

CROSSWORD CYBERSECURITY PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2016

BUSINESS REVIEW

I am delighted to report great progress in the first half of 2016, as we rapidly develop Crossword Cybersecurity PLC's technology commercialisation business focused exclusively on cyber security.

Cyber security continued to be a headline issue through the first half of 2016. HM Government's Cyber Security Breaches Survey 2016, launched in May, revealed that 65% of large businesses experienced a cyber breach or attack in the past year. The Government has committed a record £1.9 billion investment in cyber security over the next five years to protect the UK. In June, it was reported that the UK rail network had been hit by multiple cyber attacks over the last 12 months. Ransomware attacks on hospitals in the USA and Germany reduced several to using paper based systems. Over \$80m was stolen from a Central Bank via the SWIFT system. All recent and high profile examples of such attacks.

The pace of innovation by hackers means that industry and government need to draw upon the best cyber research available to counter these threats. Crossword works with universities to commercialise technology based on their extensive cyber research.

Crossword established a relationship with the University of Surrey to explore commercialising their patented research into information hiding, a form of enabling secure transmission of critical information. This brings the total to five, the number of relationships with leading cyber security research universities; alongside Bristol, Warwick, Coventry and City, University of London.

In April, Crossword announced the creation of CyberOwl Limited, a spin out from Coventry University with Mercia Fund Management providing the seed funding. CyberOwl is commercialising Coventry's patent pending research into early warning of cyber attacks in extremely large scale environments such as the Internet of Things and Smart Cities. In May, Crossword and the University of Warwick won a Ministry of Defence contract for a proof of concept for blockchain enabled smart documents.

As the UK leader in working with cyber research universities, the UK Government's Department for Culture Media & Sports (DCMS) commissioned Crossword to lead a delegation, in May, of leading UK cyber security Professors to meet counterparts in the USA, at Harvard, MIT, Stanford and UC Berkeley. Crossword will publish a report on this major cyber commercialisation mission later in this year.

With Crossword's cyber risk product, Rizikon, based on City University of London research, our focus has been on signing up a network of distribution partners. We are making very good progress on this front, with several professional firms signed up as partners and initial revenue starting to come through, and a strong pipeline of new partners that we are in conversation with.

Crossword launched its second product, Nixer, at InfoSec2016, in June 2016. Nixer is a next generation Denial of Service (DDoS) platform using advanced machine learning techniques emerging from university research. We are currently in conversation with design partners to help us take Nixer to market. We also launched Crossword Consulting, staffed by ex-national security, military and cyber industry professionals in partnership with cyber security university experts to meet commercial client needs.

On the corporate front, we were delighted to announce former Government Chief Scientific Adviser for National Security, Professor Nick Jennings CB FREng, as a senior adviser. We also appointed Hybridan LLP as our Corporate Broker.

Following the end of the period, Crossword appointed, on 1st September, Sir Richard Dearlove as non-executive Chairman. He succeeds Tom Ilube, who continues in his role as CEO. Sir Richard was Chief of the Secret Intelligence Service (MI6). He retired from the Service in 2004. He is currently Chair of Trustees of the University of London and was previously Master of Pembroke College, Cambridge. Sir Richard is Chairman of Ascot Underwriting at Lloyd's of London and a Director of New York Stock Exchange listed Kosmos Energy.

PRINCIPAL RISKS AND UNCERTAINTIES

The key risks to the group are as follows:

- failure to develop an appropriate commercial application for its developing products;
- failure to obtain sufficient financial support to enable such products to be adequately delivered;
- failure to establish commercialisation partnerships with leading research universities
- competition from existing IP transfer businesses seeking to engage in cyber security commercialisation activity

At present the directors are pleased with progress in both of these areas and consider these risks are sufficiently mitigated.

FINANCIAL AND NON FINANCIAL KEY PERFORMANCE INDICATORS

The directors consider the key financial performance indicator to be cash 'burn rate'. At present they consider that this is within reasonable parameters and will continue to monitor this in the future.

At this stage in its development, the directors do not consider that there are any relevant non-financial key performance indicators.

T Ilube
Director

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**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2016**

	Note	Unaudited 6 months to 30 June 2016 £	Audited Year ended 31 December 2015 £	Unaudited 6 months to 30 June 2015 £
TURNOVER		163,999	20,613	5,515
Cost of sales		(191,176)	(247,630)	(176,949)
GROSS LOSS		(27,177)	(227,017)	(171,434)
Administrative expenses		(376,742)	(530,414)	(169,113)
Interest receivable		1,351	2,181	-
LOSS BEFORE TAXATION		(402,568)	(755,250)	(340,547)
Tax expense		(1,523)	-	-
LOSS FOR THE PERIOD/YEAR		(404,091)	(755,250)	(340,547)
Other comprehensive income				
Total other comprehensive income /(expenditure)		5,812	(1,659)	(17,011)
TOTAL COMPREHENSIVE LOSS		(398,279)	(756,909)	(357,558)
EARNINGS PER SHARE	3	(£0.17)	(£0.38)	(£0.15)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Note	Unaudited Group £ 30 June 2016	Audited Group £ 31 Dec 2015	Unaudited Group £ 30 June 2015
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		2,815	3,635	4,318
Intangible assets		325	816	-
Investment in subsidiaries		-	-	-
Total non-current assets		3,140	4,451	4,318
CURRENT ASSETS				
Trade and other receivables		192,500	43,464	37,283
Cash and cash equivalents		668,445	1,227,481	1,616,107
Total current assets		860,945	1,270,945	1,653,390
TOTAL ASSETS		864,085	1,275,396	1,657,708

LIABILITIES

CURRENT LIABILITIES

Trade and other payables	59,235	72,267	55,227
Total current liabilities	59,235	72,267	55,227
TOTAL LIABILITIES	59,235	72,267	55,227
TOTAL NET ASSETS	804,850	1,203,129	1,602,481

EQUITY

Attributable to the owners of the company

Share capital	119,173	119,173	119,173
Share premium account	2,080,827	2,080,827	2,080,827
Retained earnings	(1,398,021)	(993,930)	(579,226)
Translation of foreign operations	2,871	(2,941)	(18,293)
TOTAL EQUITY	804,850	1,203,129	1,602,481

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2016

	Unaudited 30 June 2016 £	Audited 31 Dec 2015 £	Unaudited 30 June 2015 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash absorbed by operations	(564,344)	(715,170)	(313,214)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(564,344)	(715,170)	(313,214)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current assets	(504)	(853)	1,169
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(504)	(853)	1,169
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	-	1,500,000	1,500,000
NET CASH INFLOW FROM INVESTING ACTIVITIES	-	1,500,000	1,500,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(564,848)	783,977	1,187,955
FOREIGN CURRENCY TRANSLATION DIFFERENCE	5,812	(1,659)	(17,011)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,227,481	445,163	445,163
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	668,445	1,227,481	1,616,107

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES

1. The Group and its operations

Crossword Cybersecurity plc's condensed consolidated interim financial statements (the interim financial statements) are presented in pounds sterling (£), which is also the functional currency of the parent company. These interim financial statements were approved for issue by the Board of Directors on 15 September 2016.

The financial information set out in these interim financial statements does **not** constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2015 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) of the Companies Act 2006.

The interim results have not been reviewed by the auditors of the Company.

2. Basis of preparation of financial statements

These interim financial statements are for the six month period ended 30 June 2016. They have been prepared following the recognition and measurement principles of IFRS. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

These interim financial statements have been prepared on a going concern basis, under the historical cost convention.

These interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2015.

3. Earnings per share

The calculation of earnings per share is based on the loss attributable to ordinary shareholders divided by the average number of shares in issue during the period.