Digital Barriers

# Annual Report and Accounts 2014

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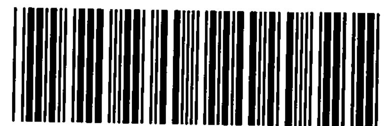

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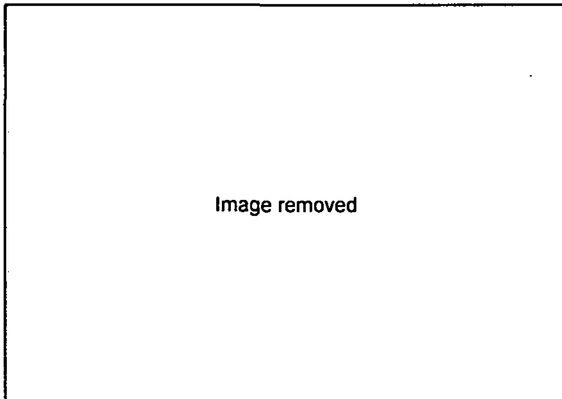
# Highlights of the year

The major highlights are as follows:

- Group revenues for the year were £19.0 million (2013: £23.3 million).
- Revenues from Core Products grew 18% to £9.9 million (2013: £8.4 million) and now account for 52% of Group revenue (2013: 36%).
- International revenue from Core Products increased by 78% and covered a significantly expanded geographic footprint.
- £18.0 million (net of placing costs) raised through the issue of new Ordinary Shares in November 2013.
- Restructuring programme undertaken to rationalise cost base and concentrate resources on Core Products.
- 8 new products launched to extend and enhance our key product platforms.
- Q4 FY14 represented our best ever sales quarter for the Group.

# Strategic report



Tom Black, Chairman

**The volatile international security context confirms that the market for security products such as ours will continue to grow rapidly.**

## Chairman's statement

The last year proved to be one of mixed fortunes for Digital Barriers. Whilst our reported revenues are somewhat lower than FY13, we made very significant progress in shaping the Group for the growth which we expect in the current financial year and in growing the contribution to revenues from our Core Product set. Headline revenues were £19.0 million, of which 52% came from sales of our three Core Product ranges TVI, RDC and ThruVision ('Core Products') (FY13: 36%).

The drop in revenues was due to three factors: a declining contribution from legacy or non-Core Products, longer-than-expected customer procurement cycles and delays in bringing our new generation of products to market. The first of these was expected and is of little strategic importance as we focus increasingly on Core Products. The second is an on-going feature of our business, although its impact will reduce as we grow. The third has been overcome and we saw a range of new products come to market in our fourth quarter, resulting in our best ever quarterly sales performance, although much of this did not convert to revenues in the year but remained as sales backlog to be fulfilled this year.

During the year we raised a further £18 million from shareholders to fund the losses incurred, to strengthen the balance sheet and to provide working capital for growth. The vast majority of this cash remained on the balance sheet at the year-end (£14.2 million). We also transitioned emphatically from our acquisition phase to focus on business rationalisation, sales team development and product development. The rationalisation project has resulted in a lower headcount and fewer offices, thereby reducing our cost base by some £3 million per annum and, equally importantly, allowing us to invest in our sales teams and our engineering capability.

In particular, our US sales team has been significantly upgraded and we saw the fruits of this investment towards the end of the year with material sales of our new products into US Federal and Defense Agencies. Elsewhere we added a range of new customers in countries as diverse as Nigeria, Turkey and Japan. In the commercial sector we saw the first material sales of our TVI-based Minicam product through a major telecoms operator mostly into the UK Local Authority marketplace. Our UK Services business navigated a difficult year with UK budget constraints much in evidence, although recent sales successes suggest that the current year will see a return to modest growth in this area.

Our engineering teams worked hard through the year to bring to market an entirely new generation of products. Our TVI video range was extended to include High Definition and IP variants which open up entirely new markets for us in the US, Asia Pacific and the Middle East. We also launched a software version of TVI which runs on iOS devices and which was sold successfully at enterprise level to a US Federal Agency during the year. Our RDC product, which was launched towards the end of the previous year, achieved good market traction during the year and forms a major part of our FY15 sales pipeline. RDC also provides additional impetus to our TVI range as RDC sales are almost always combined with TVI to produce our Integrated Surveillance Platform, a compelling solution for the protection of borders or vulnerable facilities. ThruVision, our personnel scanning technology, was a modest contributor to revenues but was developed significantly during the year, resulting in an important new product launch and significant sales success in the final quarter.

Although Digital Barriers' success will be built in large part on the quality of our products, these in turn depend on high quality and dedicated staff. Our headcount reduced to 163 at the date of this report as a result of our strategic re-focus and rationalisation project although voluntary departures remained rare. The tempo of the business remained high and the commitment and professionalism demonstrated by all staff was exemplary. I would like to extend a warm personal thanks to all of my colleagues for their hard work and dedication. Our Board saw only one change with the addition of Sharon Cooper as CFO who joined us in March from Sophos and is already making a full contribution.

Looking forward, the volatile international security context confirms that the market for security products such as ours will continue to grow rapidly. This, combined with our new generation of products which have been designed specifically to combat this threat, and the sales traction which we have achieved thus far, give me confidence that Digital Barriers is on track to become an important player in the international security marketplace. We therefore look forward to significant growth in revenues and reiterate our aspiration to move towards breakeven in the current financial year.

## Strategic review

Since our IPO in 2010 we have made strong progress in validating our strategy of providing advanced surveillance technologies to governments, multinational corporations and system integrators in the international defence, law enforcement, critical infrastructure, transportation and natural resources sectors.

At IPO we described the three phases of our growth strategy in the following way:

- Phase One: to undertake acquisitions to collate Core Products to drive Digital Barriers' organic growth; integration will be limited at this early stage.
- Phase Two: to focus on international development and additional material acquisitions to enhance the scale of our business; this will coincide with further integration and a deepening of specialist prime system integrator and other channel sales partner relationships.
- Phase Three: to focus on further geographical and product expansion.

We are currently transitioning from Phase Two to Phase Three. No further acquisitions were undertaken during FY14 and our internal focus was on the final stages of integration and rationalisation as outlined in the Chairman's statement. We did, however, expend considerable effort in developing a new generation of products across our core technologies of TVI, RDC and ThruVision and extending our geographic reach into numerous additional countries, including Nigeria, Turkey and Japan.

Our assessment of the growth potential that our market offers remains unchanged. Global spending remains strong with a number of notable trends emerging in the last year, namely:

- Continued demand for upgrading capability in established markets (core UK and US) for leading agencies, as well as the adoption of UK-proven technology overseas.
- Recovery in US Federal Government budgets and, because of major changes to telecoms video transmission costs, major investment in wireless video technology refresh.
- On-going weekly insurgency and terrorist attacks in high-risk countries in the Middle East, Africa and parts of Asia, continuing to drive demand for border and wide-area surveillance, VIP and natural resources protection, and transportation security.
- Continued long-term trends around cross-border terrorism and organised crime driving demand for enhanced border check-point security measures, critical national infrastructure protection and tactical law enforcement surveillance capability.
- Increasing adoption of mainstream commercial solutions such as mobile handsets, cellular and satellite networks to satisfy demand for wide distribution of video and data.

Our new products are well positioned to address these critical trends and we continue to position ourselves as providers, in the first instance, of sophisticated new tactical capability. Increasingly, however, we are being seen as credible providers of 'enterprise-grade' technology, allowing us to access our customers' spend on much larger programmes.

The growing international customer interest and engagement, combined with the sales traction that we have seen in the last year, confirms that our original strategy remains valid and we will continue to pursue it.

## Business review

**Introduction**

FY14 was a year in which we focused our attention on extending our international sales capability and developing new products in all three of our core technology areas – TVI, RDC and ThruVision. With eight new products coming to market in the year across these areas, we achieved a number of landmark sales in terms of scale and strategic importance. These have also underpinned our three new propositions that are driving growth in major international customer accounts.

**Sales**

**Headlines** – We achieved a number of notable successes in terms of international reach and successful new product launches in the last year, including:

- **First 'enterprise-grade' sale of TVI** – £1.8 million sale of 3,000 TVI iPhone licences following on-going work with a major US law enforcement customer. This capability will provide a range of benefits including increased surveillance effectiveness, situation awareness and officer safety.

- **Landmark ThruVision sale into Middle East** – £2.0 million sale via a partner into the government of a major country in the Middle East for the protection of key government facilities and airports, to be delivered over the course of FY15.
- **Strategic adoption by major Asian ally for critical defence surveillance** – £1.0 million sale after a year of extended trials, RDC has been adopted as the core sensor as part of its national-level strategic surveillance investment programme.
- **Launch and initial sale of new 'Safe City' camera product** – developed in partnership with the UK's largest telecoms operator, the MiniCam was launched in March to take the UK public safety CCTV market wireless. It offers the potential to extend our managed service offering moving forward.
- **First sale of RDC in the Oil and Gas sector** – initial sale of our RDC solution to a multi-national oil company to help protect key assets in a Middle Eastern country.
- **Initial sales of a range of new TVI products** – our High Definition and IP camera variants, launched in Q4, achieved initial sales into customers in each of our regions.
- **Prestige integration services contract win** – £2.1 million sale of security system integration services, via a major system integrator into a major UK sporting event, to be delivered over the course of FY15.
- **Other noteworthy sales** – we announced repeat sales of £2.3 million and £0.75 million to existing UK Government RDC and Asian transportation customers, respectively.
- **Sales traction continuing** – since the period end, we have secured a further major contract in our Middle East and Africa region, with an initial contract valued at £1.5 million for the protection of key government facilities, to be delivered over the course of FY15.

Our sales pipeline continues to build with international interest in our three new key 'proposition' areas, namely:

- Our 'Integrated Surveillance Platform' combining our RDC sensors with TVI, allowing unauthorised intrusions to be viewed securely anywhere in the world. Our customers see this rapidly deployed, covert solution as the ideal way to meet a number of requirements, including protection of hostile borders, oil pipelines, government buildings and remote military facilities.
- Our 'Video Distribution Platform', based on TVI and providing our customers with the ability to wirelessly enable their legacy fixed security video infrastructure – and add the ability to send and watch live video using smart phones and tablets. Demand is expanding out from our traditional government security market, through Smart City initiatives into the broader corporate world.
- Our 'Safe Search People Screening' solution uses our ThruVision product set to facilitate the screening of people without the need for intrusive and time-consuming physical searches. Our customers see this 'virtual pat-down' as an efficient, repeatable and reliable procedure for looking for weapons, contraband or stolen goods in a safe and respectful manner.

**International expansion** – We continued our strategy of targeting key nations with material defence and security budgets across the US, Asia Pacific and the Middle East and Africa regions. With the support of the UK government where necessary, we aim to build relationships with key government agencies and procurement authorities and move through an increasingly streamlined evaluation cycle. This approach, coupled with the appointment and management of a number of local partner companies, resulted in sales to numerous new countries as well as repeat sales to existing ones in the last 12 months. Our principal export market remains the US and we made very strong progress here after the hiatus of sequestration in FY13. With an expanded sales presence, we have established strong positions in agencies across the Departments of Defense, Justice and Homeland Security. With a number of market trends in our favour, including new investment in wireless video capability, on-going investment in counter-insurgency and counter-IED technology, and on-going investment in border surveillance technology, we are now poised for strong growth here across all of our key technologies.

Asia Pacific is a more fragmented region and we have been focused on a number of key countries including the Republic of Korea, Japan, Singapore, Malaysia, Indonesia, Hong Kong and Australia. Our focus is on a number of strategic border and maritime surveillance initiatives and achieving further TVI penetration into national law enforcement agencies. We have established a permanent presence in Seoul on the strength of the strategic interest shown by major Korean government agencies in RDC.

In the Middle East and Africa, we are focused on a number of key Gulf states, notably Qatar and UAE, and other key regional powers including Turkey and Nigeria, and we have achieved early sales successes in all of these. Given the heightened security state in several of these countries, we see strong interest in ThruVision for protective security, and our Integrated Surveillance Platform for force protection, border surveillance and critical asset protection including oil and gas.

**UK market**

The UK Government market has continued to see spend being tightly controlled. We continue to focus on working closely with the Home Office and its agencies, major law enforcement organisations, large public sector transport operators and the Ministry of Defence. As well as generating revenue, these close working relationships remain vital for our broader export efforts in terms of direct UK Government support and the implicit comfort this gives our foreign government customers.

With our expanding product range, we are also seeing increasing interest from the more mainstream 'CCTV' market in the UK. This interest is coming from both the local authority market, from the security departments of commercial organisations and from large security service providers.

With this growing domestic interest, and after a relatively weak year for the division, we are starting to make increasing use of our Integration Services business to sell, deploy and maintain TVI solutions into this broader security equipment market.
We also intend using its 24/7 support and call-out infrastructure as an integral part of our post-sales support capability moving forward.

**OEMs and other commercial models**

We noted 12 months ago that we were seeing interest from the broader commercial market, principally via telecoms operators, in TVI. This is because we are able to offer a fully mobile, affordable and real-time video capability at a level of quality unmatched by any competing technologies. This meets the needs of a number of industry trends. These include the on-going roll-outs of city-wide wifi networks and national 4G wireless infrastructure, and the continued focus by network operators on selling 'Machine to Machine' (M2M) data plans to maintain data revenue growth.

This commercial interest represents another large, high growth market for us, and one that is potentially less prone to slower government sales cycles. We have invested in both sales and product development resource over the last year to build our presence here and exploit this leveraged sales route to market. We are now engaged with five international telecoms providers where our TVI technology, through its highly efficient bandwidth management, has the potential to help better monetise cellular, wifi and satellite communication infrastructures. We also continue to partner with the world's largest system integrators on embedding our TVI and broader video analytics capability into their global 'smart city' and 'mobile workforce' propositions.

Finally, we have also made very good progress with achieving tight technical and commercial integration with other video industry players, to again exploit a leveraged sales model. Most advanced is our relationship with Axis Communications, one of the world leaders in IP cameras. By embedding our new video analytics product, SafeZone Edge, on Axis cameras, we both differentiate Axis' offering and open up its distribution network in 70 countries to our products.

**Technology and products**

**Introduction** – Substantial effort has been invested in the last year driving our product portfolio forward in our three Core Product families – TVI, RDC and ThruVision – that now represent the key focus of the business, representing 52% of FY14 revenues (FY13: 36%).

We remain confident that all three families are highly disruptive, occupy clearly differentiated positions in the market, are internationally scalable and are built on class-leading intellectual property. Most significantly, these Core Product families have been rounded-out with additional capabilities to form our new propositions that are driving international sales activity.

With a number of products being delivered to market later in Q4 than we had planned, we have now introduced a new product management process to significantly improve our product development and launch capabilities. This will ensure that we optimise the use of finite development resource to produce differentiated products on schedule. It will also make sure we continue to identify significant and growing market niches and ensure our products contain the features that our increasingly large and international customer base demands.

We have continued the process of retiring non-Core Products and technologies that do not have differentiation and scalability, helping us sharpen our focus and increase resource in those areas that are strategically important.

**TVI** – TVI represents the largest market opportunity for us. As a proven, world-class video distribution technology, it offers large organisations the opportunity, for the first time, to adopt video as an affordable, core enterprise tool for a range of security applications in the first instance, but increasingly for more mainstream 'enterprise applications' moving forward.

We have made significant progress in the last year moving TVI from its tactical roots to focus on products for both our specialist market (law enforcement, defence) and, increasingly, on the wider commercial security market. This has involved embracing a number of significant video industry technology trends and 'benchmarks', including High Definition (HD) video, IP video and video management system compatibility (through the ONVIF standard).

These developments, as well as meeting the needs of a rapidly increasing number of potential customers, have also ensured we remain very confident about our competitive positioning.

Highlights in FY14 include:

- **Launch of new HD video product** – developed to meet the needs of top-end law enforcement agencies around the world, the HD-S600 was launched in March. Combining highly efficient, wireless HD video streaming with local recording functionality, we achieved initial sales in a number of UK and international customers.
- **Launch of new 'Safe City' camera product** – developed in partnership with the UK's largest telecoms operator, the MiniCam was launched in March to take the UK public safety CCTV market wireless.
- **Launch of new IP product series** – developed as highly cost-effective general purpose wireless video recording and streaming devices, our one- and four-camera models support customers migrating from analogue to IP cameras. We launched in March and immediately sold into both the US law enforcement and UK transportation security markets. We have since sold our TVI IP products into customers in each of our regions.
- **Launch of new man-wearable military product** – developed to meet emerging needs of UK/US military, we launched in March and sold to both UK and other allied military customers.

Plans for the coming year include expanding our HD range, developing a number of team-working tools for TVI on smart phones, scaling the server software and releasing software development kits for use by third party developers.

**RDC** – RDC is our unique ground sensor for the Remote Detection and Classification of unauthorised people or vehicles in locations where communications and power infrastructure are limited. Following its introduction around 18 months ago and its initial sale to a major UK government organisation, RDC has been deployed for a wide range of protection applications, including defence force/bases, oil and gas pipelines and VIP locations as well as more traditional border surveillance and control.

Our key differentiation remains the combination of seismic sensor algorithms, with mesh radio and tight coupling to real-time video. Taken together, these form our Integrated Surveillance Platform and provide a cost-effective way of maintaining real-time 'eyes on' coverage of large swathes of territory and we therefore remain confident about our competitive positioning.

In the last year RDC has moved from 'pathfinder projects' and early adopter trials to a pipeline of mature procurements and, perhaps most encouragingly, repeat sales from existing customers. The breadth of live opportunities across all regions provides confidence for realising further growth in the coming year and beyond.

Highlights include:

- **Continued development of our sensor node detection algorithm for US government** – we have broadened the range of threats that we can detect to meet specific operational needs.
- **Continued development of node 'mesh' networking** – we launched 'multi-hop' capability to our sensor nodes to allow them to operate in long-linear arrays. This makes them ideal for protecting assets such as oil pipelines.

Plans for the coming year include continued work on improving the range of threats that can be detected and further tightening of the integration with TVI.

**ThruVision** – ThruVision is our passive, standoff people screening technology for protection of high-profile buildings and VIPs, the detection of concealed contraband by customs organisations, high-threat military checkpoint screening and the efficient searching of employees to reduce theft in retail and distribution environments.

Based on patented intellectual property in the field of Terahertz scanning, the last year has seen further fundamental improvements in both image quality and use of video processing techniques to automatically detect concealed items of interest. This, combined with further manufacturing improvements to reduce the cost of production, has generated much broader market interest.

Highlights include:

- **Assessed as 'operationally proven' following extensive testing by UK Government** – we are now embarked on a number of operational trials with various UK agencies in a range of security and contraband applications.
- **Launch of new 'SafeSearch' proposition** – bringing our new technology advances together, we have improved system usability by increasing the speed with which individuals can be scanned in partnership with a major British retailer. This 'virtual pat-down' now forms a proven new security procedure.

Plans for the coming year include the addition of a 'zoom' function to enhance detection capability, improving the software interface to improve usability and continued work to allow future scaling of production.

**Face recognition and video analytics applications**
We have concluded that the major value from the OmniPerception acquisition is most likely to come through software implementation of face recognition on the TVI platform, although some alternative opportunities for the OmniPerception product set will still occur.

Accordingly, our face recognition and video applications work aims to ensure that, as TVI achieves increased international traction, we can maintain our strategic differentiation by offering mission-critical video tools running within TVI's video distribution architecture.

With this in mind we have been investing in redeveloping our applications from server-based systems to software that we can embed on a range of devices including smart phones, tablets, our own TVI products and an emerging range of high-performance IP cameras. We believe this strategy will create new markets by offering a disruptive combination of performance, simplicity and affordability.

Highlights include:

- **Achieved the highest level of UK Home Office 'iLids' approval for performance** – our SafeZone Edge product, an automated intrusion detection application, achieved this internationally recognised standard in February 2014.

- **Adoption by Axis, the world's leading IP camera manufacturer** – we have embedded SafeZone Edge on Axis' latest range of IP cameras and have agreed a leveraged channel sales model with Axis. We believe this partnership will allow us to assess the potential to exploit leveraged sales models.
- **On-going refinement of face recognition algorithms** – we have re-engineered our face recognition technology to operate solely in the visible light domain (as opposed to IR) as part of our plan to integrate face recognition within our Video Distribution Platform.

Plans for the coming year are to maintain the good progress we have made to integrate these applications into our Video Distribution Platform.

**Mature and non-strategic products**
We continue to generate profitable but increasingly modest revenues from our legacy product family (ie fixed infrastructure video management and transmission systems). These derive principally from the transportation and natural resources sectors, including a number of international customers.

During the year, we have exited non-strategic products where there is insufficient scope for differentiation or scalability. We also decided to cease offering bespoke video R&D services to UK customers due to the lack of scalability offered by this service line.

**Operational review**
**People** – We continue to aim to provide exciting careers for highly talented sales and engineering staff who, despite the geographically distributed nature of the business, are integrating into an increasingly recognisable culture of innovation.

In the last year, we have substantially strengthened our US team and have recruited our first permanent Korean staff into a new office in Seoul. We have substantially increased the size of our TVI engineering team in Glasgow and we have strengthened our pre-sales capability across all products.

With voluntary attrition already very low, we plan to introduce a Save-As-You-Earn share option scheme to enable staff to benefit from the Company's growth moving forward and build long-term careers with us.

**Cost base** – Through the second half of the last year, we conducted a major strategic review of activities to ensure all our resources were focused on the most compelling growth opportunities in a fully integrated way. This contributed to a cost reduction programme that has reduced our overall net cost based by £3.0 million, and allowed further investment in international sales and engineering. We also started the process of centralising a number of support functions to achieve improved service levels and better economies of scale.

**Infrastructure** – We further consolidated key activities into a smaller number of principal offices to improve effectiveness and focus. This resulted in the closure of five offices around the UK.

Looking forward, we plan further expansion of our TVI engineering office in Glasgow and investment in our Oxfordshire hub to increase ThruVision manufacturing and broader product delivery capacity. We are also investing in a new, secure, Group-wide IT infrastructure to allow more efficient working for our staff around the world, while also better securing our core intellectual property.

**Performance indicators**
We monitor a number of metrics, both financial and non-financial, on a monthly basis. The most important of these are as follows:

- Revenue: £19.0 million for the year under review (2013: £23.3 million);
- International revenues: 26% of total (2013: 29%);
- Gross margin: 45.8% for the year under review (2013: 42.8%);
- Sales and marketing costs: £5.4 million for the year (2013: £3.8 million);
- Corporate overheads: £4.7 million for the year (2013: £3.1 million);
- Number of employees: 193 at 31 March 2014 (2013: 212); and
- Cash: £14.2 million at 31 March 2014 (2013: £5.5 million).

## Financial review

For the year ended 31 March 2014, Digital Barriers delivered revenue of £19.0 million (2013: £23.3 million) generating an adjusted loss before tax of £12.0 million (2013 loss: £7.6 million) and adjusted loss per share of 21.49 pence (2013 loss: 16.45 pence). On an unadjusted basis, the loss before tax was £15.1 million (2013 loss: £10.8 million) and loss per share was 25.87 pence (2013 loss: 21.78 pence).

**Revenue and margins**

Of the £19.0 million of revenue in year, £14.5 million was delivered from Product revenue streams, with £4.5 million from the Services Division.

The decrease in revenue over the prior year was due to three factors: a declining contribution from legacy or non-Core Products, longer-than-expected customer procurement cycles and delays in bringing our new generation of products to market, now addressed. There were no acquisitions in the year.

Results by division are discussed below:

| Revenue | Reported 2014 £'000 | Reported 2013 £'000 |
|---|---|---|
| Services | **4,527** | 6,289 |
| Products: | | |
| Core Products[i] | **9,927** | 8,421 |
| Mature[ii] | **2,497** | 4,705 |
| Non-strategic[iii] | **2,091** | 3,857 |
| | **14,515** | 16,983 |
| | **19,042** | 23,272 |

(i) Core Products: greatest strategic opportunity for growth.

(ii) Mature products: established in the market and capable of steady on-going profitable revenue.

(iii) Non-strategic products: underlying IP being transferred into Core Product families.

Revenue from the Services Division declined £(1.8) million (28%) on the prior year, reflecting a difficult year with UK budget constraints. This contraction in revenues led to a £(0.8) million fall from £0.7 million segmental operating profit to a £(0.1) million operating loss.

Products Division revenue declined £(2.5) million (15%) on the prior year, with all the reduction in mature and non-strategic categories. Core Products increased £1.5 million (18%), primarily driven by TVI growth, with International Core Product revenues up 78% and UK revenues down 2%. The operating loss associated with the Products Division increased £(0.4) million in the year to £(1.9) million as a result of reduced revenues.

| | Services 2014 £'000 | Products 2014 £'000 | **Total 2014 £'000** |
|---|---|---|---|
| Revenue | 4,527 | 14,515 | **19,042** |
| Segment loss | (97) | (1,854) | **(1,951)** |
| Corporate overheads | | | **(10,074)** |
| Adjusted Group operating loss | | | **(12,025)** |
| Interest | | | **32** |
| **Adjusted Group loss before tax** | | | **(11,993)** |

Revenue in the year was split 76%:24% (2013: 73%:27%) between Products and Services respectively. The continuing trend towards Products reflects the on-going strategic focus of the Group and drives the improvement in gross margin, increasing from 42.8% to 45.8%.

The Services gross margin decreased to 19.1% in the year (2013: 29.0%), driven by the reduction in revenues and a higher proportion of lower margin project work, with higher product cost elements compared to the prior year. The Products gross margin was 54.2% (2013: 47.9%). This increase is largely associated with sales mix, with a marked increase in software sales in the year, alongside a reduction in product hardware sales with a lower gross margin.

## Adjusted loss

An adjusted loss before tax figure is presented as the Directors believe that this is a more relevant measure of the Group's underlying performance. For the year this was £12.0 million (2013: £7.6 million) and is detailed in the table below:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Loss before tax | **(15,067)** | (10,756) |
| Add back: | | |
| Amortisation of intangibles initially recognised on acquisition | **1,733** | 2,029 |
| Acquisition costs | **–** | 369 |
| Adjustments to deferred consideration[(i)] | **(679)** | (1,384) |
| Reorganisation costs[(ii)] | **1,860** | 769 |
| Impairment of intangibles[(iii)] | **160** | 1,336 |
| **Adjusted loss before tax** | **(11,993)** | (7,637) |

(i) Relates to the release of deferred consideration payable against the Zimiti and Visimetrics acquisitions plus reassessment of the remaining Visimetrics deferred consideration balance to zero, partly offset by the unwind of discount.

(ii) Relates to a restructuring programme to rationalise the Group's cost base and concentrate its resources on Core Products. As the expenditure relates to transforming the divisions for the future these costs are not directly related to current operations.

(iii) Relates to certain intangibles acquired with Visimetrics and LMW which are no longer seen as core to the business and generate returns below the level used to determine the value of the assets initially recognised on acquisition.

The increased year-on-year adjusted loss has been driven by three key factors:

- continued investment in sales and marketing required to drive international expansion;
- investments in operations, particularly in new product releases to address customer demand; and
- lower Group revenues (referred to above).

Central overheads are broken down as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Sales and marketing | **5,403** | 3,824 |
| Other corporate overheads: | | |
| Central overheads, including Board, operations, finance and facilities | **4,147** | 2,726 |
| LTIP charge | **524** | 336 |
| | **4,671** | 3,062 |
| **Total** | **10,074** | 6,886 |

Sales and marketing costs have increased £1.6 million to £5.4 million (2013: £3.8 million), as existing regional sales teams have been expanded and strengthened, and investments have been made into new sales and marketing teams internationally. These investments enable a greater level of engagement in both established and high-potential markets, building customer relationships and pipelines to drive sales growth.

The operations teams have also been strengthened in the year to further support product development and customer procurement processes. This, along with investment in the IT infrastructure, are the key drivers of the £1.4 million increase to £4.1 million (2013: £2.7 million) in central overheads.

### Taxation

As a result of losses acquired through acquisitions and central overheads we do not expect to pay the full rate of UK corporation tax for a number of years. The income statement tax credit for the year of £0.5 million (2013: £0.8 million) principally relates to R&D tax credits. At 31 March 2014, the Group had unutilised tax losses carried forward of approximately £44.0 million (2013: £26.4 million). Given the varying degrees of uncertainty as to the timescale of utilisation of these losses, the Group has not recognised £8.5 million (2013: £5.6 million) of potential deferred tax assets associated with £42.3 million (2013: £23.7 million) of these losses.

At 31 March 2014, the Group's net deferred tax liability stood at £0.2 million (2013: £0.4 million), relating to acquired intangible assets of £0.6 million (2013: £1.0 million), offset by £0.4 million (2013: £0.6 million) relating to tax losses.

**Loss per share**
The reported loss per share is 25.87 pence (2013 loss: 21.78 pence). The adjusted loss per share is 21.49 pence (2013 loss: 16.45 pence).

**Cash and treasury**
The Group ended the year with a cash balance of £14.2 million (2013: £5.5 million).

The £8.7 million year-on-year increase in net cash consists of £18.0 million (net of placing costs) proceeds from an equity fund raise less £(8.5) million (2013: £(14.1) million) outflow from operating activities and £(0.8) million (2013: £(5.7) million) investing spend. No new businesses were acquired during the year.

The £(8.5) million (2013: £(14.1) million) outflow from operating activities included a £2.3 million net working capital inflow/reduction (2013: £(6.9) million outflow), largely the result of lower fourth quarter revenues than in the prior year, partially offset by an inventory increase. The balancing £(10.8) million outflow from operating activities (2013: £(7.2) million outflow) relates principally to the 'cash' operating loss (operating loss excluding non-cash items).

Investing spend included £(0.6) million of capital expenditure, mainly demonstration stock, and a £(0.2) million payment made to e-Tech in relation to a deferred consideration earn out due.

**Dividends**
The Board is not recommending the payment of a dividend (2013: £nil).

**Principal risks and uncertainties**
The Directors believe the following risks to be the most significant for the Group. However, the risks listed do not necessarily comprise all those associated with the Group. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements.

If any of the following risks were to materialise, the Company's business, financial condition, results or future operations could be materially adversely affected. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial may also have an adverse effect upon the Company.

**Risks relating to the Group's business**
**1. International expansion** – The Group's future success will depend in part on its ability to continue to expand its operations internationally. Such expansion is expected to place significant demands on management, support functions, accounting, financial control, sales, marketing and other resources and would involve a number of risks, including:

- developing good relationships with customers and partners, and exploiting these to deliver sales of the Group's capabilities;
- ensuring capabilities are delivered successfully to customers and partners, obtaining appropriate contractual sign-off and maintaining good levels of customer satisfaction;
- recruiting appropriately skilled staff;
- putting in place appropriate governance and controls, including meeting appropriate legal and financial obligations; and
- ensuring the Group obtains and is compliant with appropriate export control legislation.

*Mitigation*
A robust recruitment process is in place for all Group employees, ensuring that required skills are available to the Group to facilitate international expansion. In addition, significant research is undertaken prior to establishment in a new territory utilising both in-house expertise and external sources.

The Group is now operating from regional offices in four key geographical markets all on different continents. In addition, an international sales operation, targeting key geographies and partners, has been established in order to ensure that the major markets and customers are identified and addressed. The sales pipeline is monitored on a weekly basis in order that sales performance below expectation can be identified and actions taken quickly to rectify the position.

A formal management structure to ensure that divisional managers have responsibility for project delivery, governance and compliance is in place throughout the Group with a formal reporting structure into the Board to ensure that issues are identified early and remedial action taken where appropriate.

**2. Dependence upon key intellectual property** – The Group's success depends in part on its ability to protect its rights in its intellectual property. It may be possible for third parties to obtain and use the Group's intellectual property without the Group's authorisation and as such the Group may become involved in litigation which could be costly and time consuming.

*Mitigation*
The Group relies upon various intellectual property protections, including patents, copyright, trademarks, registered design rights, trade secrets and contractual provisions to preserve its intellectual property rights. These are reviewed regularly to ensure the Group is adequately protected in the most appropriate manner at all times.

**3. Competition** – The Group has experienced, and expects to continue to experience, competition from a number of companies. This competition may take the form of new products and services that better meet industry needs and competitors who respond more quickly to client requirements. In addition, competitors may have greater financial or technical resources than the Group.

*Mitigation*
A careful watching brief is maintained on competitors to enable the Group to react quickly to any change in circumstance or technical developments. In addition, the opportunity to acquire additional leading-edge technologies is monitored on an on-going basis to ensure that the Group is able to maintain a first-class portfolio of products. In addition, existing products are being developed and utilised in new and innovative ways to meet client needs and achieve differentiation.

**4. Key management** – The Group depends on the founding Directors and other senior managers with specific sector and industry knowledge, and in addition on the recruitment and retention of the services of its key technical, sales, marketing and management personnel both in the UK and overseas. Competition for such personnel can be intense, and the Group cannot give assurances that it will be able to attract or retain such staff.

*Mitigation*
The Remuneration Committee annually takes external independent advice as to the appropriate remuneration structure and median market levels in respect of the Executive Directors. The outcome of the review undertaken in March 2014 is detailed in the Remuneration report.

A robust recruitment process is in place for all Group employees ensuring that required skills are available to the Group. In addition, internal review processes have been established to ensure, as far as possible, that employees are motivated and that suitable remuneration structures are in place. A formal succession plan process is in place.

**5. Delivery** – The reputation of the Group depends on effective and timely delivery of its products and services to clients. Technology failure and/or failure to deliver promised services in a timely and efficient manner in accordance with the contract terms could have a significant impact on the reputation and hence future growth of the Group.

*Mitigation*
In accordance with the tender process all potential contracts are subject to risk assessment to ascertain technical complexity, IP compatibility, available internal resource and delivery timescale. A project plan is formulated to ensure that, should the contract be obtained, the Group is able to deliver the project in accordance with the contract terms.

**6. Foreign business, political and economic risks** – The successful full penetration of overseas markets by the Group may take longer than the Directors currently expect.

The Group contracts and expects to contract with various entities from around the world including prime system integrators, value added resellers and directly with overseas clients. As a result, the Group is exposed to foreign business, political and economic risks including managing customer and supplier relationships from outside of their jurisdiction, political and economic instability, less developed infrastructures, interest rate and currency instability, exposure to possible litigation in foreign jurisdictions, competition from foreign-based service providers and the existence of protectionist laws and business practices that favour such providers.

*Mitigation*
Prior to the establishment of an overseas office or the acceptance of an overseas contract, a detailed review, in accordance with the delegated authority schedule, is undertaken to ensure the risks are identified and mitigated where possible. It is anticipated that the proportion of the Group's business contracted in currencies other than Sterling will increase, making consolidated results and net assets more subject to exchange rate fluctuations. Translation movements are not hedged but the Group regularly reviews its transaction currency exposure to assess whether any hedging is required.

**7. Government spending** – A significant portion of the Group's revenues are generated from UK and other international central government agencies. Continued pressures on Government spending within certain territories may materially and adversely affect the Group's business, operating results or financial condition.

*Mitigation*
It is the strategy of the Group to widen the client base, on a global basis, to diversify Group revenue whilst maintaining appropriate relationships with central government both within the UK and in other territories.

**8. Further issues of Ordinary Shares** – It may be desirable for the Company to raise additional capital by way of the further issue of Ordinary Shares to enable the Company to progress through further stages of development. Any additional equity financing may be dilutive to shareholders. There can be no assurance that such funding, if required, will be available to the Company.

*Mitigation*
The Group continues to explore all sources of capital funding to ensure it is best placed to be able to deliver against its stated strategy.

**9. Claims by third parties** – While the Directors believe that the Group's products and other intellectual property do not infringe upon the proprietary rights of third parties, there can be no assurance that the Group will not receive infringement claims from third parties which could be both costly and time consuming.

*Mitigation*
Where appropriate the Group will confirm the validity of its intellectual property via patent and trademark searches and will robustly defend such claims if appropriate.

**10. System failures and breaches of security –** The successful operation of the Group's business depends upon maintaining the integrity of the Group's computer, communication and information technology systems which are vulnerable to damage, breakdown or interruption from events which are beyond the Group's control.

*Mitigation*
All systems are backed up on a regular basis and appropriate investment is made in the infrastructure of systems within the Group to maintain appropriate standards of integrity and security.

Approved by the Board and signed on its behalf:

**Tom Black**
Executive Chairman

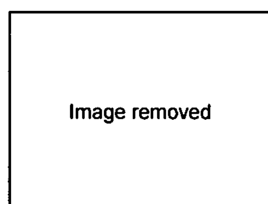
27 May 2014

# Directors' biographies

## Tom Black, (54) Executive Chairman

Tom is the Executive Chairman of Digital Barriers plc. Prior to joining Digital Barriers, Tom spent over 20 years with Detica Group plc, following studies at the Universities of Strathclyde and Oxford. He was appointed Chief Executive in 1995 and led the £12 million management buyout of Detica in 1997 and the Group's flotation on the London Stock Exchange in April 2002. He then oversaw the acquisition of Detica by BAE Systems in 2008 for £538 million, at which time Detica was a business with revenues of over £200 million and around 1,600 staff. He is currently a Non-Executive Director of Pinnacle Technology Group plc and Herald Investment Trust plc, a Director of Grantdean Ltd and Vantage Racing Ltd, and a trustee of the Black Family Charitable Trust.

## Colin Evans, (46) Executive Director

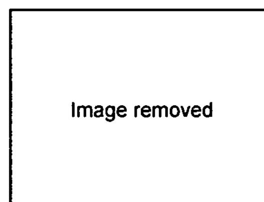


Colin is responsible for engineering and operations at Digital Barriers. Colin has 21 years' experience working in the defence, intelligence and homeland security domains, delivering complex technology systems and advanced security solutions to clients in the government sector. Prior to joining Digital Barriers, Colin worked for Detica Group plc, where he was Group Chief Operating Officer with responsibility for day-to-day management of the business and a particular focus on driving the growth of the government business across the UK and US. He is also experienced in accelerating hi-tech business growth, developing senior client and partner relations and integrating acquired businesses.

## Zak Doffman, (42) Executive Director

Zak is responsible for all sales and marketing at Digital Barriers. He has spent the last 16 years working across the technology and professional services sectors on the management and structuring of strategic and acquisition-driven organisational change. Zak joined Digital Barriers from Detica Group plc, where he was Group Strategy Director with responsibility for all areas of corporate strategy, acquisitions and organisation development. Before Detica, Zak spent nine years at Andersen Consulting (later Accenture), working across a number of industry sectors.

## Sharon Cooper, (37) Group Finance Director



Sharon was appointed on 3 March 2014 and is responsible for all aspects of financial management and reporting in the Group. Sharon is a Chartered Accountant by training, having started her career at Ernst & Young in 2000. She joined Digital Barriers following her previous role as VP, Commercial Finance at Sophos Limited, having previously served with the organisation as Group Financial Controller. Sharon graduated from Southampton University with a degree in Accounting and German and is a member of the Institute of Chartered Accountants in England and Wales.

## Bernie Waldron, (56) Non-Executive Director

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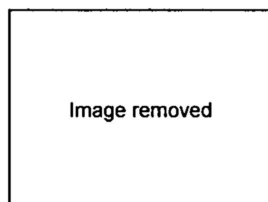
Bernie was appointed a Non-Executive Director on 1 July 2012. He has more than 30 years' experience in the global technology marketplace including positions as Director of Strategy for IBM Corporation, based in New York, General Manager of IBM's Industrial Sector business for Europe, Middle East and Africa, and Executive Chairman of the former Maersk Data Group of companies, based in Copenhagen.

He is a Non-Executive Director of Servelec plc, IPPlus plc, Node 4 Limited, Process Systems Enterprise Limited and Glory Global Solutions Limited and is a Board mentor for Criticaleye. He was formerly a Non-Executive Director of KNEIP Communications S.A in Luxembourg and a Visiting Professor at Cass Business School. Bernie has an MA in Mathematics from Cambridge University. Bernie is the Senior Independent Director, Chairman of the Remuneration and Nomination Committees and serves on the Audit Committee of Digital Barriers plc.

## John Woollhead, (53) Company Secretary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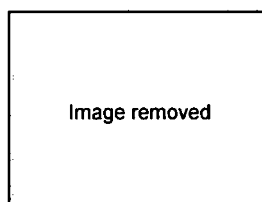
John is responsible for the core Company Secretarial function within the Group. John qualified as a Chartered Secretary in 1987 and has previously acted as Company Secretary to Eve Group plc, Peterhouse Group plc and Detica Group plc. John is Secretary to the Board and acts as Secretary to the Board Committees.

## Paul Taylor, (49) Non-Executive Director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Paul was appointed a Non-Executive Director on 1 April 2012. He is a qualified Certified Accountant who started his career at Price Bailey Partners in 1986, and has subsequently served in a number of senior finance roles. Paul has spent most of his career at AVEVA Group plc and served as Group Finance Director from March 2001 to December 2010. During this period revenues increased from £28 million to £164 million, resulting in pre-tax profit of £63 million and a market capitalisation of over £1 billion. He is currently Non-Executive Director and Chairman of the Audit Committee of Escher Group Holdings plc, Ubisense Group plc and Anite plc, and Deputy Chairman of KBC Advanced Technologies plc and Trustee of the CADCentre Pension Fund.

Paul is Chairman of the Audit Committee and serves on the Remuneration and Nomination Committees of Digital Barriers plc.

# Directors' report

The Directors of Digital Barriers plc (the 'Company') present the Annual Report to shareholders together with the audited financial statements of the Company and its subsidiaries for the year ended 31 March 2014.

The purpose of the Annual Report is to provide information to members of the Company. The Company, its Directors, employees, agents and advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. It contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and except to the extent required by applicable regulations or by law, the Group undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

The Company is committed to appropriate standards of corporate governance as an efficient and effective approach to managing the Company and its subsidiaries.

The Company is not required to comply with the 2012 UK Corporate Governance Code ('the Code') given the Company is listed on the AIM market of the London Stock Exchange. However the Directors have agreed to adopt many of the principle's contained in the Code.

## Principal activities

The principal activities of the Group are the provision of advanced surveillance technologies to the security and defence sectors. Further information can be found within the Business review section on pages 6 to 9.

## Going concern

The Group and Company's business activities, together with factors likely to affect future development, performance and position are set out in the Strategic report incorporating the Chairman's statement on pages 2 to 3, the Strategic review on page 4, the Business review on pages 4 to 9 and the review of principal risks and uncertainties on pages 12 to 15. The financial position, cash flows and liquidity position are described in the Financial review on pages 10 to 15. In addition, notes 16 and 22 to the financial statements include the Group and Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Company and Group will be able to operate within the level of current funding resources. Given this and in view of the cash reserves of £14.2 million held on the balance sheet, the Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason they have adopted the going concern basis in preparing the accounts.

## Group results

The Group's consolidated income statement set out on page 42 shows a loss before tax for the year of £15.1 million (2013: £10.8 million).

## Dividends

The Directors are not recommending a dividend in respect of the year ended 31 March 2014 (2013: £nil).

## Governance

Digital Barriers is committed to maintaining high standards of Corporate governance. The Group is not bound by the provisions of the 2012 UK Corporate Governance Code ('the Code'), given it is listed on AIM. However, the Board endeavours, so far as is practical, to comply with many of the principles of the Code. During the year under review the Board has developed the internal controls and processes to ensure as far as possible compliance with the Code.

Further explanation of the high-level corporate governance principles is given in the Corporate governance section of this report on pages 24 to 31 and in connection with Directors' remuneration in the relevant section of the Remuneration report on pages 32 to 38.

## Share capital

The issued share capital of the Company together with details of movements in the Company's issued share capital during the financial period are shown in note 19 to the financial statements. As at the date of this report, 64,624,616 Ordinary Shares of 1 pence each ('Ordinary Shares') were in issue and fully paid with an aggregate nominal value of £646,246. In addition, 163,124 Incentive Shares of £1 each ('Incentive Shares') were in issue and fully paid with an aggregate nominal value of £163,124.

On 28 August 2013 the Company was granted a Blocklisting authority over 600,000 Ordinary 1 pence Shares in order to satisfy awards that have vested and are capable of exercise under the Long-term Incentive Plan. During the year under review and to the date of this report 25,171 shares were issued from the Blocklisting facility. Accordingly at 31 March 2014, 574,829 (2013: nil) shares remained outstanding to be issued from the Blocklisting facility.

The holders of Ordinary Shares are entitled to receive the Company's reports and accounts; to attend and speak at general meetings of the Company; to appoint proxies; and to exercise voting rights. To be effective, electronic and paper proxy appointments and voting instructions must be received at the Company's registered office, or such other place in the UK specified in the relevant notice of meeting, not later than 48 hours before a general meeting. Subject to applicable statutes, there are no restrictions on transfer or limitations on the holding of Ordinary Shares and no requirements for prior approval of any transfers other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws); and
- pursuant to the Company's share dealing code whereby the Directors and certain senior employees of the Company require approval to deal in the Company's shares.

None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

The holders of Incentive Shares are not entitled to receive notice of, to attend, to speak at or to vote at general meetings of the Company (other than in respect of a class meeting of the holders of Incentive Shares). The Incentive Shares do not confer a right to be paid a dividend. The transfer of Incentive Shares is prohibited except in limited circumstances. Additional details regarding Incentive Shares are given on page 35.

The Company established an Employee Benefit Trust ('EBT') in 2010, which in certain circumstances holds shares in connection with the Group's employee share incentive plans. As the registered holder, the voting rights in the shares are exercisable by the trustee. However, the trustee does not ordinarily exercise those rights. At 31 March 2014, the EBT did not hold any shares in the Company.

Changes to the Articles of Association of the Company (the 'Articles') may only be amended by a special resolution at a general meeting of shareholders.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a change of control. Further details of the Directors' service contracts can be found in the Remuneration report on page 37.

The provisions of the Company's LTIP may cause options and awards granted to employees under such schemes and plans to vest on a change of control. The Incentive Shares currently in issue will vest immediately in the event of a change of control.

## Issue of shares

At the general meeting held on 1 November 2013 shareholders granted authority to the Board under the Articles and section 551 of the Companies Act 2006 (the 'Act') to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £193,025.

It is proposed at the forthcoming AGM to renew the authority to allot relevant securities up to an aggregate nominal amount of £213,261 being 33% of the nominal value of the current issued share capital.

Also at the general meeting held on 1 November 2013, shareholders granted authority to the Board under the Articles and section 570(1) of the Act to exercise all powers of the Company to allot equity securities wholly for cash up to an aggregate nominal amount of £32,170 without application of the statutory pre-emption rights contained in section 561(1) of the Act.

It is proposed at the forthcoming AGM to renew the authority to allot relevant securities wholly for cash up to an aggregate nominal amount of £32,312 being 5% of the current nominal value of the issued share capital, without application of the statutory pre-emption rights.

## Purchase of own shares

It is proposed at the forthcoming AGM to renew the authority for the Company to make market purchases of its own shares provided that:

- the minimum price which may be paid for any such Ordinary Share is 1 pence (exclusive of expenses and appropriate taxes);
- the maximum price (exclusive of expenses and appropriate taxes) which may be paid for any such Ordinary Share shall be not more than 5% above the average of the middle market value for an Ordinary Share in the Company as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase; and
- the maximum number of shares subject to this authority will be limited to 6,462,461 shares representing 10% of the issued Ordinary Share capital of the Company.

Except in relation to a purchase of Ordinary Shares, the contract for which was concluded before this authority expires and which will or may be executed wholly or partly after such expiry, the authority granted shall expire at the conclusion of the AGM to be held in 2015. The Directors will only use this authority having taken into account market conditions at the time of purchase, other investment opportunities, the effect on earnings per share and the impact on shareholders and the overall position of the Company at that time.

## Significant agreements – change of control

The Incentive Shares as described in more detail on page 35 will immediately vest on a change of control following a takeover bid.

A change of control of the Company following a takeover bid may cause a number of other agreements to which the Company or its subsidiaries are party to take effect, alter or terminate. These include client contracts, leases, supplier contracts and provisions relating to the LTIP. No other individual contract is considered to be significant in terms of its potential impact on the business of the Group as a whole.

## Substantial shareholdings

As at 27 May 2014, the Company was aware of the following shareholdings representing 3% or more in the Company's existing issued Ordinary Share capital.

| | No. of shares | Percentage of issued share capital |
|---|---|---|
| Newton Investment Management | 8,660,185 | 13.40 |
| Aviva Investors | 5,218,199 | 8.07 |
| F&C Asset Management | 4,907,093 | 7.59 |
| Herald Investment Management | 4,389,375 | 6.79 |
| Schroder Investment Management | 4,345,730 | 6.72 |
| Tom Black | 4,244,428 | 6.57 |
| M&G Investment Management | 3,839,600 | 5.94 |
| Old Mutual Global Investors | 3,622,315 | 5.61 |
| Artemis Investment Managers | 3,401,284 | 5.26 |
| Standard Life Investments | 2,852,103 | 4.41 |
| GAM | 2,682,251 | 4.15 |
| NFU Mutual | 2,425,000 | 3.75 |
| Hargreave Hale, Stockbrokers | 2,346,000 | 3.63 |
| Henderson Global Investors | 2,060,636 | 3.19 |

## Directors

The names and biographical details of the current Directors of the Company are given on pages 16 and 17. All Non-Executive Directors are considered to be independent and Bernie Waldron is the Senior Independent Director.

Tom Black, Colin Evans and Zak Doffman were appointed Directors on 8 February 2010, prior to the IPO. Sharon Cooper was appointed a Director on 3 March 2014, Paul Taylor on 1 April 2012 and Bernie Waldron on 1 July 2012.

Nik Holgate resigned as a Director on 8 July 2013 and left the Company on 30 August 2013.

The rules on appointment, re-appointment and retirement by rotation of Directors are contained in the Articles. A Director may be appointed by shareholders' ordinary resolution or by the Board. The current Articles require that all Directors are subject to election at the first AGM following appointment and thereafter to re-election at least every three years. Accordingly, Sharon Cooper is submitting herself for election and Tom Black is submitting himself for re-election at the forthcoming AGM. Following review the Board believes that all Directors have performed well during the year and that their individual participation and experience within the sector and markets in which the Group operates adds considerably to the Group's ability to deliver its objectives.

## Directors' interests

Details of the interests in the shares of the Company of the Directors holding office as at the date of this report, and their immediate families, appear in the Remuneration report on page 38.

Details of the Directors' service contracts and letters of appointment appear in the Remuneration report on page 37.

No Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year. Procedures for dealing with Directors' conflicts of interest are in place and are operating effectively.

## Directors' and Officers' indemnities and insurance

The Company maintains liability insurance for its Directors and Officers. The Directors and Officers have also been granted a qualifying third party indemnity provision under the Companies Act 2006. That indemnity provision has been in force throughout the year and remains in force at the date of this report.

## Research and development

The Group is active in the development of software and hardware in respect of security-related products and services and intends to remain so involved in the future. In the year under review expenditure totalling £2.8 million (2013: £2.3 million) relates to development of hardware and software products.

## Employees

At 31 March 2014, the Group employed 193 people predominantly in the UK, and depends on the skills and commitment of its employees in order to achieve its objectives. Personnel at every level are encouraged to make their fullest possible contribution to Digital Barriers' success.

Employees are kept regularly informed on matters affecting them and on issues affecting the Group's performance through a variety of communications tools, including business unit briefings, regular email updates and distribution of public announcements made in respect of the Group.

The Group introduced a Long-Term Incentive Plan for certain employees in 2010. Details are given in the Remuneration report on pages 34 and 35.

An employee satisfaction survey was undertaken in August and September 2013, the results of which were considered by the Board. As a result of the findings a number of initiatives were implemented to enhance employee motivation and satisfaction. It is anticipated that the survey will be repeated later in 2014.

The Board is committed to ensuring that a culture free from discrimination and harassment remains embedded within the Group and discrimination of any sort is not tolerated. Proper consideration is given to applications for employment from disabled people who are employed whenever suitable vacancies arise. Wherever practicable, staff who become disabled during employment are retained. The Group practices equality of opportunity for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

## Pensions

The Group does not operate any defined benefit pension funds. As a consequence of some of the acquisitions made a number of defined contribution schemes are in operation in the Group.

## Corporate and social responsibility

The Board recognises the importance of relationships with the wider community and its obligations to employees, shareholders, customers, suppliers, the local community and others. Given the early stage development of the Group a formal Group policy has yet to be implemented. Individual business units operate on a basis that appropriate account is taken of such matters in view of the type of operation and the markets in which they operate.

Through procedures that are currently in place, Digital Barriers aims to:

- meet all legislative requirements in respect of environmental issues;
- seek to conserve energy and natural resources by minimising waste, recycling where possible and maximising the use of renewable resources;
- adopt the highest standards of business ethics, including Bribery Act compliance, in all our dealings; and
- ensure all contractors follow its practices whilst working on its sites and respond promptly and efficiently to adverse occurrences.

## Environmental

The Board believes that the environmental impact of the Group's operations is low and consists mainly of building occupancy, business travel, including a small number of Company vehicles, and IT.

Through procedures that are currently in place, Digital Barriers aims to:

- use video and audio conferencing facilities where possible to reduce travel requirements;
- use electronic communications to reduce the amount of printing waste produced;
- recycle waste where possible; and
- purchase paper and other products that are manufactured from recycled products.

## Health and safety

The Group aims to provide and maintain a safe environment for all employees, customers and visitors to its premises and to comply with relevant health and safety legislation. Day-to-day health and safety management is delegated to business unit heads with oversight from the Company Secretary. External audit and advice is utilised as appropriate.

## Financial instruments

The Group's financial risk management objectives and policies are discussed in the Financial review on pages 10 to 15 and in notes 16 and 22 to the financial statements.

## Post balance sheet events

On 8 May 2014 Digital Barriers entered into share purchase agreement for the sale of the entire issued share capital of Margaux Matrix Limited. There are a number of conditions precedent to completion with a longstop date of 8 August 2014. The impact of this transaction is not expected to be material to the Group. Digital Barriers has not sold any intellectual property as part of the transaction.

No other reportable events have occurred since the balance sheet date.

## Political donations

No political donations were made during the year (2013: £nil).

## Disclosure of information to the auditor

So far as each Director in office at the date of approval of this report is aware, there is no relevant audit information of which the Company's external auditor (Ernst & Young LLP) is unaware.

Each of the Directors has taken all steps that they ought to have taken in performing their roles as Directors to exercise due care, skill and diligence in order to make themselves aware (i) of any relevant audit information and (ii) to establish that the Company's external auditor is aware of such information.

For the purposes of this statement on disclosure of information to the external auditor, 'relevant audit information' is the information needed by the Company's external auditor in connection with the preparation of its report on page 40.

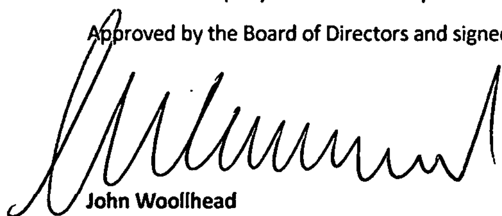
## Annual General Meeting

The AGM will be held at Enterprise House, 1–2 Hatfields, London SE1 9PG on Wednesday, 23 July 2014 at 2.00 pm. The notice convening the meeting is on pages 81 and 82 together with details of the business to be considered and explanatory notes relating to each of the resolutions being proposed.

## Auditor

Ernst & Young LLP has expressed its willingness to continue as auditor of the Company. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming AGM.

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



**John Woollhead**
Company Secretary
Enterprise House
1–2 Hatfields
London SE1 9PG

Registered in England and Wales No. 07149547

27 May 2014

# Corporate governance report

This report for shareholders sets out Digital Barriers' approach to Corporate Governance. The Company is listed on AIM and accordingly is not required to comply with the provisions contained in the 2012 UK Corporate Governance Code ('the Code') published by the Financial Reporting Council, available at www.frc.org.uk.

However, the Directors have agreed to adopt, as far as practicable, many of the principles contained in the Code.

## The Board

The Board of Digital Barriers recognises its responsibility to provide entrepreneurial and responsible leadership to the Group within a framework of prudent and effective controls (described below) allowing assessment and management of the key issues and risks impacting the business. The Board sets Digital Barriers' overall strategic direction, reviews management performance and ensures that the Group has the necessary financial and human resources in place to meet its objectives. The Board is satisfied that the necessary controls and resources exist within the Group to enable these responsibilities to be met.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness.

Operational management of the Group is delegated to the Executive Directors and business unit heads who meet regularly to discuss such matters. These matters include project delivery, product development, resource allocation, sales, customer relationships and initial due diligence on mergers and acquisitions.

At the date of this report the Board comprises four Executive and two Non-Executive Directors whose Board and Committee responsibilities are set out below.

| | | Board | Audit | Remuneration | Nomination |
|---|---|---|---|---|---|
| Tom Black | Executive Chairman | Chairman | – | – | – |
| Bernie Waldron | Non-Executive Director and Senior Independent Director | Member | Member | Chairman | Chairman |
| Colin Evans | Executive Director | Member | – | – | – |
| Zak Doffman | Executive Director | Member | – | – | – |
| Sharon Cooper | Group Finance Director | Member | – | – | – |
| Paul Taylor | Non-Executive Director | Member | Chairman | Member | Member |

Sharon Cooper was appointed on 3 March 2014.

Nik Holgate stepped down from the Board on 8 July 2013 and left the Company on 30 August 2013.

After careful review the Board has concluded that Bernie Waldron and Paul Taylor were both independent throughout the year and that both remain independent at the date of this report. In coming to these assessments the Board considered the strength of character and independence of judgement and opinion and the fact that none of them:

- has ever been an employee of the Group;
- has had a material business relationship with the Group;
- receives any remuneration other than fees;
- has close family ties with advisors, other Directors or senior management of the Group;
- has significant links with other Directors through involvement with other companies;
- represents a significant shareholder; and
- has served on the Digital Barriers Board for more than nine years.

In the year under review the Board met on 11 scheduled occasions; further meetings and conference calls are held as and when necessary. Details of Directors' attendance at scheduled meetings during the year are set out in the table below:

| | Scheduled Board meetings attended |
|---|---|
| Tom Black | 11/11 |
| Colin Evans | 11/11 |
| Zak Doffman | 11/11 |
| Sharon Cooper | 1/1 |
| Paul Taylor | 11/11 |
| Bernie Waldron | 11/11 |
| Nik Holgate | 3/3 |

During the year the Chairman met with the Non-Executive Directors without the Executives present on several occasions.

The Board also ensures that the principal goal of the Company is to create shareholder value, while having regard to other stakeholder interests, and takes responsibility for setting the Company's values and standards. Accordingly, the long-term interests of shareholders, together with consideration of the wider community of interests represented by employees, customers and suppliers, and community and the environment are factored into the Group's management processes. They are reinforced through employee participation in Equity Incentive Schemes. The steps taken to achieve these goals are communicated to shareholders and other interested parties through the Company's website (www.digitalbarriers.com) and to employees via formal and informal briefings. Through formal policies the Board seeks to engender a culture where business ethics, integrity and fairness are values that all employees endorse and apply in their everyday conduct.

There is a documented schedule of matters reserved for the Board, the most significant of which are:

- responsibility of the overall strategy and management of the Group;
- approval of strategic plans, profit plans and budgets and any material changes to them;
- approval of the acquisition or disposal of subsidiaries and major investments, projects and contracts;
- oversight of the Group's operations ensuring competent and prudent management, sound planning and management of adequate accounting and other records;
- changes relating to the Group's capital structure;
- final approval of the annual and interim financial statements and accounting policies;
- approval of the dividend policy;
- ensuring an appropriate system of internal control and risk management is in place;
- approval of changes to the structure, size and composition of the Board;
- review of management structure and senior management responsibilities;
- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group;
- delegation of the Board's powers and authorities including the division of responsibilities between the Chairman and the Executive Directors;
- consideration of the independence of the Non-Executive Directors; and
- receiving reports on the views of the Company's shareholders.

During the year the Board received monthly briefings upon the Group's performance (including detailed commentary and analysis) and key issues and risks affecting the Group's business. Amongst other matters, it reviewed the content of the Group's risk register and the Group's health and safety policies, processes and performance. Reports on Group operations, human resources, governance and regulatory matters affecting the Group were provided to the Board on a regular and timely basis. Briefings on market activity, together with the views of shareholders, were also provided to the Board.

The Company maintains liability insurance for its Directors and Officers. The Directors and Officers have also been granted a qualifying third party indemnity provision under the Companies Act 2006. That indemnity provision has been in force throughout the year and remains in force at the date of this report.

Procedures exist to allow the Directors to seek independent legal and professional advice in respect of their duties at the Company's expense where the circumstances are appropriate. All Directors have access to the Company Secretary for advice.

The Chairman periodically meets individually or collectively with the Non-Executive Directors in the absence of Executive Directors. The process for appraising the Chairman's performance is set out on page 30.

## Board Committees

**Summary**
There are three principal Board Committees: Audit; Remuneration; and Nomination. The roles and responsibilities of each of these Committees is detailed below. All members of Board Committees are independent Non-Executive Directors. The Committees are provided with sufficient resources via the Company Secretary and, where necessary, have direct access to independent professional advisors to undertake their duties.

## Audit Committee

Paul Taylor was Chairman of the Committee during the year under review and to the date of this report. The other member during this period was Bernie Waldron. Paul Taylor is a qualified Certified Accountant. Consistent with the guidance on Audit Committees, all members of the Committee are independent Non-Executive Directors. Paul Taylor is deemed by the Board to have recent and relevant financial experience and is independent for the purposes of the Code. All of the Committee members have extensive commercial experience, the details of which, along with their qualifications, are set out on page 17. Further information on the work of the Audit Committee during the year is given below.

**Terms of reference**
The Audit Committee's terms of reference are available on request and published on the Group's website. The Audit Committee reviewed and re-approved its terms of reference in March 2014. Under its terms of reference, the Committee is responsible for providing advice to the Board on the Group's interim results and final financial statements; on accounting policies; and on the control of its financial and business risks as well as reviewing the work of the external auditors.

**Frequency of meetings**
The Audit Committee met three times during the year under review. The Chairman of the Audit Committee provided a report on the work of the Committee and any significant issues that may have arisen at the Board meeting following each Committee meeting.

**Attendees at meetings**
The Chairman, the Group Finance Director and Executive Directors attend Committee meetings by invitation of the Committee. Representatives of the Group's external auditor also attend these meetings by invitation. During the year the external auditors attended all meetings, had direct access to the Committee during the meetings and time was also set aside for them to have private discussions (jointly and independently) with the Committee, in the absence of management.

The attendance of individual Committee members at Audit Committee meetings during the year is shown in the table below:

| | Meetings attended |
|---|---|
| Paul Taylor | 3/3 |
| Bernie Waldron | 3/3 |

**Audit Committee activity**
The purpose of the Audit Committee is to assist the Board in the discharge of its responsibilities for financial reporting and corporate control and to provide a forum for reporting by the external auditors. The responsibilities of the Committee include:

- to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Group's financial performance, including reviewing significant financial reporting judgements and any disclosures contained in them;
- to review the Group's internal financial controls and its internal control and risk management systems including the management of intellectual property and to make recommendations to the Board;
- to consider the requirement for an internal audit function;
- to make recommendations to the Board, for it to be put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to agree the nature and scope of the external audit;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

- to review the Group's policy on the engagement of the external auditor to supply non-audit services and report to the Board, identifying matters in respect of which it considers action or improvement is needed and make recommendations as to the steps to be taken;
- to review the Group's whistle-blowing procedures; and
- to review the effectiveness of the audit process.

The Committee's work during the year and up to the date of this report included:

- reviewing the interim results, preliminary announcement and the Annual Report and Accounts prior to their submission to the Board;
- reviewing significant accounting policies, financial reporting issues and judgements used in the preparation of the Company's preliminary announcement and interim results and Final financial statements;
- reviewing management's Letters of Representation in connection with the Company's financial statements and the auditor's Management Letter;
- reviewing areas where control weaknesses had been identified by the external auditor and monitoring the mitigation and remediation plans of management;
- reviewing the regular reports of the external auditor including any weaknesses identified in respect of the Group's internal controls;
- approving the external audit plan (including audit scope, level of materiality, resources dedicated to the audit engagement, the seniority, expertise and experience of the engagement team), and satisfying itself as to the appropriateness and adequacy of the plan;
- evaluating the performance of the external auditor and satisfying itself as to the effectiveness of the audit;
- reviewing the Group's risk management processes and controls, and their effectiveness;
- reviewing the effectiveness of the Group's whistle-blowing procedures and satisfying itself that they allow for appropriate investigation and suitable follow-up actions; and
- reviewing the effectiveness of the Committee.

At the conclusion of each meeting of the Audit Committee, the Non-Executive Directors met with Ernst & Young without the Executives present. In addition the Audit Committee Chair met with Ernst & Young to discuss the audit review process and other relevant matters.

**External auditor**
The Committee is responsible for overseeing the relationship with the external auditor.

During the year, the Committee:

- approved the Audit Engagement Letters and fee proposal, and satisfied itself as to the auditor's ability to conduct an effective audit for such fee;
- reviewed and assessed the external auditor's independence and objectivity taking into account relevant UK professional and regulatory requirements. In doing so, the Committee reviewed the external auditor's own policies and procedures to safeguard its objectivity, independence and integrity, together with its representations as to independence. The Committee received assurances from the Audit Engagement Partner that the external auditor's reward and remuneration structure includes no incentives for audit engagement partners to cross-sell non-audit services to audit clients;
- approved the annual audit plan and ensured that it was consistent with the scope of the Audit Engagement;
- reviewed the findings of the audit, including discussion of any major issues arising, any accounting and audit judgements and the internal control reports (including responses from management and any proposed remedial action);
- reviewed the effectiveness of the audit and the external auditor; and
- reviewed the requirement for an internal audit function.

**Auditor independence**
The Audit Committee and the Board consider auditor objectivity and independence ensuring, in particular, that it is not compromised where the auditor provides non-audit services. It is the Group's policy to use the services of advisors other than the external auditors for non-audit work unless the nature of the non-audit work makes it more timely, efficient or cost-effective to select advisors who already have a good understanding of the Group. The Chairman of the Audit Committee is consulted prior to each major non-audit engagement where the use of the auditor is proposed. During the year under review the non-audit-

related work undertaken by Ernst and Young related to corporation tax returns and advice in respect of the taxation of employees located overseas.

Details of audit and non-audit-related fees paid to Ernst & Young in the year under review are given in note 4 to the accounts on page 56.

**Internal audit function**
*The Committee concluded that an internal audit function is not appropriate given the current stage of the Group's development.*

**Re-appointment of Ernst & Young LLP**
Ernst & Young LLP were appointed as external auditor to the Company on IPO. There are no contractual restrictions on the Company with regard to its appointment.

At its meeting in May 2014, the Audit Committee considered the appropriateness of the re-appointment of Ernst & Young LLP as the Group's external auditor for the year to 31 March 2015.

The Committee was satisfied, in view of their performance in respect of the 2014 audit process that it should recommend to the Board the re-appointment of Ernst & Young LLP as the Company's and Group's external auditor at the AGM to be held on 23 July 2014.

## Remuneration Committee

Bernie Waldron was Chairman of the Remuneration Committee during the year under review and to the date of this report. The other member during this period was Paul Taylor.

The Committee is responsible for reviewing remuneration arrangements for the Executive Chairman, the Executive Directors and other senior employees of the Group and for providing general guidance on aspects of remuneration policy throughout the Group. New Bridge Street are retained as independent external advisors in order to assist the Committee in setting appropriate remuneration arrangements.

During the year and up to the date of this report the Committee made recommendations to the Board regarding:

- basic salary and other benefits of the Executive Directors and other senior employees of the Group;
- bonus payable to certain Executive Directors in respect of the year ended 31 March 2014;
- conditions applicable to the Bonus Scheme for certain Executive Directors for the year commencing 1 April 2014;
- remuneration of the Executive Chairman;
- introduction of the Deferred Share Bonus Plan;
- introduction of the Group Sharesave Scheme;
- amendments to the Long Term Incentive Plan; and
- awards to be made under Group Equity Incentive Schemes.

The terms of reference of the Committee are available on request and are published on the Group's website. The Chairman of the Committee provided a report to the Board following each meeting of the Committee.

The attendance of individual Committee members at Remuneration Committee meetings during the year under review are shown in the table below:

| | Meetings attended |
|---|---|
| Bernie Waldron | 7/7 |
| Paul Taylor | 7/7 |

The Directors' Remuneration report is set out on pages 32 to 38.

## Nomination Committee

Bernie Waldron was Chairman of the Nomination Committee during the year under review and to the date of this report. The other member during this period was Paul Taylor.

The Committee meets as and when required. During the year under review it met three times and details of Directors' attendance at those meetings are set out in the table below. The appointment of Sharon Cooper was approved by the Nomination Committee during the year under review. Company executives and advisors attend meetings by invitation only. The Committee updates the Board and makes recommendations as and when required.

The terms of reference of the Nomination Committee are available on request and are published on the Group's website. The Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Directors and making its recommendations to the Board. It is also responsible, in conjunction with the Executive Chairman, for evaluating the commitments of individual Directors and the balance of skills, knowledge and experience on the Board and ensures that the membership of the Board and its principal Committees are refreshed periodically. Where appropriate, the Committee will prepare an outline of the role and capabilities required for particular appointments and use an external search consultancy and/or advertising in relation to Board appointments.

During the year under review and up to the date of this report, the Committee met and made recommendations to the Board regarding:

- the appointment of Sharon Cooper as Group Finance Director;
- the appointment of Paul Bergin as Interim Finance Director;
- the proposed election of Sharon Cooper at the forthcoming AGM; and
- the proposed re-election of Tom Black at the forthcoming AGM.

The appointment of Sharon Cooper as Group Finance Director was undertaken during the year. A detailed specification for the role was prepared in order to facilitate the identification of suitable candidates. A search consultant was retained in order to assist the search and prepare a shortlist for consideration. A number of candidates were met by the Nomination Committee and the Executive Chairman with the recommended candidate being met by the other Directors prior to appointment.

The appointment of Paul Bergin as Interim Finance Director, following the resignation of Nik Holgate, was undertaken during the year. A search consultant, specialising in interim appointments, was appointed to prepare a shortlist for consideration. A number of candidates were met prior to the appointment of Paul Bergin.

The attendance of individual Committee members at Nomination Committee meetings during the year and up to the date of this report is shown in the table below:

| | Meetings attended |
|---|---|
| Bernie Waldron | 3/3 |
| Paul Taylor | 3/3 |

### Chairman and Executive Directors

There is a clear division of responsibilities between the roles of Chairman (who serves in an executive capacity) and the Executive Directors, which is set out in writing and which has been approved by the Board.

### Board balance

As at the date of this report, the Board comprises four Executive Directors and two Non-Executive Directors.

Biographies of each of the current Directors, their responsibilities and principal Board Committee memberships can be found on pages 16 and 17.

During the year all the Non-Executive Directors and the Executive Chairman confirmed to the Board that they had sufficient time available to fulfil their obligations as Directors and, should any individual's position change, that they would inform the Board.

The Board considers all Non-Executive Directors to be independent. Tom Black is Executive Chairman, Colin Evans and Zak Doffman are Executive Directors and Sharon Cooper is Group Finance Director. Bernie Waldron is a Non-Executive Director, the Senior Independent Director and Chairman of the Remuneration and Nomination Committees. Paul Taylor is a Non-Executive Director and Chairman of the Audit Committee.

### Appointments to the Board

Appointments to the Board and its Committees are reserved for the Board, based on recommendations from the Nomination Committee. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

**Information and professional development**
Under the Chairman's stewardship the Company Secretary advises the Board on all governance matters, and ensures Board procedures are followed and applicable rules and regulations complied with.

The Company Secretary ensures that Directors undergo a comprehensive induction programme on appointment.

All Directors individually, and each of the Board Committees, have access to the advice and services of the Company Secretary. There are also procedures in place enabling Directors in the furtherance of their duties to seek independent professional advice at the Company's expense.

**Performance evaluation**
A formal appraisal process for the Board and its Committees was undertaken in April and May 2014. This was an internal process using detailed questionnaires completed by all relevant Directors and collated and summarised by the Company Secretary. As a result of this process certain actions were agreed and are being implemented.

The questionnaire in respect of the Board, the Remuneration and the Nomination Committees covered objectives and strategy, management oversight, Board performance, meetings, external relationships, governance and Board/Committee constitution. The questionnaire in respect of the Audit Committee covered terms of reference, membership, meetings, training and resources, financial reporting, internal controls and risk management, internal and external audit process, whistle-blowing, Board relationships and communications with shareholders.

The results of the exercise were discussed by the Board who concluded that the Board and its Committees were operating effectively.

During the year the Chairman reviewed the performance of the Executive Directors. The Senior Independent Director reviewed the performance of the Chairman, and the Board reviewed the performance of the Non-Executive Directors. As part of this process the training needs of all Directors were reviewed.

The process confirmed that all Directors continued to contribute effectively, and with sufficient commitment to their roles in order to facilitate the progress of the Group.

It is anticipated that the review exercise will be repeated annually.

**Re-election**
The current Articles require that all Directors are subject to election by shareholders at the first AGM following appointment and thereafter to re-election at least every three years.

The Annual General Meeting ('AGM') of the Company will be held on 23 July 2014. Sharon Cooper will be offering herself for election given that she was appointed since the AGM held in 2013. In accordance with the Articles of Association, Tom Black is offering himself for re-election at the AGM.

**Internal control**
The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing the effectiveness of those controls. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. By their nature however, internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material errors, losses, fraud or breaches of laws and regulations.

The systems of internal control have matured during the year as the Group has developed. The effectiveness of these systems has been periodically reviewed by the Audit Committee and the Board. The internal control process is in accordance with the FRC Guidance on Internal Control (revised Oct 2005).

The systems of internal control are based on an on-going process of identifying, evaluating and seeking to manage key risks and include the preparation and refreshment of Group risk registers, together with appropriate risk mitigation activities along with the other risk management processes as set out below. With oversight from the Board and Audit Committee, individual members of the Group's Board are responsible for the ownership and mitigation of significant risks. The Audit Committee and the Board regularly review the identified risks, changes in their status and the composition of the Group's risk matrix.

Key elements of the internal control system are described below:

- clearly defined management structure and delegation of authority to Board Committees and business units;
- high recruitment standards to ensure integrity and competence of staff;
- regular and comprehensive information provided to management, covering financial and non-financial performance indicators;
- technical, financial and legal due diligence undertaken prior to acquisitions;

- a detailed budgeting process where business units prepare budgets for the coming year for Board approval;
- monthly monitoring and re-forecasting of annual and half-yearly results against budget, with major variances followed up and management action taken where appropriate;
- procedures for the approval of capital expenditure, investments and acquisitions;
- regular review and updating of the Group risk register including the implementation of mitigating actions; and
- formal consideration of progress made against significant business risks on a quarterly basis.

The above system was in place for the year under review and up to the date of this report and has been used in the preparation of the consolidated financial statements as at 31 March 2014.

The Board, with the assistance of the Audit Committee, has conducted its annual review of the effectiveness of the system of internal control based on a review of significant risks identified, external audits and reports from management and concluded that the system of internal control is adequate given the stage of the Group's development.

**Communication with investors**

The Group believes it is important to explain business developments and financial results to its shareholders and to understand any shareholder concerns, and that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders. The Chairman, Executive Directors and the Finance Director have primary responsibility for investor relations. Meetings are held with institutional shareholders to discuss strategy, financial performance and investment activities immediately after the full year and interim results announcements. The Annual Report and the interim results are available on the Company's website. All the Non-Executive Directors, including the Senior Independent Director, are available to meet with major shareholders, if such meetings are required. Further financial and business information is available on the Investor section of the Company's website.

During the year under review Bernie Waldron, as Chairman of the Remuneration Committee, wrote to and subsequently discussed with, a number of major shareholders regarding proposed changes to executive remuneration policy as outlined in the Remuneration report on pages 32 to 38.

Feedback from meetings with shareholders is provided to the Board to ensure that the Non-Executive Directors have a balanced understanding of the issues and concerns of major shareholders.

The principal method of communication with private shareholders is through the Annual Report and interim results, the AGM and through the Company's website.

**AGM**

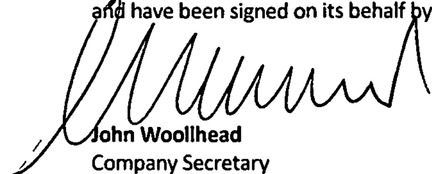
Arrangements are made for all Directors to attend the AGM and to be available to answer shareholders' questions. Notice of the AGM is, in accordance with the applicable Companies Act and the Articles, either posted in hard copy to shareholders or posted on the Company's website at least 21 days before the date of the AGM. Resolutions are proposed for each substantially separate issue and details of the proxy voting on each resolution are announced at the AGM after the results of the show of hands is known and are posted on the Company's website following the conclusion of the meeting.

The Company counts all proxy votes and indicates the level of proxies lodged on each resolution. It also publishes the level of votes for and against resolutions and the number of votes withheld. The Company ensures that votes cast are properly received and recorded.

Separate resolutions are proposed on each substantially discrete subject and the Company does propose a resolution at the AGM relating to the Annual Report and financial statements.

**Approval**

The Corporate governance report and the Audit Committee report contained in this report have been approved by the Board and have been signed on its behalf by:



**John Woollhead**
Company Secretary

27 May 2014

Overview | Strategic report | Governance | Financial statements | Other information

# Remuneration report

## Composition of the Remuneration Committee

The Board has appointed a Remuneration Committee of Non-Executive Directors of the Company. During the year under review and to the date of this report the Committee consists of Bernie Waldron (Chairman) and Paul Taylor.

Members of the Remuneration Committee have no potential conflicts of interest arising from cross-directorships and they are not involved in the day-to-day running of the Company. Tom Black attends meetings by invitation and provides advice on matters other than those concerning himself.

The Remuneration Committee has appointed New Bridge Street to provide advice on executive remuneration including the valuation of awards under the Equity Incentive Programme. New Bridge Street (a trading name of Aon plc) is an independent advisor to the Remuneration Committee. Neither New Bridge Street nor any other part of Aon plc provided other services to the Company during the year under review.

## Role of the Remuneration Committee

The Remuneration Committee is responsible for the Board policy with respect to senior executives' salary and other remuneration. It specifically determines within remuneration principles agreed with the Board, the total remuneration package of each Executive Director and reviews with the Chairman the remuneration packages for other senior executives. A copy of the terms of reference of the Committee can be found on the Company's website.

The Committee met seven times during the year. Details of attendance are shown in the Corporate Governance statement on page 28.

## Remuneration policy

The Group's policy is to provide Executive Directors with a competitive market-based package in order to reward individual and Group performance and deliver outstanding shareholder returns.

In March 2013 the Remuneration Committee of the Board undertook a full-scale review of the Company's long-term incentive provision to ensure there are appropriate long-term equity incentives in place for the Company's key executives. The Remuneration Committee is committed to ensuring that the Company's key executive team is incentivised to drive sustainable earnings growth and returns to shareholders, thereby creating a genuinely strong alignment of interests between management and investors. A robust, strategically-focused equity-based long-term incentive policy is a key ingredient of this.

**Year ending 31 March 2014**
During the year under review it was the policy of the Company that Executive Directors receive a basic salary with a bonus opportunity, two-thirds of which is payable in Deferred Shares, life assurance of four times salary and private medical insurance as additional benefits. Tom Black did not participate in the bonus opportunity for the year under review. In addition, Tom Black, Colin Evans and Zak Doffman subscribed for Incentive Shares on IPO, further details of which are given on page 38.

Nik Holgate was incentivised via the award of equity incentives, all of which lapsed on his leaving the Company on 30 August 2013, full details of which are given on pages 34 and 38 of this report.

**Year ending 31 March 2015 and subsequent periods**
Following a review of Executive Director remuneration arrangements, a similar structure of remuneration will be payable offering a competitive base salary, provide a bonus opportunity, two-thirds of which is payable in Deferred Shares, and provide other relevant benefits. Minor adjustments have been made to the structure of the bonus opportunity, full details of which are given on pages 33 and 34. Additional detail regarding each element of remuneration is given below;

*Base salary*
It is the policy of the Company to pay a competitive base salary which is regularly benchmarked against organisations of a similar size and in a similar sector. Following the base salary increases in both March 2012 and 2013, it is considered that the current level of base salary is sufficient to retain and motivate key executives. A benchmarking exercise will be undertaken from time to time to ensure that the levels of base salary remain appropriate.

*Bonus opportunity*
Details of the bonus opportunity for executive directors with effect from 1 April 2014 are given on pages 33 and 34. The maximum bonus is capped at 150% of salary for Colin Evans and Zak Doffman and 120% of salary for Sharon Cooper. Two-thirds of the bonus is payable in deferred shares, to be held via a Deferred Share Bonus Plan ('the Plan'), which must be retained for three years. The implementation of the Plan was approved at the 2013 AGM. Full details of the Plan are given on pages 34 and 35.

*Pension*
Currently the Company does not provide an employer pension contribution for Executive Directors. The Remuneration Committee is aware of the new pension regulations requiring employer contributions which will impact the Company in June 2015. At this time the Executive Directors will be offered an employer pension contribution in line with the legislative requirements.

*Other benefits*
Currently the Executive Directors are offered life cover of four times salary and private medical insurance. It is anticipated that these benefits will continue and that no other benefits will be offered.

## Base salary

A full review following a benchmarking report of Executive Director base salaries was undertaken in March 2012. This resulted in substantial increases in both April 2012 and April 2013.

It has been agreed that the salaries of all Executive Directors will remain unaltered in the year to 31 March 2015. Accordingly, the salary of Tom Black will remain unchanged at £60,000 (2013: £60,000), Colin Evans will remain at £310,000 (2013: £310,000), and Zak Doffman will remain at £280,000 (2013: £280,000), all with effect from 1 April 2014. Sharon Cooper commenced employment on 3 March 2014 and accordingly her salary will remain unchanged at £180,000. These rates of base salary will remain in place until 31 March 2015.

The base salaries detailed above will be reviewed again in March 2015 as part of the Company's annual compensation review process.

## Bonus scheme

**Year ending 31 March 2014**
During the year under review the Executive Directors participated in a bonus arrangement as detailed in the 2013 Annual Report.

The Remuneration Committee has agreed that a bonus will not be payable to any of the Executive Directors in respect of the year to 31 March 2014.

**Year ending 31 March 2015**
The Remuneration Committee has reviewed the bonus arrangements for the Executive Directors and agreed that a similar arrangement, with some changes, will be in place for the year ending 31 March 2015. The aim of the bonus arrangement is to ensure that the interests of the Executive Directors and shareholders are aligned whilst providing the Executive Directors with a competitive remuneration opportunity for exceptional short and long-term performance. Accordingly, the formal bonus scheme will enable Colin Evans and Zak Doffman to receive a maximum bonus of 150% of basic salary and Sharon Cooper a maximum bonus of 120% of basic salary. In all cases one-third of any bonus will be payable in cash, and two-thirds by the award of shares, via the Deferred Share Bonus Plan, which must be held for a period of three years from date of award. The deferred element of this bonus payment maintains focus on long-term performance and aids retention of key executives.

80% of the annual bonus (ie potentially a maximum of 120% of base salary) will relate to revenue and profit/loss targets. This element of the bonus in respect of Colin Evans and Zak Doffman will be determined by reference to the following revenue targets:

| Revenue | Bonus payout as a percentage of base salary |
|---|---|
| Threshold target | 25% |
| Target | 50% |
| Stretch target | 120% |
| Between threshold target and target | Straight-line basis between 25% and 50% |
| Between target and stretch target | Straight-line basis between 50% and 120% |

In addition to the above, 20% of the annual bonus will be based on the achievement of personal objectives. In order for the maximum to be paid (ie 30% of base salary) performance against these objectives will need to be exceptional.

The above revenue targets are underpinned by minimum profit/loss requirements. If these profit/loss requirements are not met it is anticipated that no bonus will be payable. However, the Remuneration Committee will retain discretion in this regard.

The revenue and profit/loss targets may be adjusted by the Remuneration Committee to account for any acquisitions or disposals that may be made during the course of the year.

The bonus scheme for Sharon Cooper will be on the basis as detailed above except that the maximum payable will be 120% of salary. Accordingly, all relevant payments will be 80% of the amounts quoted above. The target revenue and profit/loss requirements will be the same for all three Executive Directors.

The Remuneration Committee considers the targets set to be challenging and consider that for the full bonus to be payable, performance will need to be exceptional.

The Remuneration Committee retains an overarching discretion on all bonus payments to be made in respect of this scheme.

In addition to the above, Sharon Cooper will be paid a one-off bonus of £40,000 in June 2014 following the successful achievement of certain objectives set on her joining the Company in March 2014.

## Equity incentives

During the year the Company operated a Long Term Incentive Plan ('LTIP'), the aim of which is to provide employees who are granted an award with nil cost shares on exercise. The LTIP consists of three constituent elements, an HMRC Approved Option, a Top-Up Award and a Parallel Option. All awards under the LTIP are approved by the Remuneration Committee following recommendations from the Executive Directors.

**HMRC Approved Options**

A grant of options can be made under this scheme up to a maximum value of £30,000. The exercise price is the market value of Digital Barriers shares the day prior to the grant date and the option can be exercised between three and ten years from date of award.

**Top-Up Award**

A further grant of nil cost options can be made under this scheme if the Remuneration Committee considers that the employee concerned should receive an award with a value in excess of £30,000. Again, the option can be exercised between three and ten years from date of award.

**Parallel Option**

A Parallel Option is a nil cost option and made in conjunction with an award of HMRC Approved Options. The value of the award on exercise is capped at the value required in respect of the exercise price of the HMRC Approved Options. Parallel Options must be exercised at the same time as the associated HMRC Approved Option is exercised unless the entitlement to the associated HMRC Approved Option has been waived.

**Performance condition**

All awards made under the LTIP are subject to a performance condition as detailed below:

| Average annual compound growth in the Total Shareholder Return (TSR) of the Company over the three-year period commencing on the grant date | Percentage of an HMRC Approved Option, a Parallel Option and Top-Up Award that vests |
|---|---|
| 10% or more per annum | 100% |
| More than 5% per annum but less than 10% per annum | On a straight-line basis between 25% and 100% |
| 5% per annum | 25% |
| Less than 5% per annum | 0% |

The Remuneration Committee believes that TSR is the most appropriate performance metric in that it provides alignment with the Company's strategy to grow the value of the business and thus deliver shareholder return.

The performance condition is reviewed by the Remuneration Committee prior to each LTIP award to ensure it remains appropriate.

Tom Black, Colin Evans and Zak Doffman have not historically participated in the Long Term Incentive Plan.

However, it is anticipated that in June 2014 Colin Evans and Zak Doffman will be granted an award under the LTIP to the value of £150,000 and Sharon Cooper will be granted an award under the LTIP in June 2014 to the value of £125,000.

It is not anticipated that an award will be made to Tom Black.

The LTIP award made to Nik Holgate on 7 June 2012 lapsed on his leaving the Company on 30 August 2013.

**Sharesave Scheme**

At the General Meeting held on 1 November 2013 the introduction of a Sharesave Scheme ('the Scheme') was approved. It is anticipated that the Scheme will be launched in June 2014, and accordingly no awards under the Scheme have been made at the date of this report. All awards to be made will be included in the 10% dilution cap over a ten-year period as detailed on page 35.

There are no other Share Option schemes operated by the Group.

**Deferred Share Bonus Plan ('the Plan')**

The introduction of a Deferred Share Bonus Plan for use in conjunction with the bonus arrangements for the Executive Directors as detailed above and for other senior employees of the Group who may in the future have a similar bonus arrangement, was approved by the 2013 AGM.

The plan provides for share awards to be granted under the Company's bonus arrangements for Directors and other senior employees. Awards under the Plan:

- must be granted within a six-week period following the announcement of preliminary or final results;
- will have an exercise price of £nil;
- will vest on the third anniversary of the date of grant;
- will vest providing the Director or employee is a good leaver and will lapse if the Director or employee is a bad leaver; and
- contain clawback provisions in the case of material misstatement of the Company's financial results or if an error was made in assessing performance conditions leading to the award.

The maximum number of shares which may be allocated under the Plan shall not, when aggregated with any other awards under any other employee share plan, exceed 10% of the shares then in issue for the ten-year period from 4 March 2010.

The scheme is administered by the Remuneration Committee.

**Changes to the rules of the LTIP**
The AGM held in July 2013 approved various changes to the rules of the LTIP. Full details are given in the 2013 Annual Report but in summary;

- the term of the LTIP was extended from 23 June 2015 to 23 June 2020, ten years after it was implemented;
- clawback provisions were implemented which would come into effect if it is subsequently proven that the trading performance leading to awards under the LTIP or the achievement of the performance condition had been incorrectly stated; and
- as a result of the extension of term detailed above, the level of dilution allowed was increased to a total of 10% over the ten-year term of the LTIP. This level of dilution will cover the LTIP, the Deferred Share Bonus Plan and the Sharesave Scheme.

**Dilution limits and Employee Benefit Trust**
It is the policy of the Company that awards made under the LTIP, the Sharesave Scheme and via the Deferred Share Bonus Plan, which are to be satisfied by new issue shares will, in total, not exceed 1% per annum on average of the issued share capital over the medium to long term. However, in the short term, awards may be made which would exceed 1% in any one particular year.

Since the IPO in March 2010 potentially dilutive awards under the LTIP have been made and are still outstanding over 1,704,143 shares amounting to 2.65% of the issued Ordinary Share capital of the Company. At the date of this report no awards have been made under the Sharesave Scheme or the Deferred Share Bonus Plan.

All awards made under the LTIP will be satisfied by shares held in the Digital Barriers plc Employee Benefit Trust ('EBT'). The Company has confirmed to the EBT that sufficient shares will be made available prior to the requirement to satisfy the exercise of awards under the LTIP.

Full details of awards made under the LTIP during the year are given in note 20 on pages 65 to 67.

## Incentive Shares

On 22 February 2010, Tom Black, Colin Evans and Zak Doffman were issued a total of 217,500 Incentive Shares totalling £217,500 in a share for share exchange for Digital Barriers Services Limited shares, details of which are given in the table on page 38. The Incentive Shares only reward participants if shareholder value is created, thereby aligning the interests of the Executive Directors with those of shareholders. The Incentive Shares carry the right to 12.5% of any increase in the value of the Company in excess of the Retail Prices Index after 1 February 2010 after accounting for any additional funds raised. The Incentive Shares do not carry any voting or dividend rights and are not transferable except in limited circumstances.

The holders of Incentive Shares can realise value from the shares either by converting them into Ordinary Shares or by the Company, at its election, responding to a request to so convert the shares by choosing to redeem them.

On issue, in February 2010, the terms relating to the Incentive Shares provided that 50% of the Incentive Shares would vest (ie become capable of conversion into Ordinary Shares) on 1 February 2013 and 50% would vest on 1 February 2014.

At a General Meeting held on 27 December 2012, the terms relating to the Incentive Shares were changed so that 25% of the Incentive Shares will vest in each of 2013, 2014, 2015 and 2016, with the 90-day vesting period commencing on the earlier of 31 May of each year and the date being five business days after the publication of the Company's preliminary results for the immediately preceding financial year.

However, in 2013 the Company was in a number of close periods following the announcement of preliminary results on 29 May 2013 and in particular for the last 30 days of the 90-day vesting period from 29 May 2013. Accordingly, the initial tranche of the Incentive Shares vested on 13 December 2013.

The table below details the Incentive Shares that vested and the resultant Ordinary Shares awarded.

| | Incentive Shares held on 1 April 2013 | Incentive Shares vested on 13 December 2013 | Incentive Shares held on 31 March 2014 | Ordinary 1 pence Shares awarded in respect of vested Incentive Shares on 13 December 2013 |
|---|---|---|---|---|
| Tom Black | 108,750 | 27,188 | 81,562 | 141,356 |
| Colin Evans | 54,375 | 13,594 | 40,781 | 70,678 |
| Zak Doffman | 54,375 | 13,594 | 40,781 | 70,678 |

The market value of Digital Barriers Ordinary 1 pence Shares on 13 December 2013 was £1.61.

If the remaining Incentive Shares had become convertible on 31 March 2014 and based on the share price of £0.875 on that day, all remaining Incentive Shares would lapse with no Ordinary Shares issued. Full details as to the basis of calculation was given in the Admission Document which is available on the Company's website.

## Pensions

The Executive Directors do not participate in any pension arrangement operated by the Group.

## Remuneration of the Non-Executive Directors

The remuneration of the Non-Executive Directors comprises solely of fixed fees which are set by the Board. Advice is taken on appropriate levels taking account of the development of the Group, market practice, time commitment and responsibility. Directors are not involved in discussions relating to their own salary, benefits or fees.

The total fees for Non-Executive Directors remain within the aggregate limit of £250,000 per annum as set out in the Articles of Association. There are no pre-determined special provisions for Non-Executive Directors with regard to compensation in the event of loss of office.

The table below sets out the Non-Executive Director annual fees at 31 March 2014:

| | Annual fees |
|---|---|
| Bernie Waldron | £35,000 |
| Paul Taylor | £35,000 |

It has been agreed that the annual fees for Bernie Waldron and Paul Taylor will remain unchanged for the year ending 31 March 2015.

**Directors' remuneration for the year ended 31 March 2014**

| | Basic salary/fees 2014 £'000 | Pension 2014 £'000 | Other 2014 £'000 | Benefits 2014 £'000 | Bonus 2014 £'000 | Remuneration 2014 £'000 | Remuneration 2013 £'000 |
|---|---|---|---|---|---|---|---|
| **Executive Chairman** | | | | | | | |
| Tom Black | 60 | nil | nil | nil | nil | **60** | 60 |
| **Executive Directors** | | | | | | | |
| Colin Evans | 310 | nil | nil | 1 | nil | **311** | 271 |
| Zak Doffman | 280 | nil | nil | 1 | nil | **281** | 241 |
| Sharon Cooper | 15 | nil | nil | nil | nil | **15** | nil |
| Nik Holgate | 45 | nil | nil | 1 | nil | **46** | 166 |
| **Non-Executive Directors** | | | | | | | |
| Bernie Waldron | 35 | nil | nil | nil | nil | **35** | 26 |
| Paul Taylor | 35 | nil | nil | nil | nil | **35** | 35 |
| Chris Banks | nil | nil | nil | nil | nil | **nil** | 10 |
| Rupert Keeley | nil | nil | nil | nil | nil | **nil** | 10 |
| **Total** | **780** | **nil** | **nil** | **3** | **nil** | **783** | **819** |

Sharon Cooper was appointed on 3 March 2014 and remuneration has been presented from that date to 31 March 2014.

Nik Holgate stepped down from the Board on 8 July 2013 and left the Company on 30 August 2013 and remuneration has been presented from 1 April 2012 to 8 July 2013.

All other Directors detailed above were in office during the year and remuneration has been presented from 1 April 2013 to 31 March 2014.

## Service contracts

Tom Black, Colin Evans and Zak Doffman are subject to rolling service contracts with a notice period of one year. Sharon Cooper is subject to a rolling service contract with a notice period of six months. Payments on termination for Executive Directors, other than on grounds of incapacity or in circumstances justifying summary termination, are restricted to the value of any unexpired notice period and the cost of providing other contractual benefits during the unexpired notice period.

None of the Non-Executive Directors has a service agreement. Letters of appointment in respect of Bernie Waldron and Paul Taylor are for a fixed period of three years and may be terminated by either party giving to the other not less than one month's notice.

Details of the Directors offering themselves for re-election at the forthcoming Annual General Meeting are set out in the Directors' report on pages 16 and 17.

The service contracts and letters of appointment include the following terms:

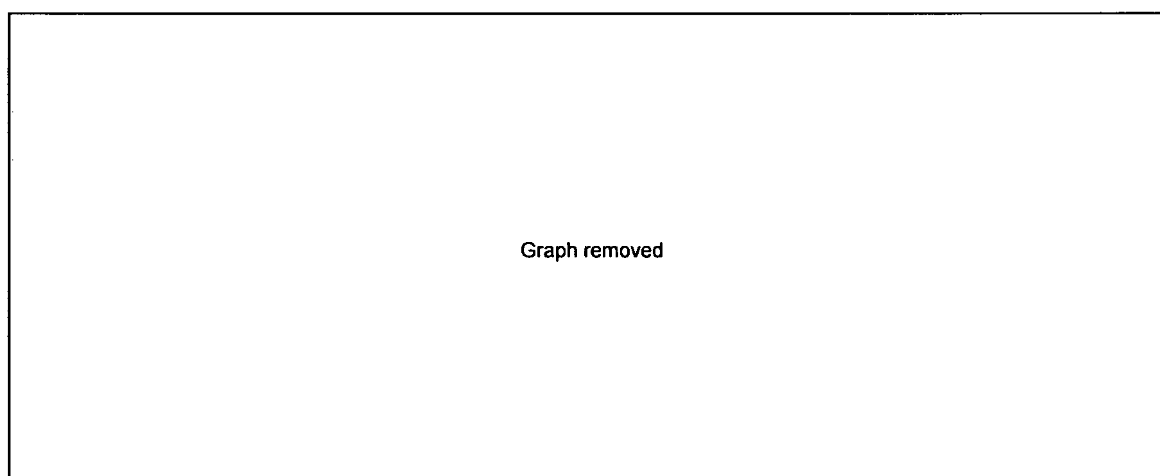
| Executive Directors | Date of contract | Notice period (months) |
|---|---|---|
| Tom Black | 23 October 2009 | 12 |
| Colin Evans | 23 October 2009 | 12 |
| Zak Doffman | 23 October 2009 | 12 |
| Sharon Cooper | 27 November 2013 | 6 |

| Non-Executive Directors | Letters of appointment | Notice period (months) |
|---|---|---|
| Bernie Waldron | 22 June 2012 | 1 |
| Paul Taylor | 1 April 2012 | 1 |

A summary of the terms of appointment of current Non-Executive Directors is available on the Company's website.

## TSR performance

The graph below sets out for the period from IPO to 31 March 2014 the Total Shareholder Return of Digital Barriers plc and the performance of FTSE Aim sector and the FTSE All Share Software and Computer Services index.




The share price of the Company on 8 February 2010 (being the date of the Company's IPO) was £1. During the year under review the share price varied between £1.875 and £0.875 and at 31 March 2014 was £0.875.

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**Share awards under the LTIP held at 31 March 2014**

| Nik Holgate | At 1 April 2013 | Awarded during the year | Lapsed during the year | Vested during the year | At 31 March 2014 | Grant date | Exercisable from | Share price at grant | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| LTIP award granted November 2011 | 47,620 | – | 47,620 | – | nil | 25/11/11 | 25/11/14 to 25/11/21 | £1.575 | n/a |
| LTIP award granted June 2012 | 42,858 | – | 42,858 | – | nil | 07/06/12 | 07/06/15 to 07/06/22 | £1.750 | n/a |
| **Total LTIP award** | **90,478** | **–** | **90,478** | **–** | **nil** | | | | |
| comprising: | | | | | | | | | |
| HMRC Approved Options | 19,047 | – | 19,047 | – | nil | 25/11/11 | 25/11/14 to 25/11/21 | £1.575 | £1.575 |
| Parallel Option[(i)] | 19,047 | – | 19,047 | – | nil | 25/11/11 | 25/11/14 to 25/11/21 | £1.575 | nil |
| Top-Up Award | 28,573 | – | 28,573 | – | nil | 25/11/11 | 25/11/14 to 25/11/21 | £1.575 | nil |
| Top-Up Award | 42,858 | – | 42,858 | – | nil | 07/06/12 | 07/06/15 to 07/06/22 | £1.750 | nil |

Note:

(i) The Parallel Option is awarded to deliver the exercise price of the HMRC Approved Option and as such is not included in the calculation of the total LTIP award. Full details are given on page 34.

**Directors' interests in shares**

The interests of the Directors at the end of the year in the share capital of the Company were as follows:

| | As at 31 March 2014 Ordinary Shares | As at 1 April 2013 Ordinary Shares | As at 31 March 2014 Incentive Shares | As at 1 April 2013 Incentive Shares |
|---|---|---|---|---|
| Tom Black | **4,244,428** | 3,960,215 | **81,562** | 108,750 |
| Colin Evans | **693,839** | 574,590 | **40,781** | 54,375 |
| Zak Doffman | **665,077** | 530,114 | **40,781** | 54,375 |
| Sharon Cooper | **nil** | nil[(i)] | **nil** | nil[(i)] |
| Bernie Waldron | **59,482** | 34,482 | **nil** | nil |
| Paul Taylor | **48,767** | 34,482 | **nil** | nil |
| Nik Holgate | **47,468**[(ii)] | 47,468 | **nil** | nil |

(i) On 3 March 2014 being the date Sharon Cooper was appointed.

(ii) On 8 July being the date Nik Holgate stepped down from the Board.

No Director holds a non-beneficial interest in the Company's share capital. There have been no changes in Directors' shareholdings between 31 March 2014 and 27 May 2014.

Approved by the Board and signed on its behalf:

**Bernie Waldron**
Chairman, Remuneration Committee

27 May 2014

# Statement of Directors' responsibilities – Group financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable UK law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the financial result of the Group for that year. In preparing the Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- 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 entity's financial position and financial performance;
- state that the Group has 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 which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent auditors' report to the members of Digital Barriers plc

We have audited the group financial statements of Digital Barriers plc for the year ended 31 March 2014 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 39, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2014 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of its 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.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

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

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

- 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.

## Other matter

We have reported separately on the Parent Company financial statements of Digital Barriers plc for the year to 31 March 2014.

Ernst & Young LLP

**Tony McCartney (Senior Statutory Auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 May 2014

Notes:

1. The maintenance and integrity of the Digital Barriers plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated income statement
for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| **Revenue** | 2 | **19,042** | 23,272 |
| Cost of sales | | **(10,319)** | (13,322) |
| **Gross profit** | | **8,723** | 9,950 |
| Administration costs | | **(24,341)** | (20,823) |
| Other income | 5 | **706** | 1,484 |
| Other costs | 5 | **(160)** | (1,336) |
| **Operating loss** | 4 | **(15,072)** | (10,725) |
| Finance revenue | 8 | **32** | 69 |
| Finance costs | 9 | **(27)** | (100) |
| **Loss before tax** | | **(15,067)** | (10,756) |
| Income tax | 10 | **458** | 840 |
| **Loss after tax attributable to owners of the parent** | | **(14,609)** | (9,916) |

| | | | |
|---|---|---|---|
| **Adjusted loss:** | 5 | | |
| **Loss before tax** | | **(15,067)** | (10,756) |
| Amortisation of intangibles initially recognised on acquisition | | **1,733** | 2,029 |
| Acquisition costs | | **-** | 369 |
| Adjustments to deferred consideration | | **(679)** | (1,384) |
| Reorganisation costs | | **1,860** | 769 |
| Impairment of intangibles | | **160** | 1,336 |
| **Adjusted loss before tax for the year** | | **(11,993)** | (7,637) |

| | | | |
|---|---|---|---|
| (Loss) per share – basic | 11 | **(25.87p)** | (21.78p) |
| (Loss) per share – diluted | 11 | **(25.87p)** | (21.78p) |
| (Loss) per share – adjusted | 11 | **(21.49p)** | (16.45p) |
| (Loss) per share – adjusted diluted | 11 | **(21.49p)** | (16.45p) |

The results for the year and the prior year are derived from continuing activities.

# Consolidated statement of comprehensive income
for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| **Loss for the year** | | **(14,609)** | (9,916) |
| **Other comprehensive income** | | | |
| Other comprehensive income that may be subsequently reclassified to profit and loss: | | | |
| Exchange differences on retranslation of foreign operations | | 9 | 25 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent years** | | **9** | 25 |
| **Total comprehensive loss attributable to owners of the parent** | | **(14,600)** | (9,891) |

# Consolidated balance sheet
at 31 March 2014

| | Note | 31 March 2014 £'000 | 31 March 2013 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **1,108** | 1,370 |
| Goodwill | 13 | **24,802** | 24,802 |
| Other intangible assets | 14 | **3,857** | 5,828 |
| | | **29,767** | 32,000 |
| **Current assets** | | | |
| Inventories | 15 | **3,895** | 1,779 |
| Trade and other receivables | 16 | **7,706** | 13,084 |
| Current tax recoverable | | **826** | 972 |
| Cash and cash equivalents | | **14,246** | 5,544 |
| | | **26,673** | 21,379 |
| **Total assets** | | **56,440** | 53,379 |
| **Equity and liabilities** | | | |
| Attributable to equity holders of the parent | | | |
| Equity share capital | 19 | **646** | 510 |
| Share premium | | **75,879** | 57,989 |
| Capital redemption reserve | | **4,786** | 4,735 |
| Merger reserve | | **454** | 454 |
| Translation reserve | | **(212)** | (221) |
| Other reserves | | **(307)** | (307) |
| Retained earnings | | **(31,352)** | (17,267) |
| **Total equity** | | **49,894** | 45,893 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 10 | **194** | 363 |
| Financial liabilities | 18 | **–** | 202 |
| Provisions | 24 | **161** | – |
| | | **355** | 565 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **5,608** | 6,038 |
| Financial liabilities | 18 | **163** | 883 |
| Provisions | 24 | **420** | – |
| | | **6,191** | 6,921 |
| **Total liabilities** | | **6,546** | 7,486 |
| **Total equity and liabilities** | | **56,440** | 53,379 |

*The financial statements on pages 42 to 72 were approved by the Board of Directors on 27 May 2014 and were signed on its behalf by:*

**Colin Evans**
Executive Director

**Sharon Cooper**
Group Finance Director

# Consolidated statement of changes in equity
for the year ended 31 March 2014

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Translation reserve £'000 | Other reserves £'000 | Profit and loss reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 March 2012 | 437 | 48,012 | 4,735 | 348 | (246) | (307) | (7,687) | 45,292 |
| Total comprehensive income/(loss) | – | – | – | – | 25 | – | (9,916) | (9,891) |
| Share-based payment credit | – | – | – | – | – | – | 336 | 336 |
| Share placement | 72 | 10,328 | – | – | – | – | – | 10,400 |
| Share issue cost | – | (351) | – | – | – | – | – | (351) |
| Issue of shares regarding the acquisition of Keeneo | 1 | – | – | 106 | – | – | – | 107 |
| At 31 March 2013 | 510 | 57,989 | 4,735 | 454 | (221) | (307) | (17,267) | 45,893 |
| Share placement | 133 | 18,567 | – | – | – | – | – | 18,700 |
| Share issue costs | – | (677) | – | – | – | – | – | (677) |
| Incentive Share conversion | 3 | – | 51 | – | – | – | – | 54 |
| Share based payment credit | – | – | – | – | – | – | 524 | 524 |
| Loss for the year | – | – | – | – | – | – | (14,609) | (14,609) |
| Other comprehensive loss | – | – | – | – | 9 | – | – | 9 |
| **At 31 March 2014** | **646** | **75,879** | **4,786** | **454** | **(212)** | **(307)** | **(31,352)** | **49,894** |

# Notes to the financial information

## 1. Accounting policies

**Basis of preparation**
The consolidated financial statements for the year include those of Digital Barriers plc and all of its subsidiary undertakings (together 'the Group') drawn up at 31 March 2014. The financial statements were authorised for issue by the Board of Directors on 27 May 2014 and the balance sheet was signed on the Board's behalf by Colin Evans and Sharon Cooper.

Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control arises when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Subsidiaries are consolidated using the Group's accounting policies. Business combinations are accounted for using the acquisition method of accounting except for the acquisition of Digital Barriers Services Limited by Digital Barriers plc which has been accounted for using the pooling of interests method. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated on consolidation.

All values are rounded to £'000 except where otherwise stated.

The Company is a public limited company incorporated and domiciled in England and Wales and whose shares are quoted on AIM, a market operated by the London Stock Exchange.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2014 and applied in accordance with the Companies Act 2006. The accounting policies which apply in preparing the financial statements for the year are set out below.

The Group's financial statements have been prepared on a going concern basis. Forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group will be able to operate within the level of current funding resources. Given this and in view of the cash reserves of £14.2 million held on the balance sheet, the Directors are satisfied that the Group has adequate resources to continue operating for the foreseeable future. For this reason they have adopted the going concern basis in preparing the accounts.

**Critical accounting estimates and judgements**
In preparing the consolidated financial statements, management has to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. The critical judgements and estimates made in preparing the consolidated financial statements are detailed below. These judgements and estimates involve assumptions in respect of future events which can vary from what is anticipated.

*Revenue and profit recognition*
Fixed-price contracts are accounted for in accordance with IAS 11 'Construction Contracts.' Revenue and profits are recognised on a percentage-of-completion basis, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably requires management to exercise judgement, whilst the calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

*Intangible assets*
In accordance with IFRS 3R 'Business Combinations', goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3R also requires the identification of other intangible assets acquired. The method used to value intangible assets is the 'Income Approach' which requires the use of estimates which may differ from actual outcomes. The useful economic life of other intangibles requires the use of estimates which may differ from actual outcomes. Details of other intangibles are disclosed in note 14, including details of the carrying amounts and remaining useful economic lives of individually material assets.

*Impairment of assets*
The Group assesses annually whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the cash-generating units (CGUs) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset, or group of assets, exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The calculation of value in use of the aggregate cash-generating units to which goodwill has been allocated includes an estimate of the short-term and long-term growth rate of the cash-generating units, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The carrying amount of goodwill and the key assumptions used in the calculation of value in use of the cash-generating units are disclosed in note 13.

The carrying amount of intangible assets is disclosed in note 14. The impairment of intangible assets is disclosed in note 5.

## 1. Accounting policies continued

*Deferred consideration*
In recognising the fair value of deferred consideration in respect of business combinations, contingent on future events such as revenue and profit, management make estimates as to the extent to which the maximum deferred consideration will be paid, based on weighted probability models in accordance with IFRS 3R. These estimates may differ from actual outcomes. The carrying value of deferred consideration is disclosed in note 18.

*Income taxes*
In recognising deferred tax assets, management makes estimates of the forecast future profitability of entities within the Group and the likely certainty that these forecasts will be achieved. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the year in which such determination is made. The carrying value of deferred tax is disclosed in note 10.

**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, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Payments made that are contingent on the vendors continuing to be employed by the Group are treated as remuneration and recognised within the administration cost line in the income statement. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed 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. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

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 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 forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Impairment of goodwill**
The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of long-term operating margins and long-term growth rates.

**Intangible assets**
In accordance with IFRS 3R 'Business Combinations', goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3R also requires the identification of other intangible assets acquired. The method used to value intangible assets is the 'Income Approach'. The Income Approach indicates the fair value of an asset based on the value of the cash flows that the asset might reasonably be expected to generate.

## 1. Accounting policies continued

**Other intangible assets**
Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition and amortised over their estimated useful economic life. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights. The estimated useful lives of the intangible assets are as follows:

Customer relationships – three to five years;

Order backlog – one to three years;

Intellectual property – one to seven years;

Patents – eight years; and

Trademarks – ten years.

Amortisation is charged to administration expenses in the Consolidated income statement on a straight-line basis. Intangible assets, other than development costs, created within the business are not capitalised and expenditure thereon is charged to the income statement in the year in which the expenditure is incurred.

The carrying value of other intangible assets is reviewed for impairment when events or changes in circumstance indicate that it may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The asset's recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs.

**Revenue and profit recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes.

Revenue derived from services billed to customers on a time and materials or fixed-price basis represents the value of work completed, including attributable profit, based on the stage of completion achieved on each project. For time and materials projects, revenue is recognised as services are performed. For fixed-price projects, revenue is recognised according to the stage of completion which is determined using the percentage-of-completion method based on the Directors' assessment of progress against key project milestones and risks, and the ratio of costs incurred to total estimated project costs. The cumulative impact of any revisions to the estimate of percentage-of-completion of any fixed-price contracts is reflected in the period in which such impact becomes known.

Revenue from support contracts is spread evenly over the period of the support contract.

Revenue from the sale of products is recognised when the risks and rewards of ownership are transferred to the customer, which is usually at the point at which goods are supplied to the customer.

Licence income is recognised in accordance with the substance of the agreement. Revenue from licence agreements which have no significant remaining performance obligations is recognised where there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

Revenue arrangements may include the sale of products together with installation and/or on-going support services. Where the commercial substance of such a combination is that the individual components operate independently of each other and fair values can be attributed to each of the components, each are then recognised in accordance with their respective policies.

**Amounts recoverable on contracts**
Amounts recoverable on contracts relates to costs incurred on specific contracts on which revenue has not yet been recognised.

**Accrued income**
Accrued income represents revenue recognised to date less amounts invoiced to customers. Full provision is made for known or anticipated project losses.

**Trade and other receivables**
Trade receivables are recognised and measured at their original invoiced amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off to the income statement when they are identified.

## 1. Accounting policies continued

**Provisions**

Provisions are recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

**Reorganisation costs**

Reorganisation costs are items that are material, of a similar type, and which, due to their nature, are presented separately to assist users of the financial statements in assessing the trading performance of the Group's businesses either year-on-year or with other businesses.

**Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

**Equity**

Equity comprises the following: Share capital represents the nominal value of equity shares. Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue. The capital redemption reserve represents the difference between the proceeds received and the par value of the shares bought back by the Company. The merger reserve represents the difference between the fair value and the nominal value of shares issued on the acquisition of Keeneo SAS (renamed Digital Barriers SAS), as merger relief was applicable to this business combination. The translation reserve represents the impact of currency translation on the foreign currency net investment in Digital Barriers SAS. Other reserves represents the difference between the carrying value of the net assets acquired and shares issued in consideration on the pooling of interests transaction. The profit and loss reserve represents the cumulative total profit or loss attributable to shareholders, excluding those items recognised in other reserves.

**Research and development costs**

Research expenditure is charged to the income statement in the year in which it is incurred.

Expenditure incurred in the development of software and hardware products for use or sale by the business, and their related intellectual property rights, is capitalised as an intangible asset only when:

- technical feasibility has been demonstrated;
- adequate technical, financial and other resources exist to complete the development, which the Group intends to complete and use;
- future economic benefits expected to arise are deemed probable; and
- the costs can be reliably measured.

## 1. Accounting policies continued

Development costs not meeting these criteria are expensed in the income statement as incurred. When capitalised, development costs are amortised on a straight-line basis over their useful economic lives once the related software and hardware products are available to use. During the period of development the asset is tested for impairment annually. Development costs with a value of £nil (2013: £24,000) have been capitalised in the year (see note 14).

**Property, plant and equipment**
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the following bases to reduce the cost of the Company's property, plant and equipment to their residual values over their expected useful lives at the following rates:

Leasehold improvements – 20% to 33% straight line;
Office furniture and equipment – 20% straight line;
Computer equipment – 33% straight line;
Vehicles – 25% straight line; and
Demonstration stock – 20% to 50% straight line.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

**Inventories**
Inventories are valued at the lower of cost and net realisable value on a first-in first-out basis. In the case of finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, an appropriate allowance is made for obsolete, slow-moving and defective inventories. In certain instances stock items are used for demonstration purposes, in this case the stock item is classified as a fixed asset and depreciated in line with the Group depreciation policy.

**Trade and other payables**
Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

**Cash equivalents**
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

**Financial instruments**
The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

**Foreign currency translation**
The Group's consolidated financial statements are presented in Sterling, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken to other comprehensive income until the disposal of the net investment, at which time they are reclassified from equity to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

**Retirement benefits**
The Group operates a Group defined contribution personal pension plan for certain employees. Pension costs are calculated annually and charged to the income statement as they arise.

## 1. Accounting policies continued

**Share-based payments**
Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares under the Long Term Incentive Plan ('LTIP'). The LTIP performance and service conditions include market conditions. The total amount to be expensed over the vesting period of the options and LTIPs is determined by reference to the fair value at the date at which the options or LTIPs are granted and the number of awards that are expected to vest. The fair value is determined using a Stochastic model taking into account any market vesting and non-vesting conditions. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional on a market vesting or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied. At each balance sheet date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions and of the number of equity instruments that will ultimately vest (or for an instrument subject to a market condition or non-vesting condition be treated as vesting as described above). The movement in cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Certain of the Executive Directors have been issued an aggregate of 217,500 Incentive Shares. The Incentive Shares only reward participants if shareholder value is created, thereby aligning the interests of the Executive Directors with those of shareholders. The Incentive Shares carry the right to 12.5% of any increase in the value of the Company in excess of the Retail Prices Index after 1 February 2010 (as described in note 20). The Incentive Shares do not carry any voting or dividend rights and are not transferable except in limited circumstances. The holders of Incentive Shares can realise value from the shares either by converting them into Ordinary Shares or by the Company, at its election, responding to a request to so convert the shares by choosing to redeem them. They are treated as equity-settled awards with a market vesting condition. The fair value at the date at which the Incentive Shares were acquired was determined using a Stochastic model. This original fair value (£217,500) has been recognised as a current liability on the balance sheet as it becomes repayable if the Executive Directors leave office.

At a General Meeting held on 27 December 2012, the terms relating to the Incentive Shares were changed, triggering a revaluation. The total amount to be expensed over the vesting period of the modified Incentive Shares has been calculated in the year by reference to the incremental fair value on 27 December 2012 of the modified Incentive Shares compared to the fair value on 27 December 2012 of the original Incentive Shares. This resulted in a charge to the Consolidated income statement in the year of £106,000 (2013: £35,000).

**Employee Benefit Trust**
The Digital Barriers plc Employee Benefit Trust (the 'Trust'), which purchases and holds Ordinary Shares of the Company in connection with employee share schemes, is consolidated in the Group financial statements. Any consideration paid or received by the Trust for the purchase or sale of the Company's own shares is shown as a movement in shareholders' equity.

**Lease commitments and hire purchase contracts**
Assets acquired under finance leases and hire purchase contracts are capitalised and disclosed under property, plant and equipment at their estimated fair value, or, if lower, the present value of the minimum lease payments on the inception of each lease or contract and depreciated over their estimated useful lives. The capital element of the future payments is treated as a liability and the total finance charge is allocated over the period of the lease or contract in such a way as to give a constant charge on the outstanding liability.

Leases in which a significant proportion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals payable or receivable are charged or credited to the income statement on a straight-line basis over the lease term.

**Adoption of new and revised International Financial Reporting Standards**
The Group's accounting policies have been prepared in accordance with IFRSs effective as for its reporting date of 31 March 2014. The following standards, interpretations, and amendments to existing standards are mandatory as of 1 April 2013 unless otherwise stated and the impact is described below:

*IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7.* Effective for periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements. The amendment has affected disclosure only and has no impact on the Group's financial position or performance.

*IFRS 13 Fair Value Measurement.* Effective for annual periods beginning on or after 1 January 2013. IFRS 13 provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS. The standard is prospective in nature and will affect fair value measurements going forward such as those included in business combinations and contingent considerations.

## 1. Accounting policies continued

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1.* Effective for annual periods beginning on or after 1 July 2012. IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit and loss at a future point in time would be presented separately from items that will never be reclassified.

*IAS 19 Employee Benefits (Revised).* Effective for annual periods beginning on or after 1 January 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording.

None of the above standards have had a material effect on the Group's financial position or performance.

*IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets.* These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in note 13. These amendments would continue to be considered for future disclosures.

The following standards, interpretations and amendments to existing standards have an effective date after the date of these financial statements and have not been early adopted by the Group:

*IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements.* Effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures and associates in separate financial statements. The standard is not expected to significantly affect the Group's results or financial position.

*IFRS 12 Disclosure of Interests in Other Entities.* Effective for annual periods beginning on or after 1 January 2014. IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31 and IAS 28, while others are new.

*IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments).* Effective for annual periods beginning on or after 1 January 2014. The investment entities amendments apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. It is not expected that the standard will be applicable to the Group.

*IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32.* Effective for annual periods beginning on or after 1 January 2014. These amendments to IAS 32 clarify the meaning of 'currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. The standard is not expected to significantly affect the Group's results or financial position.

## 2. Revenue

The following table provides disclosure of the Group's revenue analysed by geographical market based on the location of the customer.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| UK | **14,038** | 16,568 |
| Rest of the world | **5,004** | 6,704 |
| | **19,042** | 23,272 |

Revenue above included £338,000 (2013: £672,000), which related to contracts accounted for under the percentage-of-completion method. See note 3 for the analysis of revenue by Services and Products. In the year, no single country represents a significant proportion of revenue from the rest of the world (2013: nil).

**Analysis of revenue by customer**
There has been one (2013: two) individually material customer during the year. This customer is included within the Products operating segment and represents £4,012,000 or 21% (2013: £3,060,000 or 13%) of Group turnover for the year. There have been no material customers in the Services operating segment in the year (2013: £2,391,000 or 10%).

## 3. Segmental information

The Group is organised into the 'Services' and 'Products' Divisions for internal management, reporting and decision-making, based on the nature of the products and services of the Group's businesses. Managers have been appointed within Services and Products, who report to members of the Board. These are the reportable operating segments in accordance with IFRS 8 'Operating Segments.'

The Group's Services Division is predominantly focused on the UK market and integrates third party technology and own products into UK Services customers. The Services Division is established with a number of key UK Government organisations in the secure government, law enforcement and transportation sectors, and will maintain its current focus on the very high security areas of the UK Government market. The Group's Products Division is focused on the advanced surveillance market. This covers image and data capture (for example, stand-off passive body scanning and unattended ground sensors), a range of processing and enhancement techniques (for example, thermal image processing, image stabilisation and enhancing low light performance), image transmission (both wired and wireless technologies) and a range of analytics algorithms.

In accordance with IFRS 8, the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker. The Group has identified the Board of Directors as the Chief Operating Decision Maker as it is responsible for the allocation of resources to operating segments and assessing their performance.

## 3. Segmental information continued

Corporate overheads, which primarily relate to operations of the Group function, are not allocated to the business units. Group financing (including finance costs and finance revenue) and income taxes are managed centrally and are not allocated to an operating segment. No operating segments have been aggregated to form the above reportable segments.

| | Services 2014 £'000 | Products 2014 £'000 | Total 2014 £'000 | Services 2013 £'000 | Products 2013 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|---|
| Total segment revenue | 4,527 | 14,696 | 19,223 | 6,289 | 17,324 | 23,613 |
| Inter-segment revenue | – | (181) | (181) | – | (341) | (341) |
| **Revenue** | 4,527 | 14,515 | 19,042 | 6,289 | 16,983 | 23,272 |
| **Depreciation** | 70 | 669 | 739 | 72 | 509 | 581 |
| **Segment operating (loss)/profit** | (97) | (1,854) | (1,951) | 735 | (1,455) | (720) |
| Sales and marketing costs | | | (5,403) | | | (3,824) |
| Other central overheads | | | (4,671) | | | (3,062) |
| Amortisation of intangibles initially recognised on acquisition | | | (1,733) | | | (2,029) |
| Acquisition costs | | | – | | | (369) |
| Adjustments to deferred consideration | | | 706 | | | 1,384 |
| Reorganisation costs | | | (1,860) | | | (769) |
| Impairment of intangibles | | | (160) | | | (1,336) |
| **Operating loss** | | | (15,072) | | | (10,725) |
| Finance income | | | 32 | | | 69 |
| Finance costs | | | (27) | | | (100) |
| **Loss before tax** | | | (15,067) | | | (10,756) |
| Income tax credit | | | 458 | | | 840 |
| **Loss for the year** | | | (14,609) | | | (9,916) |

**Other segment information**

The Group's non-current assets are predominantly held by UK entities and consequently no geographical balance sheet disclosures are required. See note 2 for revenue by location of customer.

## 4. Group operating loss

The Group operating loss is stated after charging:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Operating lease rentals – land and buildings | 712 | 800 |
| Operating lease rentals – other | 126 | 17 |
| Research and development costs | 2,840 | 2,298 |
| Depreciation of property, plant and equipment | 739 | 771 |
| Amortisation of intangible assets initially recognised on acquisition | 1,733 | 2,029 |
| Amortisation of other intangibles | 86 | 73 |
| Exchange differences | 121 | 10 |

## 4. Group operating loss continued

**Auditors' remuneration**

The following table shows an analysis of fees payable to Ernst & Young LLP, the Group's auditors:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Audit services** | | |
| Fees payable to the Company's auditor for the audit of the financial statements | **75** | 52 |
| The audit of the Company's subsidiaries | **53** | 85 |
| | **128** | 137 |
| **Non-audit services** | | |
| Fees payable to the Company's auditor and its associates for other services: | | |
| Fees payable to the Company's auditor for audit-related assurance services | **16** | 15 |
| Tax compliance services | **42** | 37 |
| Tax advisory services | **21** | 18 |
| | **79** | 70 |

## 5. Adjusted loss before tax

An adjusted loss before tax measure has been presented as the Directors believe that this is a more relevant measure of the Group's underlying performance. Adjusted loss is not defined under IFRS and has been shown as the Directors consider this to be helpful for a better understanding of the performance of the Group's underlying business. It may not be comparable with similarly titled measurements reported by other companies and is not intended to be a substitute for, or superior to, IFRS measures of profit. The net adjustments to loss before tax are summarised below:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Amortisation of intangibles initially recognised on acquisition | **1,733** | 2,029 |
| Acquisition costs | **–** | 369 |
| Adjustments to deferred consideration (i) (ii) | **(679)** | (1,384) |
| Reorganisation costs (note 6) | **1,860** | 769 |
| Impairment of intangible assets (iii) | **160** | 1,336 |
| **Total adjustments** | **3,074** | 3,119 |

(i) Adjustments to deferred consideration in the current year comprise releases of £494,000 and reassessments of £212,000 (see note 21c), partly offset by the unwind of discount on deferred consideration balances of £27,000. In relation to the e-Tech acquisition, deferred consideration of £188,000 was paid in the year, clearing the remaining balance. The remaining £260,000 balance at Zimiti was released in the year as the target was not achieved. At Visimetrics £234,000 was released and the remaining £212,000 balance has all been reassessed. The releases and reassessments of deferred consideration totalling £706,000 have been separately disclosed within other income in the Consolidated income statement.

(ii) Adjustments to deferred consideration in the prior year comprise releases of £678,000 and reassessments of £805,000 (see note 21c), partly offset by the unwind of discount on deferred consideration balances of £99,000. In relation to the LMW acquisition, deferred consideration of £60,000 was paid in the year and the remaining balance of £30,000 was released. An interim time-constrained financial target was not met in relation to the Zimiti acquisition, resulting in the release of £617,000 of deferred consideration; the remaining balance held in respect of Zimiti has been reassessed and reduced by £805,000 to £253,000. In relation to the E-Tech acquisition, deferred consideration of £12,000 was paid in the year with a further £188,000 paid after year-end in April 2013; the remaining balance of £31,000 was released. The releases and reassessments of deferred consideration totalling £1,484,000 have been separately disclosed within other income in the Consolidated income statement.

(iii) The restructuring programme referred to in note 6, Reorganisation costs, has resulted in an impairment in the year, within the products operating segment, of certain customer relationships and intellectual property in relation to the LMW and Visimetrics acquired businesses. The total impairment of £160,000 has been separately disclosed within other costs in the Consolidated income statement. The carrying value of the intangible assets has been re-evaluated using a value in use model. As a result the intangible assets of each entity have been impaired by £67,000 and £83,000 respectively, the carrying value of these assets is now nil.

In the prior year the performance of the Keeneo, Waterfall and Codestuff entities were below the level used to determine the intangible assets initially recognised on acquisition. The carrying value of the intangible assets has been re-evaluated using a value in use model, with discount rates of between 10.8% and 11.7%. As a result, the intangible assets of each entity have been impaired by £577,000, £630,000 and £129,000 respectively.

## 6. Reorganisation costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Redundancy and related | **1,167** | 657 |
| Office closure | **466** | – |
| Other | **227** | 112 |
| Total pre-tax charge | **1,860** | 769 |

During the year the Group recognised £1,860,000 of pre-tax reorganisation costs in relation to a restructuring programme to rationalise its cost base and concentrate resources on its strategic products. Office closure relates to five properties and covers rent, rates and dilapidation costs. Other relates to stock write-down.

Reorganisation costs in the prior year relate to the rationalisation of the organisational and geographical design, information systems and support functions within both the Services and Products Divisions. As the expenditure relates to transforming the divisions for the future these costs are not directly related to current operations.

Of the £1,860,000 recognised during the year, £581,000 remains unpaid at the year-end, this has been included as a provision at the year-end (note 24).

## 7. Employees

The average number of employees during the year and the number at the end of the year were as follows:

| | Average 2014 | At 31 March 2014 | Average 2013 | At 31 March 2013 |
|---|---|---|---|---|
| Directors | **6** | **6** | 6 | 6 |
| Business units | **187** | **157** | 174 | 186 |
| Corporate | **24** | **30** | 22 | 20 |
| | **217** | **193** | 202 | 212 |

The employee benefit expense for the year amounted to:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Salaries and short-term employee benefits | **12,475** | 12,315 |
| Social security costs | **1,404** | 1,402 |
| Pension costs | **174** | 164 |
| Share-based payments (note 20) | **524** | 336 |
| | **14,577** | 14,217 |

Employees cost include £1,167,000 of redundancy and other staff costs that have been classified as reorganisation costs (note 6).

## 8. Finance revenue

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Bank interest receivable | **32** | 69 |

## 9. Finance costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Unwind of discount on deferred consideration | **27** | 99 |
| Bank interest payable | **–** | 1 |
| | **27** | 100 |

## 10. Taxation on ordinary activities

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Current tax** | | |
| Corporation tax | **(229)** | (447) |
| Overseas tax | **(60)** | (167) |
| | **(289)** | (614) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(131)** | (203) |
| Change in tax rate | **(38)** | (23) |
| | **(169)** | (226) |
| **Total tax credit for the year** | **(458)** | (840) |

The tax credit for the year is lower than the standard rate of corporation tax in the UK applied to the loss before tax. The differences are explained below:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Loss before tax | **(15,067)** | (10,756) |
| Tax at the UK corporation tax rate of 23% (2013: 24%) | **(3,465)** | (2,581) |
| Tax effects of: | | |
| Prior year adjustments | **(52)** | 30 |
| Expenses not deductible for tax purposes | **57** | 154 |
| Unrecognised deferred tax movements on amortisation of acquired intangible assets | **146** | 692 |
| Unrecognised deferred tax movements on depreciation in excess of capital allowances | **164** | 62 |
| Unrecognised deferred tax movements on share-based payments | **121** | 79 |
| Adjustments to deferred consideration | **(156)** | 332 |
| Unrecognised deferred tax movements on unrelieved tax losses carried forward net of losses used against deferred tax liabilities | **2,881** | 486 |
| Difference in foreign tax rate | **(110)** | (94) |
| Research and development enhanced deduction in the UK | **(97)** | – |
| Losses surrendered | **175** | – |
| Research and development credit | **(84)** | – |
| Impact of rate change on deferred tax | **(38)** | – |
| **Total tax credit for the year** | **(458)** | (840) |

**Deferred taxation**

Deferred tax included in the income statement is as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Other intangibles | **(169)** | (226) |

Deferred tax included in the balance sheet is as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| At beginning of the year | **(363)** | (414) |
| Prior year adjustments | **(43)** | 41 |
| Business combinations | **–** | (195) |
| Origination and reversal of temporary differences | **174** | 182 |
| Change in tax rate | **38** | 23 |
| **At end of the year** | **(194)** | (363) |

In March 2013, the UK Government announced its intention to reduce the UK corporation tax rate from 24% to 23% with effect from 1 April 2013, and to 20% by the tax year ended 31 March 2015. This is to be effected by a phased reduction of 2% on 1 April 2014 and 1% on 1 April 2015. The deferred tax in the balance sheet is based on the enacted tax rate at which the deferred tax is expected to reverse. The deferred tax amount of £194,000 (2013: £363,000) represents £553,000 (2013: £971,000) relating to acquired intangible assets less an offset of £359,000 (2013: £608,000) relating to tax losses.

## 10. Taxation on ordinary activities continued

**Unrecognised deferred tax assets**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Tax losses | **8,457** | 5,580 |
| Share-based payments | **–** | 160 |
| | **8,457** | 5,740 |

Unrelieved tax losses amount to approximately £44.0 million (2013: £26.4 million), which are available indefinitely for offset against future taxable profits. A deferred tax asset has not been recognised on £42.3 million (2013: £23.7 million) of these losses on the basis that there is insufficient evidence that this asset will be recoverable as at the balance sheet date. An asset will only be recognised with improved certainty and quantification of taxable profits.

## 11. Loss per share

**Unadjusted loss per share**

| | Loss after taxation 2014 £'000 | Weighted average number of shares 2014 No. | Loss per share 2014 Pence | Loss after taxation 2013 £'000 | Weighted average number of shares 2013 No. | Loss per share 2013 Pence |
|---|---|---|---|---|---|---|
| **Basic loss per share** | **(14,609)** | **56,472,084** | **(25.87)** | (9,916) | 45,530,712 | (21.78) |
| **Diluted loss per share** | **(14,609)** | **56,472,084** | **(25.87)** | (9,916) | 45,530,712 | (21.78) |

**Adjusted loss per share**

| | Loss after taxation 2014 £'000 | Weighted average number of shares 2014 No. | Loss per share 2014 Pence | Loss after taxation 2013 £'000 | Weighted average number of shares 2013 No. | Loss per share 2013 Pence |
|---|---|---|---|---|---|---|
| Loss attributable to ordinary shareholders | **(14,609)** | **56,472,084** | **(25.87)** | (9,916) | 45,530,712 | (21.78) |
| Add back: | | | | | | |
| Amortisation of acquired intangible assets, net of tax | **1,559** | **–** | **2.76** | 1,658 | – | 3.64 |
| IPO, placing costs and acquisition costs | **–** | **–** | **–** | 369 | – | 0.81 |
| Adjustments to deferred consideration | **(679)** | **–** | **(1.20)** | (1,384) | – | (3.04) |
| Reorganisation costs | **1,432** | **–** | **2.54** | 769 | – | 1.69 |
| Impairment of acquired intangibles | **160** | **–** | **0.28** | 1,015 | – | 2.23 |
| **Basic adjusted loss per share** | **(12,137)** | **56,472,084** | **(21.49)** | (7,489) | 45,530,712 | (16.45) |
| **Diluted adjusted loss per share** | **(12,137)** | **56,472,084** | **(21.49)** | (7,489) | 45,530,712 | (16.45) |

The Directors consider that adjusted loss per share better reflects the underlying performance of the Group.

The inclusion of potential Ordinary Shares arising from LTIPs and Incentive Shares would be anti-dilutive. Basic and diluted loss per share has therefore been calculated using the same weighted number of shares. If the Incentive Shares had become convertible on 31 March 2014 and based on the share price of £0.875 (2013: £1.850) on that day, no (2013: 1,540,401) Ordinary Shares would have been issued in respect of the Incentive Share conversion. Full details of the basis of calculation is given in the Admission Document available on the Company's website. The Incentive Shares will immediately vest on a change of control of the Company.

## 12. Property, plant and equipment

| | Leasehold improvements £'000 | Office furniture and equipment £'000 | Computers, ancillary equipment and electronic test equipment £'000 | Vehicles £'000 | Demonstration stock £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 31 March 2012 | 235 | 132 | 280 | 39 | 490 | 1,176 |
| Additions | 167 | 417 | 178 | – | 691 | 1,453 |
| Business combinations | – | 12 | 3 | – | 7 | 22 |
| Reclassification of assets | (90) | 260 | (175) | 5 | – | – |
| Disposals | (15) | (60) | (26) | (12) | (216) | (329) |
| At 31 March 2013 | 297 | 761 | 260 | 32 | 972 | 2,322 |
| Additions | 17 | 251 | 65 | – | 291 | 624 |
| Disposals | (38) | (631) | (16) | (26) | – | (711) |
| Exchange movements | (1) | 31 | (2) | – | 1 | 29 |
| **At 31 March 2014** | **275** | **412** | **307** | **6** | **1,264** | **2,264** |
| **Accumulated depreciation** | | | | | | |
| At 31 March 2012 | 60 | 91 | 68 | 18 | 47 | 284 |
| Charge for the year | 37 | 124 | 124 | 14 | 472 | 771 |
| Reclassification of assets | (27) | 137 | (120) | – | 10 | – |
| Disposals | (8) | – | (25) | (4) | (66) | (103) |
| At 31 March 2013 | 62 | 352 | 47 | 28 | 463 | 952 |
| Charge for the year | 60 | 217 | 66 | 1 | 395 | 739 |
| Disposals | (16) | (475) | (16) | (26) | – | (533) |
| Exchange movements | (1) | 1 | (2) | – | – | (2) |
| **At 31 March 2014** | **105** | **95** | **95** | **3** | **858** | **1,156** |
| **Net book value** | | | | | | |
| **At 31 March 2014** | **170** | **317** | **212** | **3** | **406** | **1,108** |
| At 31 March 2013 | 235 | 409 | 213 | 4 | 509 | 1,370 |

## 13. Goodwill

| | Note | Goodwill £'000 |
|---|---|---|
| At 31 March 2012 | | 21,716 |
| Acquisition of E-Tech | 21 | 169 |
| Acquisition of Visimetrics | 21 | 2,891 |
| Exchange movements | | 26 |
| **At 31 March 2013 and 31 March 2014** | | **24,802** |

In the prior year fair values of the assets and liabilities arising from the Visimetrics acquisition were provisional. Acquisition accounting allows for a review of these values within a 12-month period post acquisition. This has resulted in a £155,000 reduction in the fair value of trade receivables and consequent equal increase in goodwill in the prior year.

**Carrying amount of goodwill allocated to operating segments**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Services | **3,582** | 3,582 |
| Products | **21,220** | 21,220 |
| | **24,802** | 24,802 |

## 13. Goodwill continued

Goodwill acquired through business combinations has been allocated for impairment testing purposes to two groups of cash-generating units ('CGUs'). These groups of CGUs are its two operating segments 'Services' and 'Products' as the goodwill relates to synergies at this level. The Group conducts annual impairment tests on the carrying value of the CGUs in the balance sheet. Although required to perform annual impairment tests, these do not have to take place at 31 March but the test should be consistently carried out at the same time annually. The Group carries out its annual impairment testing as at 28 February each year. Impairment testing is only re-performed if an impairment triggering event occurs in the intervening period. No such event has occurred since 28 February 2014.

Value in use calculations are used to determine the recoverable amount of cash-generating units. The key assumptions for the value in use calculations are the forecast revenue growth of each CGU, the discount rate applied and the long-term growth rate of the net operating cash flows. In determining the key assumptions, management have taken into consideration the expected growth of the markets in which it operates, the ability of the CGU to exploit those opportunities and the current economic climate, the resulting impact on expected growth and pre-tax discount rates, and the pressure this places on impairment calculations.

The Group prepares cash flow forecasts for these cash-generating units based on the most recent three-year detailed financial forecasts. These cash flow forecasts are based on an internal assessment of the strength of the CGU in the markets in which it operates and the expected growth in revenue and margins, reflecting the opportunities in its core strategic markets. Revenue growth in years two and three is forecast at 30% per annum for Products and 2.5% for Services. Revenue growth of 2.5% (2013: 2.5%), being an external estimate of the UK's long-term growth rate, has been assumed from year four onwards for Products and Services. A discount rate of 11.6% (2013: 11.7%) for Products and 10.9% (2013: 11.7%) for Services has been applied, based on the weighted cost of capital applying to businesses in the same sector, and reflects the current market assessments of the time value of money and of the risks specific to the cash-generating units. No impairment losses have been recognised to date.

The Directors consider that an absolute change of 2.5% in the discount rate, 10.0% in years two and three Product revenue growth (from 30% to 20%) and flat Services revenue from 2016 onwards are the maximum changes that should be considered as reasonably possible. A change in the absolute rates by 2.5% (for the discount rate), 10% (for Products revenue growth in years 2 and 3) and flat Services revenue (from 2016 onwards) in isolation would not result in an impairment charge of goodwill.

## 14. Other intangible assets

| | Note | Patents and trademarks £'000 | Intellectual property £'000 | Order backlog £'000 | Customer relationships £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 31 March 2012 | | 218 | 5,092 | 478 | 5,084 | 10,872 |
| Acquisition of E-Tech | 21 | – | – | – | 58 | 58 |
| Acquisition of Visimetrics | 21 | – | 635 | 185 | 111 | 931 |
| Internally developed | | – | 24 | – | – | 24 |
| Purchased | | – | 73 | – | – | 73 |
| Exchange movement | | – | 22 | – | – | 22 |
| At 31 March 2013 | | 218 | 5,846 | 663 | 5,253 | 11,980 |
| Purchased | | – | 8 | – | – | 8 |
| **At 31 March 2014** | | **218** | **5,854** | **663** | **5,253** | **11,988** |

## 14. Other intangible assets continued

| | Note | Patents and trademarks £'000 | Intellectual property £'000 | Order backlog £'000 | Customer relationships £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Accumulated amortisation** | | | | | | |
| At 31 March 2012 | | 21 | 778 | 421 | 1,502 | 2,722 |
| Charge for the year | | 25 | 1,062 | 70 | 945 | 2,102 |
| Provision for impairment | | – | 878 | – | 458 | 1,336 |
| Exchange movement | | – | (8) | – | – | (8) |
| At 31 March 2013 | | 46 | 2,710 | 491 | 2,905 | 6,152 |
| Charge for the year | | 25 | 880 | 64 | 850 | 1,819 |
| Provision for impairment | | – | 48 | – | 112 | 160 |
| **At 31 March 2014** | | **71** | **3,638** | **555** | **3,867** | **8,131** |
| **Net book value** | | | | | | |
| **At 31 March 2014** | | **147** | **2,216** | **108** | **1,386** | **3,857** |
| At 31 March 2013 | | 172 | 3,136 | 172 | 2,348 | 5,828 |

The impairment in the year has been discussed in note 5.

The net book values of individually material intangible assets and their remaining useful life at the end of each year were as follows:

| | Carrying value 2014 £'000 | Remaining useful life Years 2014 | Carrying value 2013 £'000 | Remaining useful life Years 2013 |
|---|---|---|---|---|
| SAL customer relationships | **156** | **1.0** | 311 | 2.0 |
| Overtis Solutions customer relationships | **–** | **1.3** | 559 | 2.3 |
| COE customer relationships | **203** | **1.4** | 346 | 2.4 |
| Waterfall Solutions customer relationships | **230** | **1.6** | 295 | 2.6 |
| EVS customer relationships | **363** | **2.0** | 544 | 3.0 |
| Waterfall Solutions intellectual property | **129** | **1.6** | 166 | 2.6 |
| Zimiti intellectual property | **697** | **2.2** | 1,019 | 3.2 |
| Keeneo development costs | **59** | **2.3** | 74 | 3.3 |
| ThruVision intellectual property | **297** | **2.9** | 399 | 3.9 |
| Visimetrics intellectual property | **476** | **3.8** | 603 | 4.8 |

## 15. Inventories

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Raw materials | **1,348** | 1,133 |
| Work in progress | **392** | 42 |
| Finished goods and goods for resale | **2,155** | 604 |
| | **3,895** | 1,779 |

The movement on stock provision during the year is set out below.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Opening provision | **161** | 216 |
| Released | **–** | (55) |
| Increase to provision (charged to cost of sales during year) | **269** | – |
| Closing provision | **430** | 161 |

In addition there was a £227,000 stock write off relating to the reorganisation of Visimetrics (note 6) where there are a number of product lines that are being discontinued as non-core activities.

## 16. Trade and other receivables

| | Gross carrying amounts 2014 £'000 | Provision for impairment 2014 £'000 | Net carrying amounts 2014 £'000 | Gross carrying amounts 2013 £'000 | Provision for impairment 2013 £'000 | Net carrying amounts 2013 £'000 |
|---|---|---|---|---|---|---|
| Trade receivables | **6,562** | **(499)** | **6,063** | 9,344 | (34) | 9,310 |
| Prepayments | **430** | **–** | **430** | 733 | – | 733 |
| Accrued income | **119** | **–** | **119** | 2,273 | – | 2,273 |
| Amounts recoverable on contracts | **692** | **–** | **692** | 718 | – | 718 |
| Other receivables | **402** | **–** | **402** | 50 | – | 50 |
| | **8,205** | **(499)** | **7,706** | 13,118 | (34) | 13,084 |

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables and amounts recoverable on contracts. One customer represents £1,103,000 (2013: £2,426,000) of the Group's trade receivables at 31 March 2014. There is no other significant concentration of credit risk.

In the prior year fair values of the assets and liabilities arising from the Visimetrics acquisition were provisional. Acquisition accounting allows for a review of these values within a 12-month period post acquisition. This has resulted in a £155,000 reduction in the fair value of trade receivables and consequent equal increase in goodwill in the prior year.

The Group believes that the carrying amounts of the Group's trade receivables by the type of customer gives a fair presentation of the credit quality of the assets:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Government customers | **1,451** | 4,117 |
| Commercial customers | **4,612** | 5,193 |
| | **6,063** | 9,310 |

Trade receivables of £1,442,000 (2013: £2,461,000) were past due but not impaired. These relate to a number of independent customers and are considered to be fully recoverable.

The movement in the provision for doubtful debts is as follows:

| | £'000 |
|---|---|
| At 31 March 2012 | 118 |
| Provided in year | 17 |
| Utilised | (36) |
| Released | (65) |
| At 31 March 2013 | 34 |
| Provided in year | 480 |
| Released | (15) |
| **At 31 March 2014** | **499** |

Trade receivables, net of an allowance of £499,000 (2013: £34,000) for doubtful debts, are aged as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Not due | **4,621** | 7,004 |
| Not more than three months past due | **827** | 1,576 |
| More than three months but not more than six months past due | **143** | 396 |
| More than six months past due | **472** | 334 |
| | **6,063** | 9,310 |

## 17. Trade and other payables

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Current** | | |
| Trade payables | **3,096** | 3,892 |
| Accruals | **1,173** | 887 |
| Deferred income | **704** | 190 |
| Social security and other taxes | **520** | 861 |
| Other payables | **115** | 208 |
| | **5,608** | 6,038 |

## 18. Financial liabilities

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Current** | | |
| Incentive shares | **163** | 218 |
| Deferred consideration | – | 665 |
| | **163** | 883 |
| **Non-current** | | |
| Deferred consideration | – | 202 |

On 13 December 2013, 54,376 (2013: nil) Incentive Shares were converted into 282,712 (2013: nil) Ordinary Shares. Further details on the incentive shares are provided in note 20.

The movement in the provision for deferred consideration is shown in note 21c.

## 19. Share capital

| | Number | £'000 |
|---|---|---|
| **Authorised, allotted, called-up and fully paid Ordinary Shares of 1 pence each** | | |
| At 31 March 2012 | 43,727,960 | 437 |
| Shares issued on 3 May 2012 in respect of the acquisition of Keeneo SAS | 59,216 | 1 |
| Shares issued on 2 January 2013 | 7,172,414 | 72 |
| At 31 March 2013 | 50,959,590 | 510 |
| Shares issued in the year | 13,665,026 | 136 |
| **At 31 March 2014** | **64,624,616** | **646** |

| | Number | £'000 |
|---|---|---|
| **Authorised, allotted, called-up and fully paid Incentive Shares of £1 each** | | |
| At 31 March 2013 | 217,500 | 218 |
| **At 31 March 2014** | **163,124** | **163** |

On 5 September 2013, 25,171 Ordinary Shares were issued to satisfy obligations under the Long Term Incentive Plan. On 4 November 2013, 13,357,143 Ordinary Shares were issued at 140 pence per share for a total cash consideration of £18,700,000. On 16 December 2013, 54,376 Incentive Shares were converted into 282,712 Ordinary Shares.

## 20. Employee share schemes

**Long Term Incentive Plan**

Certain employees of the Group receive remuneration in the form of awards under a Long Term Incentive Plan ('LTIP') in the form of nil-cost options and HMRC Approved Options. The Group combines Parallel Options at nil-cost with HMRC Approved Options so that the value awarded to employees is not more than a Top-Up Award.

The performance and service conditions include market conditions, which are set out in the Remuneration report on pages 34 and 35. The total amount to be expensed over the vesting period of the awards is determined by reference to the fair value at the date at which the awards or options are granted and the number of awards that are expected to vest. The fair value is determined using the Stochastic model. Market conditions are incorporated into the fair value calculation at grant date using multiple simulations of the Stochastic model. Expected volatility was determined taking into account historic volatility of the Group's share price and the volatility of similar companies' share price. The number of awards expected to vest are adjusted to reflect the extent to which non-market performance and service conditions are expected to be satisfied, based on conditions prevailing at each balance sheet date and up to the date of vesting. At the vesting date, the cumulative expense recognised in the income statement is adjusted to take account of the number of awards and options that actually vest on the above basis. Parallel Options are valued at the difference between the value of a Top-Up Award and an HMRC Approved Option. At the date of grant, it was assumed that the non-market performance conditions would be met. Adjustments are made subsequently, where necessary, to reflect updated assessments of whether performance conditions will be met.

It is the intention of the Group that shares needed to satisfy awards will be purchased in the market to the extent that they are not already held by the Group's employee share trust, unless it is in the interests of the Group to issue new shares.

The movements in the number of awards and options is shown below:

| | HMRC Approved Options | | Parallel Options | | Top-Up Awards | |
|---|---|---|---|---|---|---|
| | Number of options | Weighted average exercise price £ | Number of options* | Weighted average exercise price £ | Number of awards | Weighted average exercise price £ |
| Outstanding at 31 March 2012 | 387,057 | 1.699 | 387,057* | nil | 414,991 | nil |
| Granted | 229,049 | 1.692 | 229,049 | nil | 698,120 | nil |
| Forfeited | (88,543) | 1.750 | (88,543) | nil | (102,499) | nil |
| Outstanding at 31 March 2013 | 527,563 | 1.692 | 527,563 | nil | 1,010,612 | nil |
| Granted | 212,664 | 1.767 | 212,664 | nil | 571,348 | nil |
| Exercised (i) | (13,353) | 1.560 | (13,353) | nil | (11,818) | nil |
| Forfeited | (270,029) | 1.759 | (270,029) | nil | (322,844) | nil |
| **Outstanding at 31 March 2014** | **456,845** | **1.691** | **456,845** | **nil** | **1,247,298** | **nil** |
| Exercisable at 31 March 2013 | – | – | – | – | – | – |
| **Exercisable at 31 March 2014** | **46,864** | **1.56** | **46,864** | **nil** | **23,636** | **nil** |
| **For the year ended 31 March 2014:** | | | | | | |
| Range of exercise prices | £1.500 – £1.850 | | nil | | nil | |
| Weighted average remaining contractual life | 8.28 years | | 8.28 years | | 8.54 years | |
| For the year ended 31 March 2013: | | | | | | |
| Range of exercise prices | £1.500 – £1.875 | | nil | | nil | |
| Weighted average remaining contractual life | 8.47 years | | 8.47 years | | 8.89 years | |

i) Share price at the date of exercise was £1.560.

*The number of Parallel Options that will vest are not fixed and will, together with an HMRC Approved Option, deliver the same value to the employee as a Top-Up Award.

## 20. Employee share schemes continued

**Assumptions used in the valuation of share-based payment charge**
The fair value of share awards granted in the year and the assumptions used in the calculation of their fair value on the date of grant were as follows:

| | HMRC Approved Options 7 June 2012 | Parallel Options 7 June 2012 | Top-Up Awards 7 June 2012 | HMRC Approved Options 29 June 2012 | Parallel Options 29 June 2012 | Top-Up Awards 29 June 2012 |
|---|---|---|---|---|---|---|
| Number granted | 175,718 | 175,718 | 472,878 | – | – | 28,570 |
| Fair value per option/award | £0.45 | £0.45 | £0.90 | – | – | £0.70 |
| Share price on date of grant | £1.750 | £1.750 | £1.750 | – | – | £1.550 |
| Exercise price | £1.750 | nil | nil | – | – | nil |
| Vesting period (years) | 3.0 | 3.0 | 3.0 | – | – | 3.0 |
| Volatility | 40% | 40% | 40% | – | – | 40% |
| Risk-free rate of return | 0.40% | n/a | n/a | – | – | n/a |
| Expected life (years) | 3.0 | 3.0 | 3.0 | – | – | 3.0 |
| Expected dividend yield | nil | nil | nil | – | – | nil |

| | HMRC Approved Options 7 December 2012 | Parallel Options 7 December 2012 | Top-Up Awards 7 December 2012 | HMRC Approved Options 6 June 2013 | Parallel Options 6 June 2013 | Top-Up Awards 6 June 2013 |
|---|---|---|---|---|---|---|
| Number granted | 53,331 | 53,331 | 196,672 | 137,843 | 137,843 | 418,940 |
| Fair value per option/award | £0.26 | £0.44 | £0.70 | £0.33 | £0.55 | £0.89 |
| Share price on date of grant | £1.500 | £1.500 | £1.500 | £1.850 | £1.850 | £1.850 |
| Exercise price | £1.500 | nil | nil | £1.850 | nil | nil |
| Vesting period (years) | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Volatility | 26.9% | 26.9% | 26.9% | 27.0% | 27.0% | 27.0% |
| Risk-free rate of return | 0.31% | n/a | n/a | 0.52% | n/a | n/a |
| Expected life (years) | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Expected dividend yield | nil | nil | nil | nil | nil | nil |

| | HMRC Approved Options 10 December 2013 | Parallel Options 10 December 2013 | Top-Up Awards 10 December 2013 |
|---|---|---|---|
| Number granted | 74,821 | 74,821 | 152,408 |
| Fair value per option/award | £0.25 | £0.45 | £0.70 |
| Share price on date of grant | £1.615 | £1.615 | £1.615 |
| Exercise price | £1.615 | nil | nil |
| Vesting period (years) | 3.0 | 3.0 | 3.0 |
| Volatility | 23.8% | 23.8% | 23.8% |
| Risk-free rate of return | 0.80% | n/a | n/a |
| Expected life (years) | 3.0 | 3.0 | 3.0 |
| Expected dividend yield | nil | nil | nil |

It has been assumed that there will not be any early exercise of awards.

A charge of £418,000 (2013: £301,000) has been made in the income statement to spread the fair value of the awards over the three-year service obligations of these incentives.

**Employee Benefit Trust**
The Digital Barriers plc Employee Benefit Trust's (the 'Trust') objective is to hold shares in Digital Barriers plc to satisfy awards under the Long Term Incentive Plan. Costs of running the Trust are charged to the income statement. Shares held by the Trust are deducted from the profit and loss reserve and held at cost to the Trust. At 31 March 2014 the Trust did not hold any shares in the Company (2013: nil).

## 20. Employee share schemes continued

**Incentive Shares**

On 22 February 2010, Tom Black, Colin Evans and Zak Doffman were issued a total of 217,500 Incentive Shares totalling £217,500 in a share for share exchange for Digital Barriers Services Limited shares. The Incentive Shares only reward participants if shareholder value is created, thereby aligning the interests of the Executive Directors with those of shareholders. The Incentive Shares carry the right to 12.5% of any increase in the value of the Company in excess of the Retail Prices Index after 1 February 2010. The Incentive Shares do not carry any voting or dividend rights and are not transferable except in limited circumstances.

The holders of Incentive Shares can realise value from the shares either by converting them into Ordinary Shares or by the Company, at its election, responding to a request to so convert the shares by choosing to redeem them.

On issue, in February 2010, the terms relating to the Incentive Shares provided that 50% of the Incentive Shares would vest (ie become capable of conversion into Ordinary Shares) on 1 February 2013 and 50% would vest on 1 February 2014.

The fair value was determined using a Stochastic model. The fair value of the Incentive Shares was recognised as a current liability on the balance sheet as it becomes repayable if the Executive Directors leave office. The fair value of the Incentive Shares was determined to be equivalent to the amount issued (£217,500) and hence no share-based payment charge was recognised.

The valuation of Incentive Shares was determined by running a series of scenarios, which used variables of the amount of equity capital raised at the IPO and the amount of cash used in acquisitions. The scenarios incorporated assumptions on the market valuation of the Company at grant (£3 million), inflation over the period to conversion (2.91%), expected Beta of companies invested in (0.7) and expected equity risk premium at grant date (4.82%). It has also been assumed that there will not be any early exercise of Incentive Shares.

**Modification to terms**

At a General Meeting held on 27 December 2012, the terms relating to the Incentive Shares were changed so that 25% of the Incentive Shares will vest on the date being five business days after the publication of the Company's preliminary results for the immediately preceding financial year and 31 May of that year, whichever is earlier, in each of 2013, 2014, 2015 and 2016.

The total amount to be expensed over the vesting period of the modified Incentive Shares has been calculated in the year by reference to the incremental fair value on 27 December 2012 of the modified Incentive Shares compared to the fair value on 27 December 2012 of the original Incentive Shares. This resulted in a charge to the Consolidated income statement in the year of £106,000 (2013: £35,000). The total incremental fair value chargeable over the period to June 2016 is £246,000.

The key assumptions used in the calculation of the incremental fair value on modification were as follows:

| Conversion date | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|
| Share price volatility | 26.9% | 25.4% | 26.2% | 26.9% |
| Risk-free rate of return | 0.33% | 0.32% | 0.39% | 0.53% |
| RPI | 3.1% | 2.7% | 2.5% | 2.9% |

**Conversion**

The Company was in a close period for much of 2013 and therefore the first conversion date was delayed, consistent with the Articles of Association, until 13 December 2013. On that date 54,376 shares, 25% of the total, were converted into 282,712 Ordinary Shares. Full details as to the basis of calculation are given in the placing document available on the Company's website. The Incentive Shares will immediately vest on a change of control following a takeover bid.

## 21. Business combinations

**a) Business combinations in the year ended 31 March 2014**

There were no acquisitions during the year.

**b) Business combinations during the year ended 31 March 2013**

During the year ended 31 March 2013, the Group acquired the complete product set and intellectual property, along with certain customer contracts, of Enterprise Technologies (UK) Limited ('e-Tech'). The Group also acquired 100% of the voting equity interests in Visimetrics (UK) Limited ('Visi') including its subsidiary OmniPerception Limited ('Omni').

## 21. Business combinations continued

The fair values of the assets and liabilities and the associated goodwill arising from these acquisitions are as follows.

| | e-Tech £'000 | Visi £'000 | Total £'000 |
|---|---|---|---|
| Property, plant and equipment | 7 | 15 | 22 |
| Intangible assets | 58 | 931 | 989 |
| Trade and other receivables | 10 | 218 | 228 |
| Inventories | 149 | 192 | 341 |
| Cash and cash equivalents | – | (41) | (41) |
| Trade and other payables | (17) | (368) | (385) |
| Tax payable | – | (22) | (22) |
| Deferred tax liability | – | (195) | (195) |
| **Net assets acquired** | **207** | **730** | **937** |
| **Goodwill** | **169** | **2,891** | **3,060** |
| **Purchase consideration** | **376** | **3,621** | **3,997** |
| **Cash consideration** | **149** | **3,200** | **3,349** |
| **Discounted fair value of deferred consideration** | **227** | **421** | **648** |

In the prior year fair values of the assets and liabilities arising from the Visimetrics acquisition were provisional. Acquisition accounting allows for a review of these values within a 12-month period post acquisition. This has resulted in a £155,000 reduction in the fair value of trade receivables and consequent equal increase in goodwill in the prior year.

If each of the acquisitions had occurred on 1 April 2012, the Group's pro forma annual revenue and loss before tax for the year ended 31 March 2013, based on unaudited management information for the acquired entities, would have been approximately £24.5 million and £(12.1) million respectively.

**c) Movements on deferred consideration**
The following movements in the amounts recognised for deferred consideration have taken place:

| | Zimiti £'000 | Keeneo £'000 | Stryker £'000 | LMW £'000 | e-Tech £'000 | Visi £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 31 March 2012 | 1,606 | 107 | 729 | 90 | – | – | 2,532 |
| On acquisition | – | – | – | – | 227 | 421 | 648 |
| Unwind of discount | 69 | – | 21 | – | 4 | 5 | 99 |
| Paid | – | (107) | (750) | (60) | (12) | – | (929) |
| Released | (617) | – | – | (30) | (31) | – | (678) |
| Reassessed | (805) | – | – | – | – | – | (805) |
| At 31 March 2013 | 253 | – | – | – | 188 | 426 | 867 |
| Unwind of discount | 7 | – | – | – | – | 20 | 27 |
| Paid | – | – | – | – | (188) | – | (188) |
| Released | (260) | – | – | – | – | (234) | (494) |
| Reassessed | – | – | – | – | – | (212) | (212) |
| **At 31 March 2014** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |

As at 31 March 2014, the maximum deferred consideration payable in the future is £2.35 million (2013: £8.6 million) in relation to the Visimetrics acquisition, and is all based on revenue and profit targets for the year ended 31 December 2014. Up to £1.75 million (2013: £5.4 million) of this may be satisfied through the issue of new Ordinary Shares, and the remainder satisfied in cash.

Adjustments to deferred consideration in the current year comprise releases of £494,000 and reassessments of £212,000 partly offset by the unwind of discount on deferred consideration balances of £27,000. In relation to the e-Tech acquisition, deferred consideration of £188,000 was paid in the year, clearing the remaining balance. The remaining £260,000 balance at Zimiti was released in the year as the target was not achieved. At Visimetrics, £234,000 was released and the remaining £212,000 balance has all been reassessed. The releases and reassessments of deferred consideration totalling £706,000 have been separately disclosed within other income in the Consolidated income statement.

## 22. Financial instruments

### Categories of financial assets and liabilities

The Group had the following financial assets and liabilities:

| | Note | Amortised cost 2014 £'000 | Amortised cost 2013 £'000 |
|---|---|---|---|
| **Assets as per balance sheet** | | | |
| Trade receivables | 16 | **6,063** | 9,310 |
| Accrued income | 16 | **119** | 2,273 |
| Amounts recoverable on contracts | 16 | **692** | 718 |
| Other receivables | 16 | **402** | 50 |
| Cash and cash equivalents | | **14,246** | 5,544 |
| | | **21,522** | 17,895 |

***Fair value hierarchy***

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| | Note | Amortised cost 2014 £'000 | Total 2014 £'000 | Liabilities at fair value through profit and loss 2013 £'000 | Amortised cost 2013 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | | | |
| Trade payables | 17 | **3,096** | **3,096** | – | 3,892 | 3,892 |
| Accruals | 17 | **1,173** | **1,173** | – | 887 | 887 |
| Other payables | 17 | **115** | **115** | – | 208 | 208 |
| Incentive Shares | 18 | **163** | **163** | – | 218 | 218 |
| Deferred consideration (Level 3) | 21c | **–** | **–** | 867 | – | 867 |
| | | **4,547** | **4,547** | 867 | 5,205 | 6,072 |

The Directors estimate that the carrying value of the financial assets and liabilities are not significantly different to their fair value. Please see note 21 and accounting policy for the assumptions used in determining the fair value of deferred consideration. The fair values of other financial assets and liabilities, which are short-term, are not disclosed as the Directors estimate that the carrying amount of the financial assets and liabilities are not significantly different to their fair value.

In accordance with IFRS 3R, the Directors assessed the undiscounted fair value of consideration payable for each acquisition, based on expected cash flows using the pre-tax cost of debt, between 5.9% and 7.2% in the prior year. The Directors have estimated that the remaining fair value of the final Visimetrics deferred consideration, payable in December 2014, is immaterial.

The amounts below are contractual undiscounted cash flows and include both interest and principal amounts.

| | Note | On demand or less than one year 2014 £'000 | One to two years 2014 £'000 | Total 2014 £'000 | On demand or less than one year 2013 £'000 | One to two years 2013 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Trade payables | 17 | **3,096** | **–** | **3,096** | 3,892 | – | 3,892 |
| Accruals | 17 | **1,173** | **–** | **1,173** | 887 | – | 887 |
| Other payables | 17 | **115** | **–** | **115** | 208 | – | 208 |
| Incentive Shares | 18 | **163** | **–** | **163** | 218 | – | 218 |
| Deferred consideration | 21c | **2,350** | **–** | **2,350** | 6,288 | 2,350 | 8,638 |
| | | **6,897** | **–** | **6,897** | 11,493 | 2,350 | 13,843 |

## 22. Financial instruments continued

**Financial risk management**
The Group has a centralised treasury function, providing a service to the Group for funding and foreign exchange management. Treasury activities are managed under policies and procedures approved and monitored by the Board. These are designed to reduce the financial risks faced by the Group, which primarily relate to credit risk, foreign currency risk, interest rate risk and liquidity risk. The Group does not undertake any trading or speculative activity in financial instruments.

**Credit risk**
The Board monitors the Group's exposure to credit risk on an on-going basis. Cash investments are only allowed in liquid securities with major financial institutions that satisfy specific criteria. The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets. Cash investments are broadly split equally between four major financial institutions. The Board carries out a formal review of its banking arrangements on a six-monthly basis. Details of the Group's credit risk on trade and other receivables can be found in note 16.

**Customer concentration risk**
The Group monitors its exposure to customer concentration risk on an on-going basis. The amount of the risk exposure is shown in note 16.

**Foreign currency risk**
Operations are subject to foreign exchange risk from committed transactions denominated in currencies other than their functional currency and, once recognised, the revaluation of foreign currency denominated assets and liabilities.

To mitigate foreign exchange risk arising from transactions denominated in other currencies, forecast revenues and costs are regularly reviewed to assess any potential currency exposures and whether forward currency contracts should be put in place. Approximately 11% (2013: 5%) of Group revenue was invoiced in currencies other than Sterling.

There were no forward currency contracts entered into during the year (2013: nil).

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries. However, this translation risk is not hedged as it is immaterial within the Group and the foreign subsidiaries are regarded as long-term investments.

The Group has total financial assets of £14,246,000 (2013: £5,544,000), of which £13,802,000 (2013: £5,544,000) are Sterling denominated and £444,000 (2013: nil) are in other currencies, mainly USD and Euro.

**Interest rate risk**
The Group has £7,000,000 financial assets on three months' deposit at fixed rates between 0.60% and 0.75% (2013: nil), and all of the remaining balance is instant access, mostly at floating interest rates.

A reasonably possible change in interest rates is 50 basis points. An increase of 50 basis points would give rise to an additional £71,000 (2013: £28,000) of finance revenue. A decrease of 50 basis points would give rise to a reduction in finance revenue of £71,000 (2013: £28,000). A 50 basis points revenue risk on the £7,000,000 of three months' fixed interest deposits is £8,000. The Group is not exposed to interest rate risks on other assets and liabilities, which are transacted on normal commercial terms.

**Liquidity risk**
The Group's policy is to maintain sufficient headroom to meet its foreseeable financing requirements. Substantial financial assets are held by the Group to meet its planned requirements. Further information on the Group's cash position can be found in the Financial review on page 12.

**Capital risk management**
The Group defines its capital as its total equity. At this stage of the Group's development, its policy is to have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefit to investors and to fund its existing operations. At 31 March 2014, total equity amounted to £49,894,000 (2013: £45,893,000).

The declaration and payment by the Group of any future dividends on the Ordinary Shares and the amount will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time. However, given the Group's early stage of development, the Directors do not envisage that the Group will pay dividends in the foreseeable future and intend to reinvest surplus funds in the development of the Group's business. The Board will regularly review the appropriateness of its dividend policy.

## 23. Obligations under operating leases

At year-end, the Group had commitments under non-cancellable operating leases, principally for offices and vehicles, as follows:

| | Land and buildings 2014 £'000 | Other 2014 £'000 | Total 2014 £'000 | Land and buildings 2013 £'000 | Other 2013 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|---|
| **Future minimum lease payments payable** | | | | | | |
| Within one year | **519** | **147** | **666** | 503 | 134 | 637 |
| After one year but not more than five years | **355** | **7** | **362** | 525 | 47 | 572 |
| After five years | **36** | **–** | **36** | 58 | – | 58 |
| | **910** | **154** | **1,064** | 1,086 | 181 | 1,267 |

*The Group has no sub-leases or contingent rentals.*

## 24. Provisions

| | Restructuring provision £'000 | Onerous lease provision £'000 | Total £'000 |
|---|---|---|---|
| At 31 March 2013 | – | – | – |
| Charged to the income statement | 1,198 | 397 | 1,595 |
| Utilisation | (957) | (57) | (1,014) |
| **At 31 March 2014** | **241** | **340** | **581** |
| **Current** | **241** | **179** | **420** |
| **Non current** | **–** | **161** | **161** |

A provision has been recorded in relation to restructuring activities undertaken in the year ended 31 March 2014. The activities associated with this provision are expected to be completed in the year ended 31 March 2015.

A provision has been recognised in relation to lease rentals on vacant properties. The £161,000 non-current provision relates to a lease that expires in 2020.

## 25. Commitments

There are no capital commitments at 31 March 2014 (2013: nil).

The Group has provided guarantees to three (2013: nil) third party customers in relation to the performance and delivery of contracts. No liability is expected to arise as a result of these commitments.

## 26. Related party transactions

**Remuneration**

The remuneration of Directors and other members of key management, recognised in the income statement, is set out below in aggregate. Key management are defined as the Board of Digital Barriers plc and other persons classified as 'persons discharging managerial responsibility' under the rules of the Financial Conduct Authority. Currently no employees outside of the Directors are classified as 'persons discharging managerial responsibility'.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Directors' remuneration | **783** | 819 |
| Gain on vesting of LTIP | **228** | – |
| | **1,011** | 819 |

The highest paid Director received £311,000 (2013: £271,000) in the year. Key management compensation comprises short-term employee benefits (including national insurance) of £888,000 (2013: £928,000) and share-based payments of £58,000 (2013: £25,000).

## 26. Related party transactions continued

There were no related party transactions in the year. During the prior year, Tom Black (Chairman) and John Woollhead (Company Secretary) each engaged our Services Division to provide installation services for them in a private capacity. All transactions were carried out at arms-length market rates. The values of the transactions were £13,000 and £4,000 respectively. There were no amounts outstanding at the prior year-end.

**Other interest in shares**

Other interests in shares of the Directors is included in the Remuneration report on page 38.

## 27. Post balance sheet event

On 8 May 2014, a Group company entered into share purchase agreement for the sale of the entire issued share capital of Margaux Matrix Limited. There are a number of conditions precedent to completion with a longstop date of 8 August 2014. The impact of this transaction is not expected to be material to the Group. The Group has not sold any intellectual property as part of the transaction.

## 28. Principal subsidiaries

In accordance with section 410(2) of Companies Act 2006, the following represent the principal subsidiary undertakings of the Group at 31 March 2014, all of which operate principally in their country of incorporation and are all wholly-owned by the Group:

| Company name | Principal activity | Period of accounts | Group interest in allocated capital | Principally operates in | Country of incorporation |
|---|---|---|---|---|---|
| Digital Barriers Services Limited | Consulting services Integrated security solutions | 1 April 2013 – 31 March 2014 | 100% | UK | England & Wales |
| Digital Barriers SAS (formerly Keeneo SAS) | Proprietary video analytics software solutions | 1 April 2013 – 31 March 2014 | 100% | France | France |
| Codestuff Limited | Internet protocol video solutions | 1 April 2013 – 31 March 2014 | 100% | UK | Scotland |
| Visimetrics Limited | Video surveillance systems | 1 April 2013 – 31 March 2014 | 100% | UK | Scotland |
| OmniPerception Limited* | Standoff facial recognition | 1 April 2013 – 31 March 2014 | 100% | UK | England & Wales |

*Held indirectly via intermediate holding companies.

# Statement of Directors' responsibilities – Company financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and UK Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Generally Accepted Accounting Practice (UK Accounting Standards 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 Company and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent auditors' report to the members of Digital Barriers plc

We have audited the Parent Company financial statements of Digital Barriers plc for the year ended 31 March 2014, which comprise the Company balance sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 73, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2014 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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 Parent Company financial statements.

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

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

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

## Other matter

- We have reported separately on the Group financial statements of Digital Barriers plc for the year to 31 March 2014.

Ernst & Young LLP

**Tony McCartney (Senior Statutory Auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 May 2014

Notes:

1. The maintenance and integrity of the Digital Barriers plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Company balance sheet
at 31 March 2014

| | Note | 31 March 2014 £'000 | 31 March 2013 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 3 | **51,072** | 19,202 |
| **Current assets** | | | |
| Debtors – amounts falling due after one year | 4 | **14,203** | 14,714 |
| Debtors – amounts falling due within one year | 4 | **64** | 103 |
| Total debtors | | **14,267** | 14,817 |
| Cash at bank and in hand | | **10,451** | 24,747 |
| | | **24,718** | 39,564 |
| Creditors: amounts falling due within one year | 5 | **(595)** | (800) |
| **Net current assets** | | **24,123** | 38,764 |
| **Total assets less current liabilities** | | **75,195** | 57,966 |
| Creditors: amounts falling due after more than one year | 6 | **–** | (202) |
| **Net assets** | | **75,195** | 57,764 |
| **Capital and reserves** | | | |
| Called up share capital | 7 | **646** | 510 |
| Share premium account | 8 | **75,879** | 57,989 |
| Capital redemption reserve | 8 | **4,786** | 4,735 |
| Merger reserve | 8 | **106** | 106 |
| Other reserves | 8 | **798** | 453 |
| Profit and loss reserve | 8 | **(7,020)** | (6,029) |
| **Equity shareholders' funds** | 8 | **75,195** | 57,764 |

The financial statements on pages 76 to 80 were approved by the Board of Directors on 27 May 2014 and were signed on its behalf by:

**Colin Evans**
Executive Director

**Sharon Cooper**
Group Finance Director

# Notes to the Company balance sheet
at 31 March 2014

## 1. Accounting policies

**Basis of preparation**
The Company financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards. The financial statements were authorised for issue by the Board of Directors on 27 May 2014 and the balance sheet was signed on the Board's behalf by Colin Evans and Sharon Cooper. The Company has taken advantage of an exemption available in FRS 1 'Cash Flow Statements' and has not prepared a cash flow statement.

**Investments**
Investments in subsidiaries in the Company's balance sheet are held at cost less any accumulated impairment losses. The cost of investment is adjusted for reassessments and settlements of deferred consideration at amounts that differ from the assessments made at the date of acquisition.

Share options granted to subsidiary employees are included within capital contributions within fixed asset investments at the amount of the share-based payment charge incurred by the subsidiary.

Amounts incurred by the Company in respect of services provided by subsidiary employees to that subsidiary are included within capital contributions within fixed asset investments.

**Financial instruments**
The Company has taken advantage of the exemptions available in Financial Reporting Standard (FRS) 29 paragraph 2(d) not to disclose any information relating to financial instruments as the Company's financial statements are included in publicly available consolidated financial statements.

The following policies for financial instruments have been applied in the preparation of the Company's financial statements:

*Cash at bank and in hand*
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

*Debtors*
Debtors are stated at amounts receivable less any provision for recoverability.

**Share-based payments**
Certain employees of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares under the Long Term Incentive Plan ('LTIP'). The LTIP performance and service conditions include market conditions. The total amount to be expensed over the vesting period of the options and LTIP is determined by reference to the fair value at the date at which the options or LTIP are granted and the number of awards that are expected to vest. The fair value is determined using a Stochastic model taking into account any market vesting and non-vesting conditions. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional on a market vesting or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied. At each balance sheet date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions and of the number of equity instruments that will ultimately vest or for an instrument subject to a market condition or non-vesting condition be treated as vesting as described above. The movement in cumulative expense is recognised in the profit and loss account, with a corresponding entry in equity.

The Executive Directors have been issued an aggregate of 217,500 Incentive Shares. The Incentive Shares only reward participants if shareholder value is created, thereby aligning the interests of the Executive Directors with those of shareholders. The Incentive Shares carry the right to 12.5% of any increase in the value of the Company in excess of the Retail Prices Index after 1 February 2010 (as described in note 20 of the Group accounts). The Incentive Shares do not carry any voting or dividend rights and are not transferable except in limited circumstances. The holders of Incentive Shares can realise value from the shares either by converting them into Ordinary Shares or by the Company, at its election, responding to a request to so convert the shares by choosing to redeem them. They are treated as equity-settled awards with a market vesting condition. The total amount to be expensed over the vesting period of the Incentive Shares is determined by reference to the fair value at the date at which the Incentive Shares were acquired. The fair value is determined using a Stochastic model. The fair value of the Incentive Shares has been recognised as a current liability on the balance sheet as it becomes repayable if the Executive Directors leave office. The fair value of the Incentive Shares has been determined to be equivalent to the amount issued and hence no share-based payment charge has been recognised.

At a General Meeting held on 27 December 2012, the terms relating to the Incentive Shares were changed, triggering a revaluation. The total amount to be expensed over the vesting period of the modified Incentive Shares has been calculated in the year by reference to the incremental fair value on 27 December 2012 of the modified Incentive Shares compared to the fair value on 27 December 2012 of the original Incentive Shares. This resulted in a charge to the profit and loss account in the year of £106,000 (2013: £35,000).

## 1. Accounting policies continued

**Employee Benefit Trust**

The Digital Barriers plc Employee Benefit Trust (the 'Trust'), which purchases and holds Ordinary Shares of the Company in connection with certain employee share schemes, is consolidated in the Company's financial statements. Any consideration paid or received by the Trust for the purchase or sale of the Company's own shares is shown as a movement in shareholders' equity.

**Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the recognition of certain items for taxation and accounting purposes.

Deferred tax 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 a right to pay less or to receive more tax. 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 a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences will reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

**Dividends**

Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the year in which the shareholders' right to receive payment is established.

Dividends receivable from the Company's subsidiaries are recognised in the profit and loss account when the right to receive payment is established.

## 2. Loss attributable to members of the Parent Company

As permitted by section 408 of the Companies Act 2006, the Company has not presented its profit and loss account. The loss for the year dealt with in the accounts of the Company was £1,170,000 (2013: £2,547,000).

## 3. Investments

| | Shares in Group undertakings £'000 | Capital contributions £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 31 March 2012 | 19,221 | 285 | 19,506 |
| Additions | 3,882 | 265 | 4,147 |
| Movements in deferred consideration | (1,422) | – | (1,422) |
| At 31 March 2013 | 21,681 | 550 | 22,231 |
| Additions | – | 345 | 345 |
| Recapitalisation | – | 32,000 | 32,000 |
| Movements in deferred consideration | (475) | – | (475) |
| **At 31 March 2014** | **21,206** | **32,895** | **54,101** |
| **Amounts provided** | | | |
| At 31 March 2012 | 1,488 | – | 1,488 |
| Provision for impairment | 1,541 | – | 1,541 |
| **At 31 March 2013 and 31 March 2014** | **3,029** | – | **3,029** |
| **Net book value** | | | |
| **At 31 March 2014** | **18,177** | **32,895** | **51,072** |
| At 31 March 2013 | 18,652 | 550 | 19,202 |

Capital contributions include £32,000,000 (2013: £nil) in relation to the recapitalisation of the investment in Digital Barriers Services Limited ('DBSL'). The recapitalisation was made to provide funds to DBSL as it is the main trading company in the Group.

Further capital contributions in the year relate to share-based payments to employees of subsidiary undertakings of £345,000 (2013: £265,000).

All of the Company's investments are unlisted.

Details of the Company's direct and indirect investments are included in note 28 of the Group accounts.

## 4. Debtors

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Amounts falling due after one year** | | |
| Amounts owed by subsidiary undertakings | **14,203** | 14,714 |
| **Amounts falling due within one year** | | |
| Other debtors | **56** | 82 |
| Prepayments and accrued income | **8** | 21 |
| | **64** | 103 |

## 5. Creditors: amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade creditors | **149** | 64 |
| Accruals | **98** | 41 |
| Deferred consideration | **–** | 477 |
| Incentive Shares (note 7) | **163** | 218 |
| Social security and other taxes | **42** | – |
| Amounts due to subsidiary undertakings | **143** | – |
| | **595** | 800 |

## 6. Creditors: amounts falling due after more than one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Deferred consideration | **–** | 202 |

## 7. Share capital

| | Number | £'000 |
|---|---|---|
| **Authorised, allotted, called-up and fully paid** | | |
| **Ordinary Shares of 1 pence each** | | |
| At 31 March 2012 | 43,727,960 | 437 |
| Shares issued on 3 May 2012 in respect of the acquisition of Keeneo SAS | 59,216 | 1 |
| Shares issued on 2 January 2013 | 7,172,414 | 72 |
| At 31 March 2013 | 50,959,590 | 510 |
| Shares issued in the year | 13,665,026 | 136 |
| **At 31 March 2014** | **64,624,616** | **646** |

| | Number | £'000 |
|---|---|---|
| **Authorised, allotted, called-up and fully paid** | | |
| **Incentive Shares of £1 each** | | |
| At 31 March 2013 | 217,500 | 218 |
| **At 31 March 2014** | **163,124** | **163** |

On 5 September 2013, 25,171 Ordinary Shares were issued to satisfy obligations under the Long Term Incentive Plan.
On 4 November 2013, 13,357,143 Ordinary Shares were issued at 140 pence per share for a total cash consideration of £18,700,000.
On 16 December 2013, 54,376 Incentive Shares were converted into 282,712 Ordinary Shares.

### 8. Reconciliation of shareholders' funds and movements on reserves

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Other reserves £'000 | Profit and loss reserve £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|---|---|---|
| At 31 March 2012 | 437 | 48,012 | 4,735 | – | 188 | (3,553) | 49,819 |
| Shares issued on 3 May 2012 in respect of the acquisition of Keeneo | 1 | – | – | 106 | – | – | 107 |
| Share issue costs | – | (351) | – | – | – | – | (351) |
| Shares issued on 2 January 2013 | 72 | 10,328 | – | – | – | – | 10,400 |
| Share-based payment credit | – | – | – | – | 265 | 71 | 336 |
| Loss for the year | – | – | – | – | – | (2,547) | (2,547) |
| At 31 March 2013 | 510 | 57,989 | 4,735 | 106 | 453 | (6,029) | 57,764 |
| Shares placement | 133 | 18,567 | – | – | – | – | 18,700 |
| Share issue costs | – | (677) | – | – | – | – | (677) |
| Incentive share conversion | 3 | – | 51 | – | – | – | 54 |
| Share-based payment credit | – | – | – | – | 345 | 179 | 524 |
| Loss for the year | – | – | – | – | – | (1,170) | (1,170) |
| **At 31 March 2014** | **646** | **75,879** | **4,786** | **106** | **798** | **(7,020)** | **75,195** |

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

The Capital redemption reserve represents the difference between the proceeds received and the par value of the shares bought back by the Company.

*Other reserves represent share awards granted to subsidiary employees where no repayment has been sought. These amounts are non-distributable.*

### 9. Related party transactions

The Company has taken advantage of the exemption in FRS 8 'Related Party Transactions', paragraph 3c from disclosing transactions with other wholly-owned members of the Group headed by Digital Barriers plc.

Transactions with the Directors of the Company are disclosed in the Remuneration report and in note 26 of the Group accounts.

### 10. Contingent liabilities

The Company has entered into cross-guarantee arrangements in respect of the banking facilities of other Group companies. The Company's exposure at 31 March 2014 was £nil (2013: £nil).

### 11. Statutory and other information

The Company is a public limited company incorporated and domiciled in England and Wales. The Company's Ordinary Shares are listed on the Alternative Investment Market, regulated by the London Stock Exchange.

Directors' remuneration is disclosed in note 26 of the Group accounts.

The fee for the audit of the Company was £5,000 (2013: £5,000). The Company's individual accounts do not disclose fees for other services required by Regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration) Regulations 2008 as exempt because the Group accounts are required to comply with and include the disclosures required by Regulation 5(1)(b).

# Digital Barriers plc
# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING (the 'AGM') of Digital Barriers plc (the 'Company') will be held at the registered office of the Company, Enterprise House, 1–2 Hatfields, London SE1 9PG at 2.00 pm on 23 July 2014 for the purposes of considering and, if thought fit, passing the following resolutions, all of which will be proposed as ordinary resolutions apart from resolutions 8 and 9 which will be proposed as special resolutions.

## Ordinary business

1. To receive and adopt the audited financial statements of the Company for the year ended 31 March 2014 and the reports of the Directors and auditors thereon.
2. To approve the Directors' remuneration report for the year ended 31 March 2014.
3. To elect Sharon Cooper as a Director, who having been appointed since the last Annual General Meeting, offers herself for election in accordance with the Company's Articles of Association.
4. To re-elect Tom Black as a Director.
5. To re-appoint Ernst & Young LLP as auditors of the Company until the conclusion of the next Annual General Meeting of the Company.
6. To authorise the Directors to determine the remuneration of the auditors.

## Special business

7. That, in substitution for any existing authorities and powers granted to the Directors pursuant to section 551 of the Companies Act 2006 (the 'Act') prior to the passing of this resolution, the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Act to exercise all powers of the Company to allot shares in the Company, and to grant rights to subscribe for or to convert any security into such shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being 'relevant securities') up to an aggregate nominal amount of £213,261 and unless previously renewed, revoked, varied or extended this authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling 18 months after the date of passing of this resolution, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if this power had not expired.
8. That, conditional upon the passing of resolution 7 and in substitution for all existing authorities and powers given to the Directors pursuant to section 570 of the Act prior to the passing of this resolution, the Directors are empowered pursuant to section 570(1) of the Act to allot equity securities (as defined in section 560 of the Act) of the Company wholly for cash pursuant to the authority of the Directors under section 551 of the Act conferred by resolution 7 above, and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if section 561(1) of the Act did not apply to any such allotment, provided that such power conferred by this resolution shall be limited to:

   (a) the allotment of equity securities in connection with an invitation or offer of equity securities to the holders of Ordinary Shares in the capital of the Company (excluding any shares held by the Company as treasury shares (as defined in section 724(5) of the Act)) on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such shares or in accordance with the rights attached to such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, record dates or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever; and

   (b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of equity securities up to a maximum nominal amount equal to £32,312;

   and unless previously renewed, revoked, varied or extended this power shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling 18 months after the date of passing of this resolution, except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired.

9. That the Company be and is hereby generally and unconditionally authorised (pursuant to section 701 of the Act) to make one or more market purchases (as defined in section 693(4) of the Act) on the London Stock Exchange plc (the 'Exchange') of any of its own Ordinary Shares of 1 pence each ('Ordinary Shares') on such terms and in such manner as the Board of Directors of the Company may from time to time determine provided that;

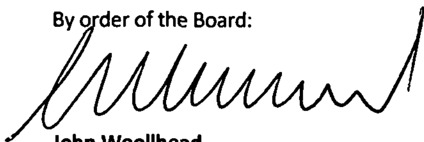
   (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 6,462,461;

   (b) the maximum price (excluding expenses) which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share on the AIM appendix of the Daily Official List of the Exchange for the five business days before the day on which the purchase is made;

   (c) the minimum price which may be paid for an Ordinary Share is 1 pence exclusive of attributable expenses payable by the Company; and

   (d) the authority conferred by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company or 18 months after the date of its passing (whichever shall first occur), except that the Company may, before such expiry, enter into a contract for the purchase of Ordinary Shares which may be completed by or executed wholly or partly after the expiration of this authority.

By order of the Board:



**John Woollhead**
Company Secretary

27 May 2014

Registered Office
Enterprise House
1–2 Hatfields
London SE1 9PG

## Appendix 1

**Resolution 7 – Directors' power to allot relevant securities**
This resolution grants the Directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £213,261, representing approximately one-third of the nominal value of the issued Ordinary Share capital of the Company as at 27 May 2014, being the latest practicable date before publication of this notice. The relevant circumstances are likely to be where a new issue of shares are used to acquire the share capital of a target acquisition. Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company or the date falling 18 months from the passing of the resolution, whichever is the earlier.

**Resolution 8 – Directors' power to issue shares for cash**
This resolution authorises the Directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £32,312, representing approximately 5% of the nominal value of the issued Ordinary Share capital of the Company as at 27 May 2014, being the latest practicable date before publication of this notice. Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company or 18 months after the passing of the resolution, whichever is the earlier.

**Resolution 9 – Directors' authority to purchase shares (market purchases)**
This resolution authorises the Directors to make market purchases of up to 6,462,461 Ordinary Shares (representing approximately 10% of the Company's issued Ordinary Share capital as at 27 May 2014, being the latest practicable date before publication of this notice). Shares so purchased may be cancelled. The authority will expire at the end of the next Annual General Meeting of the Company or 18 months from the passing of the resolution, whichever is the earlier. The Directors intend to seek renewal of this authority at subsequent Annual General Meetings.

The minimum price that can be paid for an Ordinary Share is 1 pence, being the nominal value of an Ordinary Share. The maximum price that can be paid is 5% over the average of the middle market prices for an Ordinary Share, derived from the AIM appendix of the Daily Official List of the London Stock Exchange, for the five business days immediately before the day on which the relevant share is contracted to be purchased.

The Directors intend to exercise this right only when, in light of the market conditions prevailing at the time and taking into account all relevant factors (for example, the effect on earnings per share), they believe that such purchases are in the best interests of the Company and its shareholders generally. The overall position of the Company will be taken into account before deciding upon this course of action.

**Explanatory Notes on proxy voting:**

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder, as his or her proxy to exercise all or any of his or her rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided on the reverse of the proxy form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name on the reverse of the proxy form, the number of shares in relation to which they are authorised to act as your proxy. If returned without an indication as to how the proxy shall vote on any particular matter, the proxy will exercise his or her discretion as to whether, and if so how, he or she votes (or if this proxy form has been issued in respect of a designated account for a shareholder, the proxy will exercise his or her discretion as to whether, and if so how, he or she votes).
2. To appoint more than one proxy, an additional proxy form(s) may be obtained by contacting the Registrar's helpline on 0870 707 1889 or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name on the reverse of the proxy form the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by marking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
3. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at close of business on the day which is two days before the day of the meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. The address on the proxy form is how it appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0870 707 1889 to request a change of address form or go to www.investorcentre.co.uk to use the online Investor Centre service.
7. Any alterations made to this form should be initialled.
8. The completion and return of this form will not preclude a member from attending the meeting and voting in person.

# Officers and professional advisors

## Directors and officers

**Tom Black**
Executive Chairman

**Colin Evans**
Executive Director

**Zak Doffman**
Executive Director

**Sharon Cooper**
Group Finance Director

**Bernie Waldron**
Non-Executive Director

**Paul Taylor**
Non-Executive Director

**John Woollhead**
Company Secretary

## Registered Office

Enterprise House
1–2 Hatfields
London SE1 9PG

Registered No: 07149547

## Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

## Auditors

Ernst & Young LLP
1 More London Place
London, SE1 2AF

## Nominated Advisor

Investec
2 Gresham Place
London
EC2V 7QP

## Financial PR

F T I Consulting
Holborn Gate, 26 Southampton Buildings
London WC2A 1PB

## Bankers

HSBC
City of London Corporate Banking Centre
60 Queen Victoria Street
London EC4N 4TR

## Solicitors

Osborne Clarke
One London Wall
London EC2Y 5EB

Digital Barriers provides advanced surveillance technologies to the international homeland security and defence markets, specialising in 'edge-intelligent' solutions that are designed for remote, hostile or complex operating environments. We work with governments, multinational corporations and system integrators in the defence, law enforcement, critical infrastructure, transportation and natural resources sectors. Our surveillance technologies have been successfully proven on some of the most demanding operational and environmental deployments around the world.

**www.digitalbarriers.com**