Digital Barriers

29 November 2016

Digital Barriers plc

(“Digital Barriers” or the “Group”)

Interim Results for the six months ended 30 September 2016

Digital Barriers (AIM: DGB) the specialist provider of visually intelligent technologies to the global surveillance, security and safety markets, announces its unaudited results for the six months ended 30 September 2016.

Key Highlights

- Total Group revenue recognised in the period up 95% to £13.0m (H116: £6.7m), including a full contribution from Brimtek (acquired on 1 March, 2016)
- Organic revenues, excluding Brimtek, recognised in the period were broadly flat at £6.9m (H116: £6.7m), although international organic revenues grew 18% to £6.1m (H116: £5.1m), and would have been close to double had contracts secured in September delivered before the period-end
- Organic sales (i.e. new order intake) in the period grew strongly, up 67% to £13.2m (H116: £7.9m), of which £9.3m was secured in September alone, contributing to the Group having booked approximately 50% of the Board's revenue expectation for the financial year as a whole by the period-end
- £5.2m of organic contracted orders carried over for delivery in the second half, up 64% on the contracted order book for second half delivery at the same point last year (H116: £3.2m)
- Adjusted losses before tax from continuing operations for the period were flat at £4.2m (H116: £4.2m), with the unadjusted loss from continuing operations down 8% to £4.8m (H116: £5.2m)
- Brimtek now fully integrated, with good progress made in evolving its focus from third-party products to the Group’s proprietary technologies; as a result, organic revenue growth in the United States was especially strong in the period, with revenues from the Group’s own solutions up more than fivefold to $5.6m (H116: $1.0m)
- Sales highlights in the period included more than $8m of EdgeVis video surveillance solutions to a number of US flagship agencies, a $1.65m investment in ThruVis by the US Transportation Security Administration (TSA), a £2m follow-on contract from BT Redcare, and a £1m contract with an existing transportation customer in Asia-Pacific
- Net cash at the end of the period was £3.4m (H116: £5.9m), and since the period-end the Group has established a £10m revolving credit facility to help provide working capital to underpin further growth

Commenting on the results, Tom Black, Chairman of Digital Barriers, said:

"The highlight of the period was undoubtedly organic sales growth, up 67% across the Group, with the organic contracted order book carrying into the second half up 64% on the year before. Our US business was especially strong, with material sales and revenue growth for our own solutions into multiple flagship government agencies. This illustrates why it was so important to acquire a platform in the US on which to build. The period saw strong US momentum in EdgeVis surveillance sales, and an initial TSA investment into ThruVis for mass-transit security, which is especially significant given that it is the world’s pre-eminent transportation security authority, often setting international standards.

It is clear that we have now established a strong organic growth engine, selling our highly-differentiated solutions into a wide range of flagship customers around the world. Growth itself is not our primary challenge, but rather the timing of contract awards in relation to financial period-ends. We have developed a business that can grow materially over the coming years, but managing the orderly timing of that growth will be a continuing challenge.

The global security context continues to worsen, with a focus on mass-migration, international terrorism and escalating regional tensions, all of which drive increased spend on border and homeland security, specialist areas of defence and cross-border identity assurance. We have compelling, proven and uniquely capable solutions across all of these areas, and we have customers and partners in each of the major markets around the world. Our focus remains on continued sales momentum leading to material revenue scale, break-even, and then consistent year-on-year profitability.”

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About Digital Barriers:

Digital Barriers provides visually intelligent solutions to the global surveillance, security and safety markets. We deliver zero-latency streaming and analysis of secure video and related intelligence over wireless networks, including cellular, satellite, IP mesh and cloud, utilising significantly less bandwidth than standard technologies.

Our rapidly-installed fixed and mobile solutions for covert, remote and wide-area deployments, as well as vehicle and body-worn applications, have been sold into more than fifty countries, and have been proven in some of the world's most demanding operational environments. We also provide advanced video content analysis and body scanning to identify safety concerns and threats in real-time.

www.digitalbarriers.com

Chairman's Statement

A context for significant growth

The news of the last few months has been dominated by Brexit and the US Presidential election, where, in both cases, hard fought campaigns led to results that many found surprising. One of the few constants throughout both campaigns, and following both results, has been a focus on the global security context, encompassing the continued threat from international terrorism as well as instability in the Middle East, Eastern Europe, the South China Sea and Northeast Asia.

Since its inception, Digital Barriers has acquired, integrated and developed a number of highly-differentiated technologies that are now being sold to security, law enforcement and defence agencies around the world responsible for keeping us safe. Although we have since widened our focus to include major commercial organisations with a requirement for class-leading live video streaming and analytics applications, the vast majority of our revenues still come from flagship government agencies. We believe the combination of the sustained and volatile global security context, and the range of advanced solutions we now offer, can support material growth for Digital Barriers for many years to come.

The Group delivered strong organic sales growth (i.e. new order intake) this period, up 67% to £13.2m (H116: £7.9m), of which £5.2m has been carried over for delivery in the second half. Revenue recognised in the period grew 95% on last year to £13.0m (H116: £6.7m), including a full contribution from Brimtek. Organic revenues, excluding Brimtek, recognised in the period were broadly flat at £6.9m (H116: £6.7m), although international organic revenues grew 18% to £6.1m (H116: £5.1m), and would have been close to double had contracts secured in September delivered before the period-end. Adjusted losses before tax from continuing operations for the period were flat at £4.2m (H116: £4.2m), with the loss from continuing operations down 8% to £4.8m (H116: £5.2m). Net cash at the end of the period was £3.4m (H116: £5.9m), and since then we have secured a £10m revolving credit facility to help provide the working capital to support growth, easing some of the challenges around period-end deliveries.

The ongoing challenge of timing

The timing of contract awards remains our challenge, rather than growth itself. The nature of the customers and regions we sell into often gives us limited levers to control timing. Frequently we are subject to delays which result from lengthy government procurement policies and processes. This challenge has not gone away, and as we continue to grow we will likely be presented with ever larger and more strategic procurements to navigate. The £9.7m of contracts secured in September alone, of which only £3.8m delivered by the period-end, is a clear illustration of this. Increasing scale and reach, as well as improved familiarity with markets and customers over time, will mean that we will be better placed to manage this challenge in the future. We are also looking at developing additional run rate and recurring revenue lines, including offerings within our SmartVis and CloudVis portfolios, to better facilitate forecasting business performance. But for now, the timing of contract awards remains the key risk in meeting forecasts from one period to the next.

Despite this challenge, the growth opportunity for the Group has never been better, strengthening materially in the last couple of years, and our overall sales pipeline now stands at more than £250m, up 135% on this time last year, of which more than £150m is addressable within the next 18 months. The scale of this market opportunity is driven by a worldwide focus on secure borders, prevention of terrorism, counter-insurgency and control of mass-migration. These imperatives are behind the ongoing adoption of our solutions by flagship US agencies, major border and homeland security programmes we are pursuing in Asia, and the strategic positioning we are targeting in EMEA.

Our confidence also comes from the fact that our solutions are built around our own world-class technology, which continues to enjoy very significant differentiation over its competition. We stream live video from fixed locations, vehicles, even body-worn cameras, more efficiently than any other technology in the world. We offer a 'digital wall' border or perimeter security solution that is more effective than a physical barrier at a fraction of the price. We have the only passive camera in the world proven to detect explosives and weapons concealed under clothing without disrupting passenger throughput at transit hubs or slowing entry into other 'soft targets'. In addition, our new facial recognition solution, which works across multiple devices, including smartphones, to provide cloud-based identity assurance and threat mitigation, secured a competitive counter-terrorism contract with a major European MOD within weeks of launch.

Building meaningful global sales momentum

Since inception, we have maintained that international sales and revenue will drive our development, accessing a vast and growing market. More than 90% (H116: 77%) of our revenues already come from customers outside the UK, and we believe the international opportunity for us is getting ever-larger, given the global security context set out above.

We secured more than £10m of contract awards with major US federal agencies during the period, and it is the performance of our US business, following on from the acquisition of Brimtek completed on 1 March 2016, which is the stand-out success. Brimtek's legacy business 'passed through' or 'product-integrated' a range of third-party technologies. As a consequence, its gross margin was significantly lower than our own. Nevertheless, Brimtek's customer-base viewed it as a trusted, established and important player within the defence and security supply chain. At the time of the acquisition, we made it clear that the rationale for bringing Brimtek into the Group was to increase significantly the potential for the sale of Digital Barriers' solutions into US defence and law enforcement customers, by leveraging the scale, heritage and credibility of Brimtek as a sales and supply chain platform. Brimtek enables us to pursue meaningful sales of high-margin, highly-differentiated products to the most aspirational customer base in our sector anywhere in the

world, and it is very encouraging to see the very earliest of these pursuits paying off. The fivefold growth in organic revenues delivered in the US in the period could not have been achieved without Brimtek, and the position we are now building across federal law enforcement and defence agencies will be a major driver of growth over the coming years, with a continuing transition from legacy Brimtek sales to our own solutions to improve margins.

All that said, and as a further example of the timing of contract awards being much more of a challenge for us than growth itself, the change of administration and leadership across key US agencies and departments following the election brings a very short term risk of inertia, which may have an impact on some of our planned US revenues in the second half of the year. Nevertheless, we are under no doubt that our direction of travel in the US is toward very material growth. We expect the election result to provide significant opportunities for Digital Barriers through the lifetime of the Administration, given its stated focus on homeland security, border security and defence. We expect to see very strong growth from new and existing US customers from the next financial year onwards.

Outside the US, during the period we secured a £2m follow-on contract from BT Redcare in the UK and a £1m follow-on contract with a transportation customer in Asia-Pacific. Since the period-end, we have also secured a €0.4 million follow-on contract from a major European transportation customer, announced a technology collaboration with G4S for public event security and have become preferred supplier for a significant European counter terrorism solution.

Asia-Pacific, having delivered very strong revenue growth for us over the last three years, produced fewer sales in this period as we expended the majority of our efforts on our positioning for several forthcoming major procurements to underpin growth in the region for several years to come. This is going well and we expect some of this investment to translate into preferred supplier status and contract awards before the end of this financial year. Our EMEA region has been established to bring together our UK, Europe and Middle East teams. This is now working effectively and we expect to see revenue growth this financial year, as we devote increased management attention to this region.

Technology solutions aligned to key market themes

We will deliver continued momentum and growth because the proprietary, patented technologies we have acquired and developed play into a number of major themes that are central to security and defence strategies around the world:

- Seminal improvements in public, first responder and military safety and operational effectiveness, come from streaming live video from every vehicle, soldier, police officer, and public safety worker: **EdgeVis Live** delivers real-time video over wireless networks more effectively and efficiently than any other technology anywhere in the world. Over the coming years, all law enforcement vehicles will have the ability to deliver live video from the field. And the current rollout of body worn cameras, dominated by outdated record-only solutions, will inevitably give way to live streaming solutions. Our technology requires up to 60% less bandwidth than competing technologies, which means it works in the real world and it delivers very material cost savings as well.

- Border and critical infrastructure security has risen to the top of the security agenda for governments around the world. Our **EdgeVis Shield** integrated surveillance platform was initially developed to provide a front line force protection capability for the UK Ministry of Defence during its engagement in Afghanistan. It erects a 'digital wall' along unlimited lengths of borders or perimeters. It is exceptionally cost-effective, at less than 5% of the cost of a physical border or perimeter wall. It can be rapidly and flexibly deployed. And it can detect and track any incursion, any breach, anywhere. This now includes monitoring for tunnels underneath 'fence lines' as well as drones overhead. The technology has been successfully deployed in every conceivable jungle, desert, remote, hostile and urban environment. The same technology is being used to protect transportation hubs, oil and gas networks, and military bases, whether on home soil or in hostile overseas locations.

- Crowded public spaces, whether airports, mass-transportation hubs or entertainment venues, are increasingly viewed as 'soft targets' vulnerable to terrorist attack. Our **ThruVis** technology is uniquely capable of detecting threats to life, such as weapons and explosives, concealed under clothing as would-be attackers enter these locations. Furthermore, it does this entirely passively using nothing more than a proprietary highly-sensitive camera, and it does this at standoff distances without slowing down passenger throughput. It is the unique nature of this capability, developed over more than ten years and with tens of millions of pounds of public and private investment, that prompted the US Transportation Security Administration (TSA) to invest in its deployment for mass-transit security and for G4S to recognise its potential to protect public events.

- There are too many CCTV video surveillance cameras in operation to be viewed effectively. The danger is they become a forensic tool, establishing "what happened when" but not alerting to "what's happening now". Our **SmartVis** and **CloudVis** software platforms provide government-accredited video intelligence that can be embedded on cameras or accessed in the cloud to provide real-time alerts. We are integrating SmartVis with EdgeVis Live and EdgeVis Shield to provide even more differentiation across our solutions. We have also secured a number of OEM contracts with major industry players for this software on a licensed basis.

- The newest addition to our technology portfolio is **SmartVis Face**, which delivers the same industry-leading differentiation as our other solutions. Still in the early stages of its release, this facial recognition technology has already secured a major contract with a European Ministry of Defence for counter-terrorism applications and is under test deployment with special operations and law enforcement agencies in a number of countries. Operating on fixed or wireless cameras, and even on smartphones and body-worn devices, the technology can compare passing faces to watch lists, delivering real-time alerts on seeing any persons of interest. It can also be used for 1:1 biometric identity assurance, within standoff and non-consensual applications. As with our wider SmartVis platform, we are already engaged in a number of discussions to license this software.

Financials

Revenue and Gross Margin

Group revenue in the period, including a full period contribution from Brimtek, increased 95% to £13.0m in the six-months ended 30 September 2016 compared to £6.7m in the same period last year. This increase is primarily a result of the expansion of revenue from North America, aided by the acquisition of Brimtek Inc. in March 2016 with revenues from North America increasing from £0.6m in H116 to £10.2m in H117.

The Group generated a gross profit of £4.3m (H116: £3.5m), which equates to a gross margin of 33%, a decrease on the Group's gross margin of 53% in H116. This gross margin decrease is largely due to mix effect, with the addition of Brimtek revenues in the period. Brimtek legacy revenues attract a lower gross margin compared to sales which include the Group's technology. The gross margin attached to revenues which do include our technology has reduced marginally from 53% in H116 to 50% in H117 reflecting significant sales success in the US market for a newly launched family of Digital Barriers products, whose margin will improve in the future as engineering innovations are implemented.

Adjusted Loss

The adjusted loss before tax was £4.2m (H116: £4.2m) from continuing operations, with significant revenue growth offset by increased administration costs, primarily driven by a full period of the acquired Brimtek cost base. On an unadjusted basis the loss from continuing operations for the period was £4.8m (H116: £5.2m).

Discontinued Operations

On 1 April the Board signed an agreement for the disposal of the Services segment to its existing management team for £1. The disposal group was classified as held for sale in March 2016, with the sale completed on 19 May 2016. The loss from discontinued operations of £0.2m (H116: £0.5m) reflects the trading loss of the division up until the date of completion.

Cash

The Group ended the period with a £3.4m net cash balance (H116: £5.9m, FY16: £10.8m). Net cash outflow from operating activities was £7.2m (H116: £2.7m). Capital expenditure in the period of £0.4m (H116: £0.1m) accounts for the balance of the cash spend. On 17th October the Group replaced an existing £5.0 million secured working capital facility for export activities with a new two-year £10.0 million secured revolving credit facility with Investec Bank plc. The funds available through this facility will be used to meet the increasing working capital requirements of the Group's organic growth.

Outlook

It is because we sell to flagship customers around the world that we are so well positioned for material growth over the coming years. But, as set out above, the nature and scale of those same customers makes the timing of the contract awards that underpin our growth difficult to control. This is the balancing act that will continue to define us until we reach the scale of revenue where we can exert significantly more control over the timing of contract awards. Until then, meeting short-term targets will remain an ongoing challenge that will need to be managed.

The Board remains extremely positive about the future of the business and is anticipating material growth in the second-half of the financial year. The growth trajectory of the Group will deliver continued momentum towards break-even and beyond, making consistent year-on-year profitability highly achievable in a global market that is large and growing larger.

Independent review report to Digital Barriers plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 6 months ended 30 September 2016 which comprises 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 related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union and the AIM Rules issued by the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 6 months ended 30 September 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and in accordance with the AIM Rules issued by the London Stock Exchange.

Ernst & Young LLP
London
29 November 2016

DIGITAL BARRIERS PLC
Consolidated income statement
for the six months ended 30 September 2016

	Note	**6 months ended 30 September 2016 Unaudited £'000**	6 months ended 30 September 2015 Unaudited £'000	Year ended 31 March 2016 Audited £'000
Continuing operations				
Revenue	2	**13,037**	6,688	21,136
Cost of sales		**(8,688)**	(3,165)	(10,619)
Gross profit		**4,349**	3,524	10,517
Administration costs		**(10,793)**	(8,832)	(17,500)
Other income / (costs)		**509**	-	(1,718)
Operating loss		**(5,935)**	(5,320)	(8,701)
Finance revenue		**1,310**	14	227
Finance costs		**(323)**	(2)	(32)
Loss before tax		**(4,948)**	(5,308)	(8,506)
Income tax		**182**	145	716
Loss for the period / year from continuing operations		**(4,766)**	(5,163)	(7,790)
Discontinued operations				
Loss from discontinued operation (net of tax)		**(192)**	(501)	(4,832)
Loss for the period / year		**(4,958)**	(5,664)	(12,622)

Adjusted loss:	3			
Loss before tax from continuing operations		**(4,948)**	(5,308)	(8,506)
Amortisation of intangibles initially recognised on acquisition		**864**	633	1,320
Share-based payment	3	**430**	437	792
Acquisition related costs and exceptional write off of bad debt		**(509)**	-	1,718
Adjusted loss before tax for the period / year from continuing operations		**(4,163)**	(4,238)	(4,676)

(Loss) per share – continuing operations				
(Loss) per share - basic	4	**(2.88p)**	(6.11p)	(7.42p)
(Loss) per share - diluted	4	**(2.88p)**	(6.11p)	(7.42p)
(Loss) per share – adjusted*	4	**(2.42p)**	(4.88p)	(3.82p)
(Loss) per share - adjusted diluted*	4	**(2.42p)**	(4.88p)	(3.82p)
(Loss) per share – continuing and discontinued operations				
Loss per share – basic		**(3.00p)**	(6.70p)	(12.02)
Loss per share - diluted		**(3.00p)**	(6.70p)	(12.02)

* As explained in note 3, the basis of calculation was adjusted in 31 March 2016 to include share-based payment charges. Comparative figures for the period to 30 September 2015 has been updated to incorporate this change.

DIGITAL BARRIERS PLC
Consolidated statement of comprehensive income
for the six months ended 30 September 2016

	6 months ended 30 September 2016 Unaudited £'000	6 months ended 30 September 2015 Unaudited £'000	Year ended 31 March 2016 Audited £'000
Loss for the period / year from continuing operations	**(4,766)**	(5,163)	(7,790)
Loss for the period / year from discontinued operations	**(192)**	(501)	(4,832)
Loss for the period / year attributable to owners of the parent	**(4,958)**	(5,664)	(12,622)
Other comprehensive income from continuing operations			
Other comprehensive income that may be subsequently reclassified to profit and loss:			
Exchange differences on retranslation of foreign operations	**464**	28	123
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**464**	28	123
Total comprehensive loss attributable to owners of the parent	**(4,494)**	(5,636)	(12,499)

DIGITAL BARRIERS PLC
Consolidated statement of financial position
at 30 September 2016

	Note	**30 September 2016 Unaudited £'000**	30 September 2015 Unaudited £'000**	31 March 2016 Audited £'000
Assets				
Non current assets				
Property, plant and equipment		**1,025**	566	828
Goodwill		**24,196**	18,218	23,323
Other intangible assets		**11,519**	1,269	11,397
		36,740	20,053	35,548
Current assets				
Inventories		**6,647**	3,673	4,906
Trade and other receivables		**12,997**	7,162	13,239
Other financial asset		**425**	-	193
Current tax recoverable		**657**	533	1,022
Cash and cash equivalents*		**3,409**	16,601	25,599
		24,135	27,969	44,959
Non-current assets classified as held for resale		**-**	180	35
Total assets		**60,875**	48,202	80,542
Equity and liabilities				
Attributable to owners of the parent				
Equity share capital	6	**1,760**	845	1,760
Share premium		**109,078**	82,757	109,078
Deferred shares		**-**	109	-
Capital redemption reserve		**4,786**	4,786	4,786
Merger reserve		**454**	454	454
Translation reserve		**(281)**	(840)	(745)
Other reserves		**(307)**	(307)	(307)
Retained earnings		**(65,184)**	(54,053)	(60,656)
Total equity		**50,306**	33,751	54,370
Non current liabilities				
Deferred tax liabilities		**39**	89	57
Financial liabilities		**1,080**	-	975
Provisions		**106**	188	119
		1,225	277	1,151
Current liabilities				
Trade and other payables		**7,549**	3,439	9,126
Financial liabilities		**1,759**	54	1,097
Bank loan and overdraft*		**-**	10,661	14,763
Provisions		**36**	20	35
		9,344	14,174	25,021
Liabilities directly associated with non-current assets classified as held for sale		**-**	-	-
Total liabilities		**10,569**	14,451	26,172
Total equity and liabilities		**60,875**	48,202	80,542
***Net cash and cash equivalents (grossed up above in accordance with IAS 32)**		**3,409**	6,190	10,836

** Restate for gross up of cash and bank overdraft position in accordance with IAS 32

DIGITAL BARRIERS PLC
Consolidated statement of changes in equity
for the 6 months ended 30 September 2016

	Ordinary 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 2015	845	82,757	4,786	454	(868)	(307)	(48,826)	38,841
Loss for the period	-	-	-	-	-	-	(5,664)	(5,664)
Other comprehensive income	-	-	-	-	28	-	-	28
Total comprehensive loss	-	-	-	-	28	-	(5,664)	(5,636)
Incentive share conversion	109	-	-	-	-	-	-	109
Share-based payment credit	-	-	-	-	-	-	437	437
At 30 September 2015	954	82,757	4,786	454	(840)	(307)	(54,053)	33,751
Loss for the period	-	-	-	-	-	-	(6,958)	(6,958)
Other comprehensive income	-	-	-	-	95	-		95
Total comprehensive loss	-	-	-	-	95	-	(6,958)	(6,863)
Share placement	806	27,394	-	-	-	-	-	28,200
Share issue cost	-	(1,073)	-	-	-	-		(1,073)
Share-based payment credit	-	-	-	-	-	-	355	355
At 31 March 2016	1,760	109,078	4,786	454	(745)	(307)	(60,656)	54,370
Loss for the period	-	-	-	-	-	-	(4,958)	(4,958)
Other comprehensive income	-	-	-	-	464	-	-	464
Total comprehensive loss	-	-	-	-	464	-	(4,958)	(4,494)
Share-based payment credit	-	-	-	-	-	-	430	430
At 30 September 2016	**1,760**	**109,078**	**4,786**	**454**	**(281)**	**(307)**	**(65,184)**	**50,306**

DIGITAL BARRIERS PLC
Consolidated statement of cash flows
for the 6 months ended 30 September 2016

	6 months ended 30 September 2016 Unaudited £'000	6 months ended 30 September 2015 Unaudited £'000	Year ended 31 March 2016 Audited £'000
Operating activities			
Loss before tax	**(5,140)**	(5,809)	(13,338)
Non-cash adjustment to reconcile loss before tax to net cash flows			
Depreciation of property, plant and equipment	**206**	201	415
Amortisation of intangible assets	**902**	828	1,530
Impairment of goodwill	**-**	-	3,582
Impairment of intangible assets	**-**	-	37
Share-based payment transaction expense	**430**	437	792
Unrealised (gains)/losses on foreign exchange	**(517)**	-	42
Disposal of fixed assets	**-**	-	15
Finance revenue	**(1,310)**	(14)	(227)
Finance costs	**323**	2	32
Working capital adjustments:			
Decrease / (increase) in trade and other receivables	**701**	1,707	(2,452)
(Increase) / decrease in inventories	**(1,705)**	647	2,088
Decrease in trade and other payables	**(1,791)**	(1,681)	(1,047)
Increase / (decrease) in deferred revenue	**214**	(146)	300
(Decrease) / increase in provisions	**(14)**	47	(8)
Cash utilised in operations	**(7,701)**	(3,781)	(8,239)
Interest paid	**(8)**	-	(32)
Tax received	**546**	1,098	1,146
Net cash flow from operating activities	**(7,163)**	(2,683)	(7,125)
Investing activities			
Purchase of property, plant & equipment	**(377)**	(84)	(375)
Expenditure on intangible assets	**(7)**	(5)	(12)
Interest received	**8**	12	27
Acquisition of subsidiary, net of debt acquired	**-**	-	(17,511)
Net cash flow from investing activities	**(376)**	(77)	(17,871)
Financing activities			
Proceeds from issue of shares	**-**	-	28,200
Share issue costs	**-**	-	(1,073)
Bank loan	**-**	250	-
Net cash flow from financing activities	**-**	250	27,127
Net decrease in cash and cash equivalents	**(7,539)**	(2,510)	2,131
Cash and cash equivalents at beginning of period / year	**10,836**	8,701	8,701
Effect of foreign exchange rate changes on cash and cash equivalents	**112**	(1)	4
Cash and cash equivalents at end of period / year	**3,409**	6,190	10,836

Reconciliation of net cash and cash equivalents			
Cash and cash equivalents (disclosed within current assets)	**3,409**	16,601	25,599
Bank overdraft (disclosed within current liabilities)	**-**	(10,411)	(14,763)
Net cash and cash equivalents at end of period / year	**3,409**	6,190	10,836

1. Accounting policies

Basis of preparation

The consolidated interim financial statements include those of Digital Barriers plc and all of its subsidiary undertakings (together “the Group”) drawn up at 30 September 2016, and have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) as adopted for use in the European Union (“EU”). The consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the consolidated financial statements for the period ended 31 March 2016.

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

Accounting policies

The annual consolidated financial statements of the Group are prepared on the basis of International Financial Reporting Standards (“IFRS”). The consolidated interim financial statements are presented on a condensed basis as permitted by IAS 34 and therefore do not include all the disclosures that would otherwise be required in a full set of financial statements and should be read in conjunction with the most recent Annual Report and Accounts which were approved by the Board of Directors on 26 June 2016 and have been filed with Companies House. The condensed interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and are unaudited for all periods presented. The financial information for the 12-month period ended 31 March 2016 is extracted from the financial statements for that period. The auditors’ report on those financial statements was unqualified and did not contain an emphasis of matter reference and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The comparative statement of comprehensive income has been re-presented as if an operation discontinued during the prior year had been discontinued from the start of the comparative year. The comparative statement of financial position has been restated to gross up cash and cash equivalent balances and bank overdraft positions (all held within a pooling arrangement within the Group) in accordance with IAS 32.

Going concern

The Group’s loss before tax for continuing operations for the period was £5.0 million (H116: £5.3 million). As at 30 September 2016 the Group had net current assets of £14.8 million (31 March 2016: £19.9 million) and net cash reserves of £3.4 million (31 March 2016: £10.8 million).

On 17th October the Group replaced an existing £5.0 million secured working capital facility for export activities with HSBC Bank Plc with a new two year £10.0 million secured revolving credit facility with Investec Bank plc. The funds available through this facility will be used to meet the increasing working capital requirements of the Group’s organic growth. The facility is secured by a fixed and floating charge over the Group’s assets and includes covenants which are tested quarterly.
This facility has been factored in to cash flow projections for the Group.

The Board has reviewed these cash flow forecasts for the period up to and including 31 December 2017. These forecasts and projections take into account reasonably possible changes in trading performance and show that the Group will be able to operate within the level of current funding resources. The Directors therefore believe there is sufficient cash available to the Group to manage through these requirements.

As with all businesses, there are particular times of the year where the Group’s working capital requirements are at their peak. However, the Group is well placed to manage business risk effectively and the Board reviews the Group’s performance against budgets and forecasts on a regular basis to ensure action is taken where needed.

The Directors therefore are satisfied that the Group has adequate resources to continue operating for a period of at least 12 months from the approval of these accounts. For this reason, they have adopted the going concern basis in preparing the financial statements.

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.

Adoption of new and revised International Financial Reporting Standards

The IASB have further issued amendments to four standards under Annual improvement 2012-2014 cycle together with amendments to IAS 1. These amendments have an effective date of 1 January 2016.These have been applied and none have had a material effect on the Group’s performance or financial position for the interim period.

The standard changes are listed below:-

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

The Directors are still evaluating the impact on the Group of IFRS 15 – Revenue from contracts with customers, which becomes effective for annual periods beginning on or after 1 January 2018 and IFRS 16 – Leases, which becomes effective for annual periods beginning on or after January 2019.

2. Segmental information

Historically the Group was organised into Services and Solutions divisions for internal management, reporting and decision-making, based on the nature of the solutions and services of the Group's businesses. These were the reportable operating segments of the Group in accordance with IFRS 8 "Operating Segments".

Following the disposal of the Services division in May 2016, the Group has just one segment namely Solutions. For internal management and reporting, the chief operating decision maker reviews revenue and sales data regarding regional components of the Solutions business. The regional component's operating results are not included in this analysis at this time. Revenue analysis on the regional components of the Group is provided below for information, however the smallest component for which discrete financial information on the operating result is available and regularly reviewed by the chief operating decision maker is the Solutions division (Group) as disclosed in the consolidated income statement.

	6 months ended 30 September 2016					
	Services Discontinued Unaudited £'000	**NA Continuing Unaudited £'000**	**AP Continuing Unaudited £'000**	**EMEA Continuing Unaudited £'000**	**Total Solutions Continuing Unaudited £'000**	**Total Unaudited £'000**
Total regional revenue	**244**	**10,234**	**1,395**	**1,408**	**13,037**	**13,281**
Inter-region revenue	**-**	**-**	**-**	**-**	**-**	**-**
Revenue	**244**	**10,234**	**1,395**	**1,408**	**13,037**	**13,281**

	6 months ended 30 September 2015					
	Services Discontinued Unaudited £'000	NA Continuing Unaudited £'000	AP Continuing Unaudited £'000	EMEA Continuing Unaudited £'000	Total Solutions Continuing Unaudited £'000	Total Unaudited £'000
Total regional revenue	1,232	643	3,990	2,057	6,690	7,922
Inter-region revenue	-	-	-	(2)	(2)	(2)
Revenue	1,232	643	3,990	2,055	6,688	7,920

	Year ended 31 March 2016					
	Services Discontinued Audited £'000	NA Continuing Unaudited £'000	AP Continuing Unaudited £'000	EMEA Continuing Unaudited £'000	Total Solutions Continuing Unaudited £'000	Total Unaudited £'000
Total regional revenue	3,777	5,679	11,014	4,454	21,147	24,925
Inter-region revenue	-	-	-	(11)	(11)	(11)
Revenue	3,777	5,679	11,014	4,443	21,136	24,914

Note: NA (North America), AP (Asia-Pacific), EMEA (UK, Europe and Middle East)

3. 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:

	6 months ended 30 September 2016 Unaudited £'000	6 months ended 30 September 2015 Unaudited £'000	Year ended 31 March 2016 Audited £'000
Amortisation of intangibles initially recognised on acquisition	**864**	633	1,320
Share-based payment(i)	**430**	437	792
Acquisition related costs and exceptional write off of bad debt (ii)	**(509)**	-	1,718
Total adjustments	**785**	1,070	3,830

(i) The basis of calculation was updated for the year ended 31 March 2016 to adjust for share-based payment charges. The Directors considered this to be a more helpful measure in understanding the true underlying costs of the business. The revised calculation provides consistency over time allowing a better understanding of the financial position of the Group. Comparatives for the 6 months ended 30 September 2015 has been updated to reflect this change.

(ii) During the year ended 31 March 2016 the Group acquired 100% of the share capital of Brimtek Inc. Costs in relation to the acquisition totalled £1.7 million. Included within these costs is £0.5 million in relation to an amount due from Brimtek to Digital Barriers which was fully provided for immediately prior to the acquisition of Brimtek. Acquisition costs remained largely unpaid as at 31 March 2016. For the 6-month period to 30 September 2016, £0.5 million of these accrued costs were released to the income statement as no longer due.

4. Loss per share

The basic loss per share is calculated on the loss from continuing operations attributable to ordinary shareholders and the weighted average number of shares in issue during the period.

The basic adjusted loss per share is calculated on the adjusted loss after tax and the weighted average number of shares in issue during the period.

The following reflects the loss and share data used in the basic and diluted loss per share calculations:

	6 months ended 30 September 2016 Unaudited £'000	6 months ended 30 September 2015 Unaudited £'000	Year ended 31 March 2016 Audited £'000
Loss from continuing operations attributable to ordinary shareholders	**(4,766)**	(5,163)	(7,790)
Amortisation of intangibles initially recognised on acquisition, net of tax	**839**	605	1,264
Share-based payment	**430**	437	792
Acquisition related costs and exceptional write off of bad debt	**(509)**	-	1,718
Adjusted loss after tax	**(4,006)**	(4,121)	(4,016)
Weighted average number of shares	**165,111,309**	84,511,031	105,052,916
Basic and diluted loss per share	**(2.88p)**	(6.11p)	(7.42p)
Basic and diluted adjusted loss per share*	**(2.42p)**	(4.88p)	(3.82p)

* As explained in note 3, the basis of calculation was adjusted in 31 March 2016 to include share-based payment charges. Comparative figures for the period to 30 September 2015 has been updated to incorporate this change

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.

5. Goodwill

Carrying amount of goodwill allocated to operating segments:

	6 months ended 30 September 2016 Unaudited	6 months ended 30 September 2015 Unaudited	Year ended 31 March 2016 Audited
	£'000	£'000	£'000
Services	**-**	3,582	-
Solutions	**24,196**	14,636	23,323
Goodwill	**24,196**	18,218	23,323

Goodwill acquired through business combinations has historically been allocated for impairment testing purposes to two groups of cash-generating units ('CGUs'). These groups of CGUs were the two operating segments 'Services' and 'Solutions' as the goodwill relates to synergies at this level. Following the disposal of the Services business in May 2016, there remains only one CGU within the Group – the Solutions division.

The Group conducts annual impairment tests on the carrying value of the CGUs in the statement of financial position as at 28 February each year. Impairment testing is only re-performed if an impairment triggering event occurs in the intervening period. Given the fact the acquisition of Brimtek on 1 March 2016 an update to the impairment calculations has been undertaken to ensure the carrying value of goodwill attributable to newly enlarged Solutions division remains valid. Based on the review, no impairment to goodwill has been recorded in the period.

Value in use calculations are used to determine the recoverable amount of cash-generating units. The key assumptions for the value in use calculations remain the forecast revenue growth of each CGU, the discount rate applied and the long-term growth rate of the net operating cash flows, along with the gross margin for Solutions. 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 has prepared updated cash flow forecasts for the business based on the most recent three-year detailed financial forecasts. These cash flow forecasts take into account recent trading performance, with the resulting profit forecast over the period to FY18 remaining materially unchanged from the profit forecast within the annual impairment review carried out as at 29 February 2016. The key assumptions that supported that impairment review are detailed on page 62 of the 2016 Annual Report.

As in prior period, the Directors have also considered reasonably possible changes in the key assumptions used within the forecasts. Sensitivities within the Solutions division remain largely unchanged on those detailed on page 63 of the 2016 Annual Report with no impairment arising.

The movement in Goodwill in the period is a result of foreign exchange movement (increase £1.2m) and a measurement period adjustment of the 1 March 2016 position (decrease £0.3m).

The carrying value of goodwill remains valid.

6. Issued share capital

As at 30 September 2016, there were 165,130,024 Ordinary Shares in issue (30 September 2015: 84,534,810, 31 March 2016: 165,106,239). In addition, there were 108,749 Deferred Shares in issue (30 September 2015: nil, 31 March 2016: 108,749).

7. Share options

The following share awards were granted in the period:

	HMRC Approved Options July 2016	Parallel Options July 2016	Top-Up awards July 2016	Part A awards July 2016	Sharesave options July 2016
Number granted	344,214	344,214	1,493,286	305,000	1,717,853
Fair value per option/award	£0.16	£0.32	£0.48	£0.48	£0.22
Exercise price	£0.48	nil	nil	nil	£0.31
Vesting period (years)	3.0	3.0	3.0	3.0	3.0

The vesting and exercise of these awards are subject to certain performance conditions relating to revenue and profit in the performance period.

The share-based payment charge in the period amounts to £0.4million (H116: £0.4million), with the fair value charge attributable to new awards in the period determined using a Black Scholes calculation. Share option awards made prior to 2015 have been made with a market based performance measure which in the event that LTIPS fail to vest the share-based payment charge is not added back to the income statement. To date the majority of these historic LTIP awards have failed to vest.

During the half-year the Group relaunched the Digital Barriers Sharesave Scheme, which allows eligible employees to use regular savings to purchase shares. 1,717,853 shares were issued as a result, and employees surrendered 442,060 options in relation to the 2014 Sharesave scheme in the period, resulting in an acceleration of the remaining share-based payment charge attributable to these options of £0.3million.

8. Related party transactions

On 28 July 2016 the Remuneration Committee of the Group made a conditional award to Colin Evans, Zak Doffman and Sharon Cooper, under the rules of The Digital Barriers Long Term Incentive Plan (the “Plan”). The vesting and exercise of these awards are subject to certain performance conditions relating to revenue and profit in the performance period.

	Top-up award (no of shares)
Colin Evans	250,000
Zak Doffman	500,000
Sharon Cooper	200,000

Full details of the plan can be found in the 2016 Annual Report on page 34.

9. Financial instruments

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.

The Group have a Level 3 financial liability of £2.2 million of deferred consideration measured at fair value on a recurring basis at (31 March 2016: £2.0m) following the acquisition of Brimtek Inc. The fair value of deferred consideration at the acquisition date was estimated at £2.1 million (discounted). This has been estimated based on a weighted average probability calculation, with probability distributions applied to various revenue and gross margin ranges. The deferred consideration payable is sensitive to movements in the revenue and gross margin outcomes versus target. No deferred consideration is payable at threshold revenue targets or threshold gross margin targets. A $5 million increase in the revenue earned in the year ended 31 December 2016 compared to the threshold target (at full target gross margin) would result in a $2.5 million increase in the deferred consideration due. Significant increases in the revenue and gross margins of Brimtek Inc. would result in higher fair value of the deferred consideration liability. The movement in the deferred consideration for the period is due to exchange rate movement.

The Group have a Level 2 financial liability of £0.3 million of financial swap measured at fair value. 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. These financial assets and liabilities are carried at amortised cost.

10. Disposal group classified as held for sale

On 1 April 2016 the Board signed an agreement for the proposed disposal of the Services segment to its existing management team for £1, the sale completed on 19 May 2016. As indicated in the interim results announcement on 11 December 2015, this follows the view that the Board believed that the Services division was no longer strategic to the Group's future. The disposal group was classified as held for sale in March 2016, with full details on the assets and liabilities classified as held for sale as at 31 March 2016 disclosed in note 26 on page 77 of the 2016 Annual Report.

The sale included limited ongoing customer contracts associated with the Services segment, as well as certain assets including vehicle leases and limited stock and moveable assets. The book value of the assets transferred was £0.1 million. In connection with the sale the Group transferred the division's employees, by way of a TUPE process.

In the six months ended 30 September 2016 revenues attributable to the disposal group amounted to £0.2 million (H116: £1.2 million, FY16: £3.7 million) with a loss attributable to the discontinued operation of £0.2 million (H116: £0.5 million, FY16: £4.8 million). Full details on the income statement and cash flows attributable to the disposal group for the year ended 31 March 2016 are disclosed in note 26 on page 77 of the 2016 Annual Report.

The basic and diluted loss per share for the six months ended 30 September 2016 is 0.12 pence (H116: 0.59 pence, FY16: 4.60 pence) based on 165,111,309 (H116: 84,511,031, FY16: 105,052,916) weighted average shares in issue. 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.

11. Post balance sheet event

On 17th October the Group replaced an existing £5.0 million secured working capital facility for export activities with a new two year £10.0 million secured revolving credit facility with Investec Bank plc. The funds available through this facility will be used to meet the increasing working capital requirements of the Group's organic growth. The facility is secured by a fixed and floating charge over the Group's assets and includes covenants which are tested quarterly.