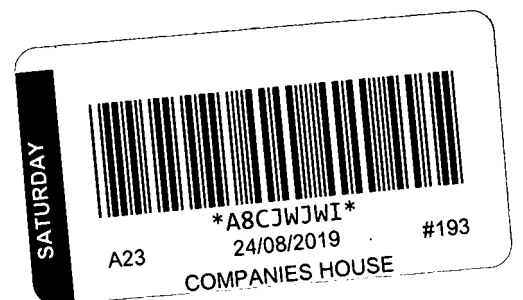


Company Registration No. 4298247

Smoothwall Limited

Annual Report and Consolidated Financial Statements

31 December 2018



Smoothwall Limited

Annual Report And Financial Statements 2018

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Smoothwall Limited

Officers And Professional Advisers

Directors

J G Logan
R Hurd-Wood
L J Stone
G M Ell
D G Hanley
M S Randhawa

Registered office

Avalon House
1 Savannah Way
Leeds Valley Park
Leeds
LS10 1AB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Smoothwall Limited

Strategic Report

The directors present the audited consolidated financial statements of Smoothwall Limited and its subsidiaries ("the Group") for the year ended 31 December 2018.

Principal activities

The principal activity of the Group and Company is the development and sale of software for internet security.

Review of the business and key performance indicators

Smoothwall's strategy remains to build a strong resilient business, with increasing revenues and good cash generation. This requires us to provide the products, services and support that customers' need to meet their business requirements or legislative needs, thus driving customer satisfaction.

During 2018 total group revenue, on a cash basis, increased to £15.5m (2017: £13.0m), with closing cash balances decreasing by 53%. On an accruals basis total group revenue increased to £14.3m (2017: £12.2m).

As in previous years, the Directors consider that the statutory financial statements do not accurately reflect the trading position of the company due to the different treatment of revenues and costs under UK accounting standards compared to a cash basis. All costs, including those of software development and sales commissions, are recognised in the profit and loss account as they are incurred. In contrast, sales of software licences and support contracts, which constitute approximately 80% of the value of a typical contract, are credited to a deferred revenue balance sheet account. These revenues are then released to the profit and loss account in equal monthly instalments over the life of the contract. With approximately 90% of contracts being for three or more years and the continuing growth in overall sales, the deferred revenue account continues to grow, as more revenue is deferred per year than is released from sales made in previous years. In 2018 the deferred revenue account grew by £1.3 million (2017: £0.5 million) to £17.2 million (2017: £15.9 million) (see notes 16 and 17).

The directors manage the company on a cash accounting basis and thus we provide the following abbreviated non-statutory results compiled without application of our GAAP compliant revenue recognition policies:

Consolidated P&L

Non-GAAP (excluding deferred revenue)

(Unaudited)

	GROUP 31-Dec-18 £	GROUP 31-Dec-17 £	LIMITED 31-Dec-18 £	LIMITED 31-Dec-17 £
Turnover excluding deferred	15,537,670	12,982,967	13,053,945	10,154,272
Cost of Sales	(2,847,874)	(2,374,538)	(1,978,139)	(1,283,632)
Gross Profit	12,689,796	10,608,429	11,075,806	8,870,640
Admin Expenses excluding share options	(10,620,098)	(10,772,646)	(8,637,902)	(8,676,516)
Management Accounts - Operating Profit/(Loss)	2,069,698	(164,217)	2,437,904	194,124
<i>Reconciliation to Statutory P&L</i>				
Deferred Revenue	(1,204,082)	(816,718)	(1,443,091)	(742,785)
Exceptional Items	(1,992,803)	(175,201)	(1,992,803)	(175,201)
Share Option Charge		(416,231)		(416,231)
Statutory Accounts Operating Loss	(1,127,187)	(1,572,367)	(997,990)	(1,140,093)
EBITDA (using management accounts basis)	2,163,668	211,047	2,577,868	354,567
EBITDA %	14%	2%	20%	3%
Sales Growth % (12 mth) – excluding exceptional	20%	8%	29%	-10%
Closing Cash Balances	1,172,367	2,525,963	887,446	1,719,160

Smoothwall Limited

Strategic Report

Commentary

2018 was a transformational year for Smoothwall, across leadership, people, systems, products, brand, and culture. At the beginning of the year the major corporate effort was the restructuring of the Engineering department, delivering on the plan begun in 2017. This was completed on-time with the final closure of the Fareham office in August 2018, and a successful relocation / re-hiring of the entire Engineering division into our Leeds office. With this, all our UK staff are co-located in a modern, open plan office environment which supports strong collaboration between teams. Led by our now permanently appointed new CTO, Douglas Hanley, our hiring efforts in Leeds have been very successful, with an Engineering team representing c. 8 nationalities, successfully competing for talent against other major Leeds-based employers such as SkyBet. The results in 2018 have been very positive, as our Engineering team have proven themselves to be significantly more productive, with higher quality, and a greater customer focussed mindset, than ever before. This means we were able to successfully innovate on our core products, whilst integrating the products of an acquisition, with a very fast re-brand and global launch, in addition to delivering net new product features and an exciting roadmap for Q1 2019 delivery.

In May the company appointed a new CEO, Georg Ell, who joined from Tesla where he was Regional Director for Western Europe, having previously worked at Yammer and Microsoft in a variety of technology leadership roles. The outgoing interim-CEO, Michael Marks, worked closely with Georg on a managed handover and his contribution during this time is much appreciated. One of Georg's early priorities was a complete renovation of the Leeds office space to support the growth in Engineering headcount, and the modern, collaborative working environment that we want to operate. A company-wide systems review was also initiated, to give the team the most modern tools to do their best work. This resulted in an ambitious and successful program that saw new systems for Sales CRM, Marketing, Finance, Expenses, Customer Support Management, HR, Recruiting, Employee Engagement, Productivity & Collaboration, OKR and Employee Reviews.

In June 2018 Smoothwall acquired all the assets of Future Digital Ltd., a student safety monitoring company, and quickly integrated this into our product stack to complement our Visigo monitoring offering. The rebranded Future Digital product, sold as Smoothwall RADAR, offers a self-service, keyword based monitoring system at a lower price than the AI-enabled human moderated Visigo service, thereby extending our offering to customers of all sizes.

In the second half of the year we hired a new CFO, Manprit Randhawa, who has brought a significantly improved level of financial rigour, reporting and capability – streamlining reporting and improving management insight. We also hired a new Global Marketing Director, Karen Woodhead, who brings significant marketing experience with a focus on lead-generation and improving our brand positioning. Karen joined in Q4 and immediately began the transformation of our marketing engine into an inbound machine, and laid the groundwork for a complete corporate rebrand to take place in Q1 2019, globally.

Towards the end of 2018 Smoothwall won the prestigious Sunday Times Best Companies Two Star Award for employee engagement and company culture. The organisers call this “Outstanding” performance, and we were listed in the Top 75 companies in our region, beating major local employers such as Sky Bet, Zenith and Nexus, and immediately next to Vodafone and White Company. Given the transformation and change that characterised 2018 for Smoothwall, this was a particularly pleasing validation of the culture we are building.

Looking Ahead

In 2019 we will continue to invest in the business, particularly in Innovation, where new products will open significant new addressable market for us in both of our major markets (UK and US). We will build on our core Filtering offering by enabling customers to deploy it in the Cloud or Hybrid as well as On-Premise. We will build new Reporting capabilities. We will expand our Monitoring Services to bring a human moderated offering to the US. We will develop a new Classroom Management product to enable teachers to protect students in the classroom and deliver improved learning outcomes. Together this Suite of products – and further innovation – will enable our Customers to consolidate their vendors, enjoy improved total cost of ownership economics, and a single customer support experience. We will invest in Customer Support with new management and systems, to improve customer self-service and experience.

We see revenue growth in both UK and US markets in 2019, and will investigate the potential of other geographies via partnerships, organic growth or acquisitions.

Smoothwall Limited

Strategic Report

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'G M Ell', written in a cursive style.

G M Ell
Director
20 August 2019

Smoothwall Limited

Directors' Report

The directors present their annual report and audited consolidated financial statements of the Group and Company for the year ended 31 December 2018.

Principal Risks and uncertainties

The Group and Company face a number of risks associated with day-to-day operations, technology and the execution of its strategy. The principal risks are identified below with appropriate mitigation.

Technology risks

Long-term revenue growth requires us to deal with a wider range of customer segments. Whilst these segments share many basic requirements such as ease of use and reliability, there are also some substantive differences. As examples, our US education deployments average three or more times the number of users than is typical in the UK, whereas business users are more focussed on productivity, security and firewall capabilities than the high quality filtering regarded as essential to UK education. Smoothwall must continue to enhance its product set to properly address the requirements of these new market segments.

Smoothwall has been early or first to market with technology responding to changes in the market, such as being one of the first to support the use of encrypted web traffic. With more new web and internet technologies on the horizon, our R&D team must deliver the innovation that will ensure that present and new customers continue to regard Smoothwall as the best choice for their security and web filtering needs.

Financial Risks

The Group's operations expose it to a variety of financial risks, including foreign exchange rate risk, credit risk and liquidity risk. The Group has controls in place that seek to minimise any potential adverse effects of such risks on the Group's financial performance. These controls are as follows:

Currency Risk/Foreign Exchange risk

Part of our currency risk is minimised by having a direct operation in our major market in the USA, therefore matching liabilities and assets in the local currency.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the Company's local currency. Cash balances in the bank are monitored in line with future liabilities and exchange movements.

Credit risk

As a large proportion of the customer base is public sector the risk of customers failing to pay their debts is low, as evidenced by our relatively low provision for bad debtors and limited experience of bad debts. UK commercial customers are subject to a credit check before acceptance of order.

Liquidity risk

Being largely a software and services business it is not capital intensive. We continue to address liquidity risks through a careful focus on the control of overheads, cash management, debtor and creditor control. The Group has maintained positive bank balances for many years and has no external borrowings.

Strategy execution risks

With differing needs across the various market segments that we serve, coupled with dynamic market conditions, the primary risk to strategy execution is for focus to be drawn from core markets in an effort to try and deliver improvements for everyone. What is clear, however, is that as we continue to improve the ease of installation, usability and supportability of our products, this provides an excellent foundation for any market.

Smoothwall Limited

Directors' Report

Human Resources Risks

The skills, knowledge and experience of our people are the underpinning of our success. As a growing business it is unavoidable for this knowledge to be concentrated in a number of key individuals both on the technical and commercial sides of the organisation.

Mitigation of these risks falls into two key areas. Firstly, by offering professional development to all members of the team, both to develop the management capabilities of more senior people and to share knowledge with junior members of the team. Secondly, by maintaining our monitoring of market salary and benefits packages, informing us of what we need to do in order to keep pace with movements as labour markets become more competitive during a time of economic growth and skills shortage.

Directors

The directors who held office during the year, and up to the date of the signing of the financial statements unless otherwise stated, are given below:

N J Sharp (resigned 20 July 2018)
J G Logan
M Marks (resigned 31 July 2018)
R Hurd-Wood
L J Stone
G M Ell (appointed 31 July 2018)
D G Hanley (appointed 24 July 2018)
M S Randhawa (appointed 2 August 2018)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The company is loss making and has net liabilities, but has a positive cash position and is forecast to continue in this position for the foreseeable future.

After making enquires and reviewing forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Provision of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

Smoothwall Limited

Directors' Report

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'Georg Ell', written in a cursive style.

Georg Ell
Director
20 August 2019

Smoothwall Limited

Independent auditors' report to the members of Smoothwall Limited

Report on the audit of the financial statements

Opinion

In our opinion, Smoothwall Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements, which comprise: the consolidated and company balance sheets as at 31 December 2018; the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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 and 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Smoothwall Limited

Independent auditors' report to the members of Smoothwall Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Stephanie Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
21 August 2019

Smoothwall Limited

Consolidated profit and loss account Year ended 31 December 2018

	Note	2018	2017
		£	£
Turnover	5	14,333,588	12,201,122
Cost of sales		(2,796,020)	(2,427,538)
Gross profit		<u>11,537,568</u>	<u>9,773,584</u>
Administrative expenses		(10,671,952)	(11,170,750)
Operating profit/(loss) before exceptional items		865,616	(1,397,166)
Exceptional items	6	(1,992,803)	(175,201)
Operating loss	7	(1,127,187)	(1,572,367)
Interest payable and similar charges		(18,576)	(21,128)
Loss before taxation		<u>(1,145,763)</u>	<u>(1,593,495)</u>
Tax charge	10	-	(88,883)
Loss for the financial year		<u><u>(1,145,763)</u></u>	<u><u>(1,682,378)</u></u>

All activities derive from continuing operations.

Consolidated statement of comprehensive income Year ended 31 December 2018

	2018	2017
	£	£
Loss for the financial year	(1,145,763)	(1,682,378)
Exchange difference on translation	(201,486)	(14,467)
Total other comprehensive expense relating to the year	<u><u>(1,347,249)</u></u>	<u><u>(1,696,845)</u></u>

Smoothwall Limited

Consolidated balance sheet As at 31 December 2018

		2018	2017
	Note	£	£
Fixed assets			
Intangible assets	11	2,361	2,797
Tangible assets	12	346,799	154,525
		<u>349,160</u>	<u>157,322</u>
Current assets			
Inventories	14	371,167	569,536
Debtors	15	7,194,126	4,855,960
Cash at bank and in hand		1,172,367	2,525,963
		<u>8,737,660</u>	<u>7,951,459</u>
Creditors: amounts due within one year	16	<u>(11,858,485)</u>	<u>(10,556,744)</u>
Net current liabilities		<u>(3,120,825)</u>	<u>(2,605,285)</u>
Total assets less current liabilities		<u>(2,771,665)</u>	<u>(2,447,963)</u>
Creditors: amounts due after more than one year	17	<u>(8,901,045)</u>	<u>(7,877,498)</u>
Net liabilities		<u>(11,672,710)</u>	<u>(10,325,461)</u>
Capital and reserves			
Called up share capital	23	99	99
Share premium account		977,225	977,225
Other reserves		24	24
Accumulated losses		<u>(12,650,058)</u>	<u>(11,302,809)</u>
Total shareholders' deficit		<u>(11,672,710)</u>	<u>(10,325,461)</u>

The financial statements on pages 10 to 27 were approved by the Board of Directors on 20 August 2019 and signed on its behalf by:



G M Ell
Director

Smoothwall Limited
Registered no. 04298247

Smoothwall Limited

Company balance sheet As at 31 December 2018

		2018	2017
	Note	£	£
Fixed assets			
Intangible assets	11	2,361	2,797
Tangible assets	12	338,167	146,804
Investments	13	203,887	203,887
		<u>544,415</u>	<u>353,488</u>
Current assets			
Inventories	14	334,219	234,815
Debtors	15	9,275,856	7,272,419
Cash at bank and in hand		887,446	1,719,160
		<u>10,497,521</u>	<u>9,226,394</u>
Creditors: amounts due within one year	16	<u>(10,753,091)</u>	<u>(9,678,997)</u>
Net current liabilities		<u>(255,570)</u>	<u>(452,603)</u>
Total assets less current liabilities		288,845	(99,115)
Creditors: amounts due after more than one year	17	<u>(7,745,543)</u>	<u>(6,341,019)</u>
Net liabilities		<u>(7,456,698)</u>	<u>(6,440,134)</u>
Capital and reserves			
Called up share capital	23	99	99
Share premium account		977,225	977,225
Other reserves		24	24
Profit and loss account		<u>(8,434,046)</u>	<u>(7,417,482)</u>
Total shareholders' deficit		<u>(7,456,698)</u>	<u>(6,440,134)</u>

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. The loss for the period was £1,016,564 (2017: £1,424,159).

The financial statements on pages 10 to 27 were approved by the Board of Directors on 20 August 2019 and signed on its behalf by:



G M Ell

Director

Smoothwall Limited
Registered no. 04298247

Smoothwall Limited

Consolidated statement of changes in equity for year ended 31 December 2018

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total Shareholders Deficit
	£	£	£	£	£
At 1 January 2017	85	20,000	24	(9,481,187)	(9,461,078)
Loss for the financial year	-	-	-	(1,266,147)	(1,266,147)
Exchange difference on translation	-	-	-	(14,467)	(14,467)
Credit relating to equity-settled share based payments	-	-	-	416,231	416,231
Settlement of share options (see note 19)	14	957,225	-	(957,239)	-
At 31 December 2017	99	977,225	24	(11,302,809)	(10,325,461)
Loss for the financial year	-	-	-	(1,145,763)	(1,145,763)
Exchange difference on translation	-	-	-	(201,486)	(201,486)
At 31 December 2018	99	977,225	24	(12,650,058)	(11,672,710)

Company statement of changes in equity for year ended 31 December 2018

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total Shareholders Deficit
	£	£	£	£	£
At 1 January 2017	85	20,000	24	(5,452,315)	(5,432,206)
Loss for the financial year	-	-	-	(1,424,159)	(1,424,159)
Credit relating to equity-settled share based payments	-	-	-	416,231	416,231
Settlement of share options (see note 19)	14	957,225	-	(957,239)	-
At 31 December 2017	99	977,225	24	(7,417,482)	(6,440,134)
Loss for the financial year	-	-	-	(1,016,564)	(1,016,564)
At 31 December 2018	99	977,225	24	(8,434,046)	(7,456,698)

Smoothwall Limited

Consolidated statement of cash flows Year ended 31 December 2018

	Note	2018 £	2017 £
Net cash (outflow)/inflow from operating activities	25	(1,161,086)	639,626
Taxation	26	(13,195)	353,279
Net cash (outflow)/inflow generated from operating activities		(1,174,281)	992,905
Cash outflow from investing activities			
Capital expenditure and financial investment	26	(332,274)	(71,473)
Net cash outflow from investing activities		(332,274)	(71,473)
Cash outflow from financing activities			
Returns on investments and servicing of finance	26	(18,576)	(21,128)
Loans received	26	150,000	-
Loans repaid	26	(3,126)	-
Net cash inflow/(outflow) from financing activities	26	128,298	(21,128)
Net (decrease)/increase in cash in the year	27	<u>(1,378,257)</u>	<u>900,304</u>
Cash and cash equivalents at the beginning of the year		2,525,963	1,528,620
Exchange gains on cash and cash equivalents		24,661	97,039
Cash and cash equivalents at the end of the year		<u>1,172,367</u>	<u>2,525,963</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

1. General information

The principal activity of the Group and Company during the year was the development and sale of software for internet security and is expected to remain so for the foreseeable future. The company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Avalon House, 1 Savannah Way, Leeds Valley Park, Leeds, LS10 1AB.

2. Statement of Compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements are presented in sterling. They are prepared on a going concern basis and under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3.2 Disclosure exemptions

The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements. The principal disclosure exemptions adopted by the Company in accordance with FRS 102 are as follows:

- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d); and
- the requirement of Section 33 Related Party Disclosures paragraph 33.7 and;

3.3 Basis of consolidation

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

3.4 Going concern

The company is loss making and has net liabilities, but has a positive cash position and is forecast to continue in this position for the foreseeable future. The Company has no external debt.

After making enquiries and reviewing forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

3.5 Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of value added tax. Turnover is recognised on despatch of goods for hardware products. A maintenance element of revenue is deferred on software sales over the period of the maintenance agreement.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.6 Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provisions for impairment. Depreciation is provided on tangible fixed assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

- Office and computer equipment Straight line method over 3 years
- Leasehold improvements Straight line method over 3 years
- Fixtures and fittings Straight line method over 3 years

3.7 Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost. Trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives. Intangibles are currently being amortised over 20 years which is, in the directors' opinion, their useful economic life. Provision is made for any impairment.

3.8 Investments

Fixed asset investments are stated at historical cost less provision for any impairment in value.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

3.10 Operating Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Reverse premiums and similar incentives received to enter into operating lease agreements are released to the profit and loss account over the lease term.

3.11 Research and development

Research and development expenditure is written off in the year in which it is incurred.

3.12 Taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.13 Foreign currency

In accordance with section 30 of FRS102 "foreign currency translation", the transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account. Revaluations of loan amounts in foreign currencies are presented within interest payable and similar charges.

The financial statements have been prepared in sterling, which is the functional currency of the company.

3.14 Defined contribution pension scheme

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

3.15 Cash and cash equivalents

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

3.16 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

3.17 Share based payments

The company runs an EMI Share Option Scheme for eligible employees to acquire shares of the company. The EMI shares can only be vested on a sale of the company, and employees are required to remain in employment with the Group until exercise otherwise the awards lapse. The fair value of share options is charged to the statement of comprehensive income based upon their fair value at the date of grant. The charge is recognised evenly over the vesting period of the options.

The fair values are calculated using an appropriate option pricing model, and the statement of comprehensive income charge is adjusted to reflect the expected number of options that will vest.

3.18 Exceptional items

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) *Useful economic lives of tangible and intangible assets*

The annual depreciation and amortisation charges for the tangible and intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and, for tangible assets, the physical condition of the assets. See notes 11 and 12 for the carrying amount of the intangible and tangible assets and notes 3.6 and 3.7 for the useful economic lives for each class of assets.

b) *Deferred revenue*

The majority of sales are for a three year term. Deferred revenue is calculated by allocating the fair value of the products after discount and apportioning over the license term. Appliance and implementation sales are recognised when delivered.

In the opinion of the directors there are no other critical judgements taken in applying the company's accounting policies.

5. Turnover

	2018	2017
	£	£
Analysis of turnover by geography:		
UK	10,808,260	8,938,716
USA	2,800,698	2,757,789
OTHER	724,630	504,617
	<u>14,333,588</u>	<u>12,201,122</u>
Analysis of turnover by category:		
Sale of Goods	3,829,873	2,409,786
Provision of Services	10,503,715	9,791,336
	<u>14,333,588</u>	<u>12,201,122</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

8. Staff costs

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Sales and administration	<u>128</u>	<u>138</u>

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	6,975,785	6,423,146
Social security costs	757,005	713,956
Other pension costs	123,091	152,229
Compensation for loss of office	213,340	-
Share option charge	-	416,231
	<u>8,069,221</u>	<u>7,705,562</u>

9. Directors' remuneration

The directors' aggregate emoluments in respect of qualifying services for the year were as follows:

	2018 £	2017 £
Aggregate emoluments	576,877	570,043
Pension contributions	15,538	16,350
Compensation for loss of office	213,340	-
	<u>805,755</u>	<u>586,393</u>
Highest paid director:		
Aggregate emoluments	140,155	182,997
Pension contributions	4,167	3,053
	<u>144,322</u>	<u>186,050</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

10. Tax charge on loss on ordinary activities

a) Tax charge included in profit or loss

	2018	2017
	£	£
Current tax:		
UK Corporation Tax charge on profits for the year	31,638	30,104
Adjustment in respect of prior periods	-	(21,228)
Total current tax charge	31,638	8,876
Deferred Tax:		
Origination and reversal of timing differences	(31,638)	85,375
Impact of change in tax rates	-	(13,480)
Total deferred tax	(31,638)	71,895
Tax charge on ordinary activities	-	80,771

b) Reconciliation of tax charge

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19.00% (2017: 19.25%). The actual tax charge (2017: charge) for the year is higher (2017: higher) than the standard rate for the reasons set out in the following reconciliation:

	2018	2017
	£	£
Loss on ordinary activities before tax	(1,145,763)	(1,345,791)
Tax on loss on ordinary activities at the standard rate	(217,695)	(259,019)
Effects of:		
Expenses not deductible for tax purposes	147,105	10,167
Deferred tax not provided	70,590	407,748
Adjustment from previous periods	-	(21,228)
Tax rate changes	-	(13,480)
Share options	-	(42,416)
Roundings	-	(1)
Tax charge for the period	-	81,771

c) Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11. Intangible assets

Group and Company	Trademarks £
Cost	
As at 1 January 2018 and 31 December 2018	8,738
Accumulated Amortisation	
As at 1 January 2018	5,941
Charge for year	436
As at 31 December 2018	6,377
Net book value	
As at 31 December 2017	2,797
As at 31 December 2018	2,361

12. Tangible assets

Group	Office and computer equipment £
Cost	
At 1 January 2018	1,321,356
Additions	332,274
Exchange differences	9,138
At 31 December 2018	1,662,768
Accumulated depreciation	
At 1 January 2018	1,166,831
Charge for the year	145,386
Exchange differences	3,752
At 31 December 2018	1,315,969
Net book value	
At 31 December 2017	154,525
At 31 December 2018	346,799

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

12. Tangible assets (continued)

Company	Office and computer equipment £
Cost	
At 1 January 2018	1,165,533
Additions	330,890
At 31 December 2018	<u>1,496,423</u>
Accumulated depreciation	
At 1 January 2018	1,018,729
Charge for the year	139,527
At 31 December 2018	<u>1,158,256</u>
Net book value	
At 31 December 2017	<u>146,804</u>
At 31 December 2018	<u>338,167</u>

13. Investments

	Investment in subsidiary companies £
Cost and net book value	
At 1 January 2018	<u>203,887</u>
At 31 December 2018	<u>203,887</u>

The company owns the entire share capital of Smoothwall Inc, a company registered at 8008 Corporate Center Drive, Suite 410, Charlotte, North Carolina, 28226-4489, USA whose principal activity is the sale of software for internet security. Following a review of the carrying value of the investment, the directors are confident that the net book value of the investment is supported by future cash flows on forecasts for 2019 onwards.

14. Inventories

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Finished goods and stock	<u>371,167</u>	<u>569,536</u>	<u>334,219</u>	<u>234,815</u>

There is no significant difference between the replacement cost of finished goods and their carrying value.

Inventories are stated after provision of £170,172 (2017:£11,504).

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

15. Debtors

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Trade debtors	6,326,298	4,297,086	5,959,361	4,035,519
Amounts owed by group undertakings	213,159	-	2,689,335	2,672,543
Amounts owed by parent company	-	12,148	-	12,148
Other debtors	12,653	13,931	11,477	28,907
Corporation tax	265,315	130,395	265,315	130,395
Deferred tax asset	61,742	30,104	61,742	30,104
Director loan accounts	-	16,341	-	16,341
Prepayments and accrued income	314,959	355,955	288,626	346,462
	<u>7,194,126</u>	<u>4,855,960</u>	<u>9,275,856</u>	<u>7,272,419</u>

Trade debtors of £606,374 (2017: £785,979) are due after more than one year. Amounts owed by group undertakings are unsecured, interest free and repayable on demand. Trade debtors are stated after provision for impairment of £277,721 (2017: £21,313).

16. Creditors: amounts due within one year

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	1,330,348	1,012,733	1,242,948	893,424
Amounts due to parent company	76,828	-	76,828	-
Amounts due to group undertakings	-	-	-	45,501
Taxation and social security	162,943	530,727	162,943	464,496
Other creditors	1,124,697	174,571	1,158,235	123,658
Accruals	718,602	772,943	685,236	764,820
Deferred income	8,445,067	8,065,770	7,426,901	7,387,098
	<u>11,858,485</u>	<u>10,556,744</u>	<u>10,753,091</u>	<u>9,678,997</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

17. Creditors: Amounts due after more than one year

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Deferred income	8,754,171	7,877,498	7,598,669	6,341,019
Loans	146,874	-	146,874	-
	<u>8,901,045</u>	<u>7,877,498</u>	<u>7,745,543</u>	<u>6,341,019</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

18. Loans

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Bank loans	146,874	-	146,874	-
	<u>146,874</u>	<u>-</u>	<u>146,874</u>	<u>-</u>

During the period, a bank loan was undertaken for £150,000 for the purposes of re-fitting the head office. Interest on the bank loan is charged at 4% over the base rate of interest and is for a period of 4 years from drawdown.

19. Pensions

The Company operates a defined contribution pension scheme. The pension cost charge represents contributions payable by the company and amounted to £123,091 (2017: £152,229).

Pension contributions of £42,728 (2017: £84,242) relating to year ended 31 December 2018 were unpaid at the year end (paid in January 2019).

20. Contingent liabilities

At the period end the company had no contingent liabilities.

21. Onerous lease provision

Where leasehold properties become vacant, the Group provides for all costs, net of anticipated income, to the end of the lease or the anticipated date of the disposal or sublease. The provision of £406,426 in exceptional items is for the lease of the Fareham office.

22. Capital and other commitments

At the period end the company had no capital or other commitments.

23. Called up share capital

	2018	2017
	£	£
Allotted, issued, called up and fully paid: 9,900 (2017: 9,900) ordinary shares of £0.01 each	99	99
	<u>99</u>	<u>99</u>

24. Commitments under operating lease

At 31 December 2018 the company had annual commitments under non cancellable operating leases as set out below:

	2018	2017
	Land & buildings	Land & buildings
	£	£
Payment due:		
Within one year	143,710	266,460
Between one and five years	95,807	415,159
Greater than five years	-	-
	<u>239,517</u>	<u>681,619</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

25. Reconciliation of operating loss to operating cash flows

	2018 £	2017 £
Operating loss	(1,127,187)	(1,572,367)
Depreciation and amortisation	145,823	151,874
Share based payment charge	-	416,231
Decrease in stocks	172,819	119,382
(Increase)/decrease in debtors	(1,223,200)	1,198,432
Increase in creditors	870,659	326,074
Net cash (outflow)/inflow from operating activities	(1,161,086)	639,626

26. Analysis of cash flows

	2018 £	2017 £
Returns on investments and servicing of finance		
Interest	(18,576)	(21,128)
Loans received	150,000	-
Loans repaid	(3,126)	-
Taxation		
UK corporation tax receipts	-	353,279
Overseas tax paid	(13,195)	-
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(332,274)	(71,473)

27. Analysis and reconciliation of net funds

	1 January 2018 £	Cash flow £	Exchange movement £	31 December 2018 £
Cash at bank and in hand	2,525,963	(1,378,257)	24,661	1,172,367

	2018 £	2017 £
(Decrease)/Increase in cash in the year	(1,378,257)	900,304
Exchange differences	24,661	97,039
Movement in cash in the year	(1,353,596)	997,343
Net cash at 1 January	2,525,963	1,528,620
Net funds at 31 December	1,172,367	2,525,963

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2018

28. Related party transactions

In accordance with FRS102 "Related parties", transactions with wholly owned subsidiaries are not disclosed.

Loans to directors of £nil were due at the year end (2017: £16,341), this was also the highest balance during the year.

At the year end, amounts due to the immediate parent company, Bidco Oasis Limited were £76,828 (2017: £nil).

At the year end, amounts due from the immediate parent company, Bidco Oasis Limited were £nil (2017: £12,148).

At the year end, amounts due from a group undertaking, Oval (2304) Limited were £213,159 (2017: £nil).

29. Ultimate controlling party

The ultimate controlling party is Tenzing Prive Equity I LP, through its ownership of the parent company Topco Oasis Limited. The immediate parent company is Bidco Oasis Limited which is 100% controlled by Topco Oasis Limited.