

Registered number: 08927013

**CROSSWORD CYBERSECURITY PLC**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited)**

**FOR THE PERIOD ENDED 30 JUNE 2018**

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**CROSSWORD CYBERSECURITY PLC**

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**COMPANY INFORMATION**

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<b>DIRECTORS</b>	Sir Richard Dearlove KCMG OBE Non-Executive - Chairman T Ilube Dr D Secher Professor D Stupples A Gueritz G Matthew R Anderson (appointed 1 <sup>st</sup> Feb 2018) M Dowd (appointed 14 <sup>th</sup> June 2018)
<b>REGISTERED NUMBER</b>	08927013
<b>REGISTERED OFFICE</b>	60 Gracechurch Street London EC3V 0HR United Kingdom
<b>INDEPENDENT AUDITORS</b>	MHA MacIntyre Hudson Chartered Accountants & Statutory Auditors New Bridge Street House 30-34 New Bridge Street London EC4V 6BJ
<b>NEX CORPORATE BROKER</b>	Hybridan LLP 20 Ironmonger Lane London EC2V 8EP
<b>NEX CORPORATE ADVISOR</b>	Alfred Henry Corporate Finance Limited Finsgate 5-7 Cranwood Street London EC1V 9EE

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## CROSSWORD CYBERSECURITY PLC

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### BUSINESS REVIEW

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We are delighted to present our interim results for the period 1<sup>st</sup> January 2018 to 30<sup>th</sup> June 2018. Crossword Cybersecurity plc (“Crossword”) continues to invest in sales and marketing and in the first half of 2018 we saw an uplift in revenue of 37% compared to the first half of 2017. For the first time, Crossword achieved a gross profit as our revenue growth outpaced expansion in our cost base. A huge amount of effort is going into building up our sales pipeline with Crossword’s bid pipeline currently standing at £1.4m across over 30 companies in a wide range of sectors.

Cyber security incidents continue to plague business, government and the population at large. The 2018 Cyber Security Breaches Survey released in April revealed that seven in ten of large businesses have reported being a victim of a cyber-attack and a similar number of large charities have been hit too. In April 2018, the National Crime Agency pointed to their success in taking down a hacking site that had disrupted the operations of seven major international banks. In the recent British Airways hack, 380,000 card payments were compromised. There were reports of Russian probing of a USA power company grid. In the USA the Department of Justice indicted a group of Iranian hackers for attacking 144 US universities plus 176 universities in 21 other countries. The approach was to “spearfish” university professors, gaining access to their accounts. Millions of pounds worth of valuable intellectual property was exposed in the process. MyFitnessPal, a fitness app was compromised with 150 million emails and passwords put at risk.

Crossword works with universities to commercialise technology based on their extensive cyber research. By mid-2018 we had engaged or explored projects with a group of ten universities including Imperial College, Edinburgh University, EPFL in Switzerland and MIT in the USA as well as Bristol, Warwick, Coventry, Surrey, South Wales and, City, University of London.

Following the implementation of GDPR (General Data Protection Regulation) in May 2018, Crossword is seeing strong interest in Rizikon Assurance, our Software-as-a-Service (SaaS) supplier risk assessment solution based on a recurring revenue model. We invested rapidly in our product sales team and held over two hundred meetings with potential commercial clients during the first half of 2018, building up a healthy sales pipeline. We estimate that the UK market alone for Rizikon Assurance is worth £300m per annum. In addition to rolling out Rizikon, we are enhancing our second product, Nixer, with a focus on identifying attack tools such as credential stuffing and aim to introduce Nixer v1.5 to prospective clients in the coming months.

Crossword completed phase one of its CyberAI initiative, exploring where to apply leading edge Artificial Intelligence and Machine Learning techniques to real world cyber security challenges. CyberAI brought together world leading academic researchers from MIT, Imperial College and Edinburgh University with four major companies: a global investment bank, a FTSE 100 retail bank, a multinational insurance company and a big four professional services firm. In 2018 we started work on refining the specific AI based cyber security idea that emerged from this initial phase into a proof of concept.

Meanwhile, we are seeing continued positive revenue growth from our consulting business, building on its experienced team of ex-military, intelligence and corporate cybersecurity professionals.

CyberOwl, the spin out from Coventry University funded by Mercia Fund Management, launched its product, Medulla, a platform for cyber-risk prioritisation, at European InfoSec 2018. It also appointed Peter Jaco, former Chairman of BeCrypt and an early investor in Digital Shadows, as its Chairman. ByzGen, the spin out based on blockchain work conducted at the University of Warwick and EPFL Switzerland, is making very good progress working with the Ministry of Defence and ATOS amongst others. In September 2018, it received a further £1.5m investment from Regulatory Finance Solutions Limited.

On the corporate front, Crossword appointed Mary Dowd as Finance Director and a Board member. Mary has over 20 years’ experience, working with established companies with turnover of £170m as well as small start-ups. In February 2018, Ruth Anderson joined the Board as a Non-Executive Director. Ruth has over 15 years of experience in the field of security, intelligence, cybercrime and risk management. She is currently Head of IT and Cyber Risk at Lloyds Banking Group and was previously a director of Cyber in the Financial Service Department of KPMG. Ruth previously held senior roles at the Child Exploitation and Online Protection Centre and served in intelligence and security in the British Army, following a degree in Arabic and Modern Middle Eastern Studies from Oxford University. In March 2018, Crossword strengthened its balance sheet with an oversubscribed funding round, raising £2.16m from existing and new investors, including the Chief Executive and other senior Crossword executives.

**BUSINESS REVIEW**

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Crossword Cybersecurity plc was delighted to be awarded NEX Exchange Company of the Year in June 2018. <https://www.nexexchange.com/crossword-cybersecurity-plc-nex-exchange-company-of-the-year/>

After the end of the half year, Crossword signed a Memorandum of Understanding (MoU) with IP Group, the major main market listed technology transfer company. The MoU sets up an understanding between IP Group and Crossword to commercialise intellectual property originating from university research projects leveraging Crossword's cybersecurity expertise and IP Groups commercial and financial capability.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The management of the business and the nature of the Group's strategy are subject to a number of risks. The Directors have set out below the principal risks facing the business:

- Intellectual property acquisition & development. Crossword acquires intellectual property (IP) rights from universities via licensing and IP transfer arrangements and then develops this IP into commercial products. Failure to secure good quality IP deals will make it difficult for us to generate new products. Crossword has in-house expertise on IP arrangements and will make use of external law firms where assistance is required.
- Reputational risk. As a cybersecurity company. Crossword is very conscious of its external reputation. If we are compromised as a result of a cyber incident it would impact our client's confidence. Crossword has an experienced Chief Information Security Officer (CISO) and a strong technical team who actively mitigate threats.
- Working capital management. Crossword needs to manage its working capital tightly to ensure that its funds are properly controlled. Failure to do so could cause problems with cash flow. Crossword has robust internal procedures to ensure that working capital is managed carefully on an ongoing basis.
- Creating commercially viable propositions. The Group's strategy is to convert interesting academic cybersecurity ideas into commercially viable products. Failure to develop appropriate commercial opportunities for its emerging products represents a major risk. The Group is managing this risk by constantly reviewing the market to position our emerging products and investing in a strong, professional sales, marketing and product management team.
- Maintaining university partnerships. Crossword needs to establish and maintain relationships with leading cybersecurity universities. Failure to establish commercialisation partnerships with leading research universities will limit our ability to generate new products. Over the past year we have been able to expand our set of relationships to ten leading universities.
- Competition from established tech transfer businesses. The Group faces competition from existing IP transfer businesses seeking to engage in cybersecurity commercialisation activity. Crossword ensures that we know the main players in the UK technology transfer sector and we cooperate with them rather than compete as evidenced by our MoU with IP Group and Mercia investing in the spin out, CyberOwl. We have deep cybersecurity sector knowledge and they have considerable financial resources to deploy, so the relationships are largely complimentary.
- Attracting and retaining cybersecurity talent. The market for experienced cyber security experts is highly competitive. Crossword relies on having real expertise in our teams. We go out of our way to create a positive working environment that is attractive to talented individuals and we adopt flexible working practices to fit in with individual's lifestyles in contrast to many large corporates and consultancies. We also have incentives in place, such as share options.

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

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**T Ilube**

Director 27<sup>th</sup> September 2018

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**CROSSWORD CYBERSECURITY PLC**

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**REPORT OF THE DIRECTORS**

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The directors present the condensed consolidated interim financial statements of the group for the period ended 30 June 2018.

**DIRECTORS**

The directors who served during the period were as follows:

Sir R Dearlove

T Ilube

Dr D Secher

Professor D Stupples

A Gueritz

G Matthew

R Anderson appointed 1<sup>st</sup> Feb 2018

M Dowd appointed 14<sup>th</sup> June 2018

**RESULTS**

The statement of comprehensive income is set out on page 4 and shows the loss for the six month period to 30 June 2018. The group is in an early stage of development and the directors consider the loss for the period to be in line with expectations. The directors do not recommend the payment of a dividend.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 JUNE 2018**

	Note	Unaudited 6 months to 30 June 2018 £	Audited Year ended 31 December 2017 £	Unaudited 6 months to 30 June 2017 £
<b>TURNOVER</b>		544,052	736,546	396,652
Cost of sales		(453,638)	(1,062,350)	(452,382)
<b>GROSS PROFIT / (LOSS)</b>		90,414	(325,804)	(55,730)
Other operating income – research and development tax credits			97,716	-
Administrative expenses		(896,208)	(956,126)	(485,247)
Share-based payments		(18,903)	(50,875)	(44,536)
Finance income – bank interest receivable		1,958	976	2,882
Finance costs – other interest payable		(1,032)	(1,402)	(1,203)
<b>NET LOSS BEFORE TAXATION</b>		(823,772)	(1,235,515)	(583,834)
Tax expense		(2,900)	(4,730)	(2,133)
<b>LOSS FOR THE PERIOD/YEAR</b>		(826,672)	(1,240,245)	(585,967)
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that will not be classified to profit or loss</b>				
Foreign Exchange Translation Gain/(Loss)		(4,212)	4,265	2,726
<b>TOTAL COMPREHENSIVE LOSS</b>		(830,884)	(1,235,980)	(583,241)
<b>EARNINGS PER SHARE</b>	1	(£0.23)	(£0.39)	(£0.19)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

Note	Unaudited Group £ 30 June 2018	Audited Group £ 31 Dec 2017	Unaudited Group £ 30 June 2017
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15,057	12,408	7,703
Intangible assets	-	-	624
Investment in other unlisted investment and subsidiary	31	31	31
<b>Total non-current assets</b>	<b>15,088</b>	<b>12,439</b>	<b>8,358</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	355,001	175,813	264,745
Cash and cash equivalents	1,751,798	490,090	1,067,869
<b>Total current assets</b>	<b>2,106,799</b>	<b>665,903</b>	<b>1,332,614</b>
<b>TOTAL ASSETS</b>	<b>2,121,887</b>	<b>678,342</b>	<b>1,340,972</b>
<b>EQUITY</b>			
Attributable to the owners of the company			
Share capital	199,506	159,173	159,173
Share premium account	5,627,202	3,555,522	3,555,522
Retained earnings	(4,013,831)	(3,186,833)	(2,532,788)
Translation of foreign operations	3,410	7,529	5,990
Equity Reserve	69,778	50,875	44,536
<b>TOTAL EQUITY</b>	<b>1,886,065</b>	<b>586,266</b>	<b>1,232,433</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	235,822	92,076	108,539
<b>Total current liabilities</b>	<b>235,822</b>	<b>92,076</b>	<b>108,539</b>
<b>TOTAL LIABILITIES</b>	<b>235,822</b>	<b>92,076</b>	<b>108,539</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>2,121,887</b>	<b>678,342</b>	<b>1,340,972</b>



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**CROSSWORD CYBERSECURITY PLC**


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**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
AS AT 30 JUNE 2018**


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<b>GROUP</b>	<b>Share Capital £</b>	<b>Share Premium £</b>	<b>Retained Earnings £</b>	<b>Translation of Foreign Operations £</b>	<b>Equity Reserve £</b>	<b>Total £</b>
At 1 January 2018	159,173	3,555,522	(3,187,159)	7,623	50,875	586,033
Total comprehensive loss for the period	-	-	(826,672)	(4,212)	-	(830,884)
Issue of shares	40,333	2,071,680	-	-	-	2,112,013
Share-based payments	-	-	-	-	18,903	18,903
<b>Balance at 30 June 2018</b>	<b>199,506</b>	<b>5,627,202</b>	<b>(4,013,831)</b>	<b>3,410</b>	<b>69,778</b>	<b>1,886,065</b>

	<b>Share Capital £</b>	<b>Share Premium £</b>	<b>Retained Earnings £</b>	<b>Translation of Foreign Operations £</b>	<b>Equity Reserve £</b>	<b>Total £</b>
At 1 January 2017	156,015	3,413,416	(1,946,821)	3,264	-	1,625,874
Total comprehensive loss for the period	-	-	(1,240,245)	4,265	-	(1,235,890)
Issue of shares	3,158	142,106	-	-	-	145,264
Share-based payments	-	-	-	-	50,875	50,875
<b>Balance at 31 December 2017</b>	<b>159,173</b>	<b>3,555,522</b>	<b>(3,187,066)</b>	<b>7,529</b>	<b>50,875</b>	<b>586,033</b>

	<b>Share Capital £</b>	<b>Share Premium £</b>	<b>Retained Earnings £</b>	<b>Translation of Foreign Operations £</b>	<b>Equity Reserve £</b>	<b>Total £</b>
At 1 January 2017	156,015	3,413,416	(1,946,821)	3,264	-	1,625,874
Total comprehensive loss for the period	-	-	(585,967)	2,726	-	(583,241)
Issue of shares	3,158	142,106	-	-	-	145,264
Share-based payments	-	-	-	-	44,536	44,536
<b>Balance at 30 June 2017</b>	<b>159,173</b>	<b>3,555,522</b>	<b>(2,532,788)</b>	<b>5,990</b>	<b>44,536</b>	<b>1,232,433</b>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2018**

	Unaudited 30 June 2018 £	Audited 31 Dec 2017 £	Unaudited 30 June 2017 £
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated by operations	(841,173)	(1,192,688)	(621,805)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(841,173)</b>	<b>(1,192,688)</b>	<b>(621,805)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(4,920)	(15,657)	(7,222)
Purchase of shares in other unlisted investment	-	-	-
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(4,920)</b>	<b>(15,657)</b>	<b>(7,222)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	2,112,013	145,264	145,264
<b>NET CASH INFLOW FROM INVESTING ACTIVITIES</b>	<b>2,112,013</b>	<b>145,264</b>	<b>145,264</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,265,920</b>	<b>(1,063,081)</b>	<b>(483,763)</b>
<b>FOREIGN CURRENCY TRANSLATION DIFFERENCE</b>	<b>(4,212)</b>	<b>4,265</b>	<b>2,726</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>490,090</b>	<b>1,548,906</b>	<b>1,548,906</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1,751,798</b>	<b>490,090</b>	<b>1,067,869</b>

Cash and cash equivalents relate solely to amounts held on demand at recognised financial institutions.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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**ACCOUNTING POLICIES**

**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 27 September 2018.

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 2017 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.

**Basis of preparation of financial statements**

These interim financial statements are for the six month period ended 30 June 2018. 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 2017.

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 2017.

**Notes**

**1. 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.