recorded as a convertible debt reserve.

The issue fees of €167,000 have been allocated between liability and equity in proportion to the value of each component. The value of the liability and its associated fees is held on the balance sheet at amortised cost. This value will increase to its principal value of £1.25 million over the life of the instrument, with interest costs being taken to the Income Statement on a monthly basis.

The fair value movement on the convertible bonds was as follows:

	31 December 2017 €000	31 December 2016 €000
Opening balance	-	-
Fair value of convertible bonds at inception (31 August 2017)	981	-
Accrued interest not yet due for payment	38	-
Change in fair value of convertible bonds relating to foreign exchange	43	-
Closing balance at 31 December	1,062	-
Current element of convertible bond liability	-	-
Non-current element of convertible bond liability	1,062	-

**20. 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

A summary of the financial instruments held by category is provided below:

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
<i>Financial assets</i>	<b>€000</b>	€000	<b>€000</b>	€000
Net trade receivables	<b>998</b>	5,332	<b>1</b>	1
Other receivables	<b>246</b>	172	<b>78</b>	70
Net receivables	<b>1,244</b>	5,504	<b>79</b>	71
Cash and cash equivalents	<b>951</b>	1,177	<b>859</b>	1,043

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 183 days (2016: 58 days). An impairment review of outstanding trade receivables is carried out at each period end and, if appropriate, a specific amount provided for. A general provision is also maintained reflecting the fact that some customers are small and do not have strong credit histories.

	<i>Group</i>		<i>Company</i>	
	<b>Year ended</b>	Year ended	<b>Year ended</b>	Year ended
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
<i>Financial liabilities</i>	<b>€000</b>	€000	<b>€000</b>	€
Trade payables	<b>424</b>	1,056	<b>149</b>	666
Other payables and accruals	<b>427</b>	337	<b>147</b>	7
Loans and borrowing	<b>2,196</b>	1,952	<b>1,216</b>	870
<b>Total payables</b>	<b>3,047</b>	3,345	<b>1,512</b>	1,543

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 66 days (2016: 29 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 customers, 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 cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, 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.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise balances on bank accounts, cash in transit and cash floats held in the business. 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 Euro, Swiss Francs, Sterling and US Dollars and placed on deposit in UK banks.

#### *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:

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
<b><i>Ageing of trade &amp; other receivables</i></b>				
Not due at reporting date	<b>1,728</b>	4,652	-	-
Up to 3 months	<b>931</b>	463	-	1
3 to 6 months	<b>71</b>	342	-	-
Above 6 months	<b>2,103</b>	71	<b>1</b>	-
<b>Gross receivables</b>	<b>4,833</b>	5,528	<b>1</b>	1
Offset deferred revenue	<b>(619)</b>	-	-	-
Less: provision against receivables	<b>(3,217)</b>	(196)	-	-
<b>Net receivables</b>	<b>997</b>	5,332	<b>1</b>	1

Sales to three customers based in Italy amounted to approximately 42% (2016: two for 52%) of Group billings. Sales to two customers based in Switzerland amounted to 17% (2016: two for 30%). Sales to one customer based in Malta amounted to 20% (2016: 15%) of Group billings and one customer based in Turkey amounted to 11% (2016: 2%) of Group billings. No other individual customer accounted for more than 5% of Group billings.



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 defined based on this assessment. Outstanding customer receivables are actively monitored and reviewed at least quarterly. At 31 December 2017, the Group had five customers (2016: four) that owed more than €500,000, accounting for 92% (2016: 92%) of trade receivables outstanding.

As at 31 December 2017, trade receivables of €733,738 (2016: €463,478) were past due but not impaired.

#### *Fair value and cash flow 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 2017, approximately 59% of the Group's borrowings are at a fixed rate of interest (2016: 64%).

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 by the impact on floating rate borrowings, as follows:

	Increase/decrease in basis points		Effect on loss before tax	
	31 December 2017	31 December 2016	31 December 2017 €	31 December 2016 €
Increase in Euro rates	<b>+100</b>	+100	<b>8,909</b>	7,120
Decrease in Euro rates	<b>-50</b>	-50	<b>(4,454)</b>	(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 Group entities enter into transactions denominated in a currency other than their 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 in 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 2017, the Group's net exposure to foreign exchange risk was as follows for those entities with Euro presentational currencies.

	Euro €000	Sterling €000	Swiss Franc €000	US Dollar €000	Total €000
<b>As at 31 December 2017</b>					
Trade and other receivables	1,172	71	-	-	1,243
Cash and cash equivalents	187	754	10	-	951
Trade and other payables	(683)	(140)	(28)	-	(851)
Loans and borrowings	(1,134)	(1,062)	-	-	(2,196)
<b>Net current assets/(liabilities)</b>	<b>(458)</b>	<b>(377)</b>	<b>(19)</b>	<b>-</b>	<b>(853)</b>
<b>As at 31 December 2016</b>					
Trade and other receivables	5,384	95	1	24	5,504
Cash and cash equivalents	590	587	-	-	1,177
Trade and other payables	(1,244)	(130)	(16)	(3)	(1,393)
Loans and borrowings	(1,434)	(498)	(20)	-	(1,952)
Deferred consideration	(381)	-	-	-	(381)
<b>Net current assets/(liabilities)</b>	<b>2,915</b>	<b>54</b>	<b>(35)</b>	<b>21</b>	<b>2,955</b>

The following tables demonstrate 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 2017	31 December 2016	31 December 2017 €000	31 December 2016 €000
Sterling	+20	+20	75	(11)
	-10	-10	(38)	5
Swiss franc	+10	+10	2	4
	-10	-10	(2)	(4)
US Dollar	+20	+10	-	(2)
	-20	-10	-	2



### 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 financial liabilities by contractual maturities. Amounts disclosed in the table are the contractual undiscounted cash flows.

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
<b><i>Ageing of trade &amp; other payables</i></b>				
Up to three months	<b>851</b>	1,393	<b>296</b>	673
Three to six months	-	-	-	-
Above six months	-	-	-	-
	<b>851</b>	1,393	<b>296</b>	673
<b><i>Ageing of loans and borrowing</i></b>				
Up to three months	<b>306</b>	646	<b>57</b>	553
Between three to 12 months	<b>357</b>	791	<b>97</b>	164
Between one and two years	<b>226</b>	413	-	153
Between two and five years	<b>1,307</b>	102	<b>1,062</b>	-
Over five years	-	-	-	-
	<b>2,196</b>	1,952	<b>1,216</b>	870

### Capital management

The Group's capital is made up of share capital, share premium, merger reserve, non-controlling interests and retained profits totalling €3,295,954 at 31 December 2017 (2016: €9,650,940) 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.

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 2017 was 30.9% (2016: 8.0%) as set out below:

	31 December 2017 €000	31 December 2016 €000
Loans and borrowing	2,196	1,952
Less: cash and cash equivalents	(951)	(1,177)
Net debt	1,245	775
Total equity	4,026	9,650
Debt-to-equity ratio	30.9%	8.0%

The increase in the debt-to-equity ratio during 2017 resulted from the 58% reduction in total equity caused by the loss and the 61% increase in net debt for the financial year, notably the issue of convertible bonds by the UK.

The composition of the Group's loans and borrowings is analysed in note 19, as is the movement on its convertible bond issued during the year. Other loans and borrowings consist entirely of bank and short term financing which were subject only to negligible non-cash changes during the year. All cash movements arising from financing activities are analysed in the consolidated statement of cash flows.

## 21. Share capital

	Number of shares 000	Share capital €000	Share premium €
<b>As at 1 January 2016</b>	<b>6,099</b>	<b>145</b>	<b>4,051</b>
Issue of new ordinary shares – Defenx Italia SRL	621	14	-
Issue of new ordinary shares – placing	1,648	33	1,441
Equity issue costs	-	-	(169)
Directors' subscription for new ordinary shares	250	5	219
<b>As at 31 December 2016</b>	<b>8,618</b>	<b>197</b>	<b>5,542</b>
Issue of new ordinary shares – BV Tech SpA subscription	862	18	1,134
Issue of new ordinary shares – BV Tech SpA asset consideration	1,982	42	2,632
Conversion of deferred shares	300	6	275
Conversion of adviser warrants	79	2	78
MBooster SRL fee shares	22	1	37
Issue of new ordinary shares – placing	933	18	1,633
Issue of new ordinary shares – BV Tech SpA subscription	156	3	273
Equity issue costs	-	-	(234)
<b>As at 31 December 2017</b>	<b>12,952</b>	<b>287</b>	<b>11,370</b>



### 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 3 January 2017, MBooster SRL (MBooster) was appointed as strategic adviser to the Company in return for 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. The agreement was cancelled by the Company effective 8 April 2018 inclusive of the three-months' notice. This resulted in 22,348 shares being issued on 3 July 2017.

On 11 April 2017, the Company announced a long-term strategic partnership with BV Tech and the allotment of 861,666 new ordinary shares at £1.14 per share pursuant to a subscription agreement. On the same date, 2,400,000 deferred shares were converted into 300,000 new ordinary shares on an eight for one basis for 79.92 pence per resultant ordinary share, following which, there are no deferred shares in issue.

On 3 May 2017, 1,982,222 new ordinary shares were allotted at £1.14 per share in respect of the software acquisition forming part of the strategic partnership with BV Tech (see note 12 above).

On 7 August 2017, 933,312 new ordinary shares at £1.60 per share were allotted pursuant to a placing approved at an EGM held that day. A further 156,250 new ordinary shares were allotted at £1.60 per share pursuant to a subscription by BV Tech also on the same day.

Share issue costs of €234,000 (2016: €169,000) have been charged against the share premium account.

### Deferred share capital

The deferred shares of £0.0001 carry no right to vote, no right to share in any distribution of profits or returns of capital nor to share in any residual assets available for distribution in the event of a winding up. The shares are denominated in Pounds 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 of the business.

On 11 April 2017, the entire issued deferred share capital was converted into 300,000 new ordinary shares.

	Number of shares	Share capital €	Share premium €
<b>As at 1 January 2016</b>	<b>2,400,000</b>	<b>307</b>	-
<b>As at 31 December 2016</b>	<b>2,400,000</b>	<b>307</b>	-
Conversion into ordinary shares	(2,400,000)	(307)	-
<b>As at 31 December 2017</b>	-	-	-

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

## 22. Share based payments

Defenx has established EMI and Unapproved Option Schemes as part of the Group's incentive and retention strategy. Following the change of control in April 2018, the EMI status no longer applied.

Under the option schemes, the Group, at its discretion, may grant share options over the ordinary shares of Defenx PLC to employees and Directors. The share options generally vest over 36 months, either from inception or from the first anniversary of grant, provided the holder remains in employment. There are no performance conditions. The exercise price of the share options is 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 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 2017	31 December 2016
Weighted average share price	£-	£0.910
Weighted average exercise price	£-	£0.943
Expected volatility	-%	40%
Risk free rate of return	-%	1.50%
Expected life (years)	-	5
Expected dividend yield	-%	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 ten 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 2017		Year ended 31 December 2016	
	Number	WAEP*	Number	WAEP*
Outstanding at 1 January	523,364	£1.215	526,614	£1.319
Granted during the year	-	-	204,750	£0.943
Forfeited during the year	-	-	(208,000)	£1.209
Exercised during the year	(78,750)	£0.886	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	444,614	£1.274	523,364	£1.215
Vested at 31 December	364,572	£1.244	357,447	£1.135
Exercisable at 31 December	364,572	£1.244	357,447	£1.135

\* Weighted average exercise price

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 was 6.1 years (2016: 6.7 years).

The range of exercise prices for options and warrants outstanding at the end of the year was £0.80 to £2.00 (2016: £0.80 to £2.00).



No options were granted during the year. The total equity-settled share-based payment expense recognised in the year was €53,751 (2016: €96,060). 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 with an aggregate estimated fair value of €59,253.

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.

### 23. 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	<p>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.</p> <p>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.</p>
Shares to be issued reserve	Shares for which consideration has been received but which are not issued yet.
Convertible debt option reserve	Amount of proceeds on issue of convertible debt relating to the equity component (ie option to convert the debt into share capital).
Share based payment reserve	Aggregate fair value of vested share based payments awarded
Retained earnings	All other net gains and losses and transactions with owners (eg dividends) not recognised elsewhere.

## 24. Notes supporting statements of cash flows

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<i>Group</i>		<i>Company</i>	
	<b>31 December</b>	31 December	<b>31 December</b>	31 December
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€000</b>	€000	<b>€000</b>	€000
Cash at bank	<b>953</b>	1,340	<b>859</b>	1,043
Bank overdrafts	<b>(2)</b>	(163)	-	-
	<b>951</b>	1,177	<b>859</b>	1,043

Non-cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions below:

	<i>Non-current loans and borrowings</i>	<i>Current loans and borrowings</i>	<i>Convertible bond</i>	<i>Total</i>
	€000	€000	€000	€000
At 1 January 2017	515	1,437	-	1,952
Cash flows	-	(820)	1,357	537
Fair value changes	-	-	43	43
Equity portion	-	-	(376)	(376)
Loans and borrowings becoming current	(44)	44	-	-
Interest accruing in period	-	2	38	40
At 31 December 2017	471	663	1,062	2,196

## 25. Related party transactions

### *BV Tech strategic partnership*

In 2017, the Company entered into a long-term strategic partnership with BV Tech, a leading independent Italian corporate IT and cyber security solutions provider, comprising, in part, a software acquisition by the Company and cash subscription by BV Tech, with the intention to enhance Defenx's product portfolio and enable the Group to penetrate the European corporate market to generate high-quality, recurring revenues in the medium term.

On 11 April 2017, BV Tech subscribed £982,299 for a 9.1% shareholding in the Company. At the same time, Defenx acquired a bespoke version of BV Tech's encrypted voice and messaging software for €2.65 million (£2.26 million) that was settled through the issue of 1,982,222 ordinary shares, which together with 300,000 ordinary shares acquired from holders of deferred shares upon their conversion, meant BV Tech's shareholding in the Company was increased to 26.7%.

On 22 June 2017, the Group's Italian subsidiary, Defenx Italia SRL, entered into a three-year software distribution contract with BV Tech to offer its product range for sale by BV Tech on a global, non-exclusive basis, in line with the terms offered to other major Defenx customers.

On 7 August 2017, BV Tech invested a further £250,000 in the Company by way of a subscription to increase its then shareholding to 28.6% as part of a wider equity placing and the issue of the Secured Convertible Bonds.

On 26 September 2017, the Company entered into a master services agreement with BV Tech, a framework agreement to govern the process by which the Group would allocate work to BV Tech on an arm's length basis as preferred supplier and a related party in accordance with the AIM Rules.

There was no balance outstanding at the year end (2016: €nil). All transactions were on arm's length terms.



### *Key management personnel – Group*

In the opinion of the Board, only the Executive Directors of the Company are regarded as key management personnel. Andrea Stecconi and Alessandro Poerio had service agreements that require six months' notice of termination from either party, while Philipp Prince's notice period was three months.

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

	31 December 2017 €000	31 December 2016 €000
Wages and salaries	263	382
Benefits	17	14
Share based payments expense	33	18
	<b>313</b>	<b>414</b>

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 Mr Stecconi (a Director for part of the financial year) in respect of its offices in Switzerland. Defenx SA paid Mr Stecconi €21,575 (2016: €21,769). There was no balance outstanding at the year end (2016: €nil). All transactions were on arm's length terms.

### *Other related party transactions – Company*

	31 December 2017 €000	31 December 2016 €000
<b>Transactions between Defenx PLC and Defenx SA</b>		
Income – invoiced by Defenx PLC	160	366
Expenses – invoiced by Defenx SA	(69)	(4)
Interest receivable – invoiced by Defenx PLC	238	270
Long term loans from Defenx PLC to Defenx SA	3,268	2,735
Impairment of loans to subsidiary	(3,268)	-
Net long term loans from Defenx PLC to Defenx SA	-	-
<b>Transactions between Defenx PLC and Defenx Italia SRL</b>		
Transfer of intangible fixed assets – contract with Defenx PLC	6,272	-
Long term loans from Defenx PLC to Defenx Italia SRL	6,272	-
Impairment of loans to subsidiary	(3,136)	-
Net long term loans from Defenx PLC to Defenx Italia SRL	3,136	-
<b>Transactions between Defenx SA and Defenx Italia SRL</b>		
Income – invoiced by Defenx SA	385	566
Expenses – invoiced by Defenx Italia SRL	(583)	(118)
Net trade receivables in Defenx SA with Defenx Italia SRL	580	448
Impairment of net trade receivables	(580)	-
Net trade receivables in Defenx SA with Defenx Italia SRL after impairment	-	-

## 26. 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, and for its primary data centre in Rome. Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2017 are €35,463 (2016: €30,403) within one year.

### *Finance lease and hire purchase commitments*

The Group has no finance lease or hire purchase commitments.

### *Commitments*

At 31 December 2017, the Group had commitments of €nil (2016: €1.42 million) relating to software development.

### *Contingent liabilities*

Following the trading update in October 2017, in which the Company announced performance and back-end integration issues, the collection of trade receivables essentially ceased, and the Group received a variety of claims from customers.

Based on legal advice obtained by the Group, the Directors have concluded that the probability of such claims successfully resulting in material financial liabilities in excess of the impairment provisions against trade receivables is limited. Accordingly, no provision for potential claims has been made.

## 27. Events after the reporting date

On 10 January 2018, Defenx Italia SRL entered into a contract with BV Tech, in accordance with the master services agreement, for support services relating to technological and systems insourcing including the provision of an interim-CTO for the Defenx Group.

On 24 January 2018, the second semi-annual fee payable to MBooster SRL as strategic adviser to the Company of €37,500 for the period July to December 2017, was settled by the issue of 77,936 new ordinary shares at 42.7 pence each. A further 164,381 new ordinary shares were allotted at 10 pence each in settlement of the additional fee payable upon termination of MBooster SRL as strategic.

On 6 April 2018, the Company announced proposals to raise £1.2 million by way of the issue of, in aggregate, 14,962,899 new ordinary shares at a price of 8 pence each for general working capital purposes, further details of which were set out in the circular dispatched to shareholders on that day. At an EGM held on 23 April 2018, the requisite resolutions were passed, and 14,962,899 new ordinary shares were allotted and admitted to trading on AIM on 26 April 2018, following which BV Tech's holding in the Company increased to 54.74%.

It is expected that the ultimate parent company preparing consolidated accounts incorporating the results of the Defenx Group will now be BV Tech.

During October 2018, settlement agreements were reached with four B2B2C customers. These agreements waived the parties' claims against each other, set out payment schedules for the collection over a period of up to 48 months of approximately 20.4% of the €4.41 million in dispute at the year end and committed the Group to exchange specified unsold inventory held by the customers for new products, such new products being subject to normal commercial warranties.



On 1 October 2018, the Company entered into a €0.95 million unsecured loan agreement with BV Tech. The loan will incur an interest rate of 6% per annum, payable quarterly in arrears, and is repayable in full on 1 January 2020, or earlier at the Company's election. Under the terms of the Loan, €150,000 can be drawn down immediately, with the remainder being available to be draw down in full, or in part, after 45 days. It is intended that the proceeds of the loan will be used for general corporate purposes. As BV Tech is a substantial shareholder of the Company as defined in the AIM Rules for Companies, the loan is classified as a related party transaction pursuant to AIM Rule 13. The Board expects that the loan, following publication of the Company's annual report and accounts for the year ended 31 December 2017 and the interims for the six months ended 30 June 2018, and the ending of the relevant close period, will shortly be replaced by a convertible loan from BV Tech of the same quantum and on the same material terms. Conversion of the convertible loan into ordinary shares will be subject to shareholders providing the Directors with the authority to allot such shares on a non pre-emptive basis at the upcoming AGM.

## Company information

### Directors

Anthony Reeves  
Raffaele Boccardo  
Giorgio Beretta  
Nicolos Hellyer

### Secretary

Liam O'Donoghue

### Registrars

SLC Registrars  
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Surrey KT12 1RZ

### Registered office

201 Temple Chambers  
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London EC4Y 0DT

### Registered number

08993398

### Share capital

The ordinary share capital of Defenx PLC is admitted to trading 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 the SEDOL number is BYNF4J6.

### Auditors

haysmacintyre  
10 Queen Street Place  
London EC4R 1AG

### Nominated adviser

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26 Mount Row  
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### Broker

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### Solicitors

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### Bankers

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### Website

[investors.defenx.com](https://investors.defenx.com)



## Five-year track record

		2017	2016	2015	2014	2013
<b>As at 31 December</b>						
Revenue	€000s	<b>2,928</b>	7,088	4,490	2,382	2,077
Revenue growth	%	<b>-59%</b>	+58%	+88%	+15%	+33%
Gross profit	€000s	<b>375</b>	5,847	3,977	2,034	1,557
Gross margin	%	<b>12.8%</b>	82.5%	88.6%	85.4%	75.0%
Operating (loss)/profit (before transaction costs)	€000s	<b>(11,752)</b>	1,840	979	805	410
Operating margin (before transaction costs)	%	<b>-401.4%</b>	26.0%	21.8%	33.8%	19.7%
(Loss)/profit before tax	€000s	<b>(12,036)</b>	1,590	362	761	409
Earnings per share						
Basic		<b>(€1.03)</b>	€0.19	€0.04	€0.17	€0.12
Diluted		<b>(€0.98)</b>	€0.17	€0.04	€0.16	€0.12
Net cash flow from operating activities	€000s	<b>(2,327)</b>	2,322	(1,022)	388	661
Free cash flow (after capitalised development costs)	€000s	<b>(4,155)</b>	(1,667)	(2,372)	(823)	3
Net cash used in investing activities	€000s	<b>(1,879)</b>	(4,558)	(1,351)	(1,211)	(658)
Net cash from financing activities	€000s	<b>4,120</b>	1,916	3,512	1,026	–
Net increase in cash and cash equivalents	€000s	<b>(86)</b>	(319)	1,139	203	3
Cash and cash equivalents at year end	€000s	<b>929</b>	1,015	1,334	206	2
Net assets	€000s	<b>4,027</b>	9,651	5,812	2,048	457
Net assets per share		<b>€0.31</b>	€1.12	€0.95	€0.51	€0.16