



# EXPANDING OUR REACH

ANNUAL REPORT AND ACCOUNTS 2019



## INTRODUCTION

### Who we are



Kape is a 'privacy first' cybersecurity company focused on helping consumers around the world have a better experience and protection in their digital life.

### Our focus



Empowering consumers to manage their own data and digital security online.

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## Digital marketing expertise




Growth business model and strong revenue visibility driven by a SaaS-based financial model.

## Our vision



Kape's vision is to provide online autonomy for a secure and accessible personal digital life.

### Financial highlights


 **\$66.1m**  
Revenues  
+27%\*

 **\$14.6m**  
Adjusted EBITDA\*\*  
+40%

 **\$17.9m**  
Adjusted cash flow from operations attributable to current year  
+12.5%

 **6.5 cents**  
Adjusted Fully Diluted Earnings Per Share  
+30%

 **22.0%**  
Adjusted EBITDA Margins

 **\$51.5m**  
Recurring revenues from subscriptions  
+87%

### Operational highlights

- **Strong SaaS metrics**, increase in subscribers to 2.35 million at year-end.

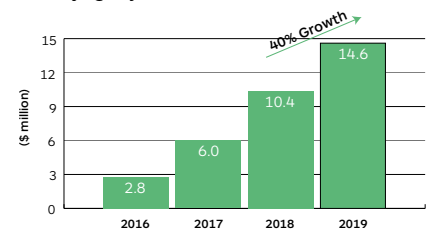
**40.2%**  
organic growth

- **Strong revenue visibility** from existing users increased to \$98.8 million.
- **Completed the successful integration of Intego and ZenMate.**
- **Completed acquisition of Private Internet Access in December.**
- **Strong R&D and product development:**

Launched proprietary infrastructure technology.

Consumer cybersecurity centre developed and expected to launch in Q2 2020.

Underlying Adjusted EBITDA\*\* (\$ million)



\* Revenues from continuing operations only.

\*\* Adjusted EBITDA from continuing operations only. Adjusted EBITDA is a non-GAAP measure and a company-specific measure which excludes other operating income and expenses which are considered to be one-off and non-recurring in nature.

\*\*\* Represents a cash conversion of 123% (2018: 153%), this excludes movement in Deferred contract costs. Adjusted cash flow from operation of \$1.0 million (2018: \$5.7 million).

AT A GLANCE

# Kape's core software products

We have built a core SaaS product suite over a number of years, with a primary focus on digital privacy and digital security.

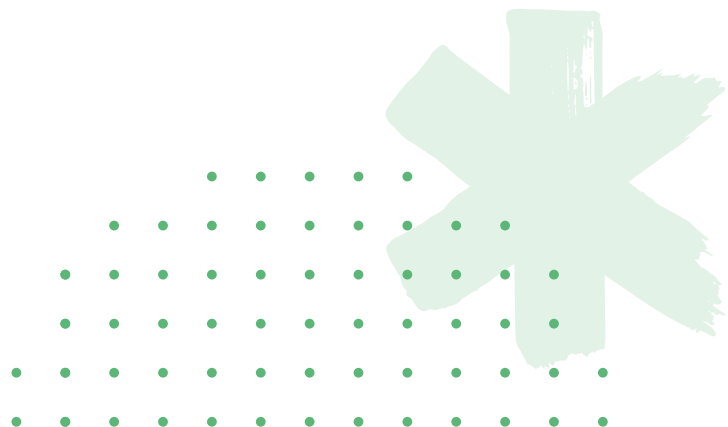
## Our products



**Digital Privacy**



**Digital Security**



# Successful integration experience



## CyberGhost

- Grew CyberGhost's user base by 400 per cent since acquisition
- Increased our digital privacy revenue excl. PIA by 81.5 per cent
- 75 per cent reduction in cost per user

## ZenMate

- \$1.7 million in annualised cost savings identified relating to ZenMate
- Integration has been proven to be highly complementary to CyberGhost strengthening its presence in Europe



## Intego

- Increased Intego's visibility across antivirus related publications
- Doubled Intego's Malware protection team growing our ability to protect our users

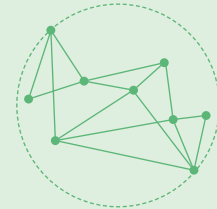


## COMPANY OVERVIEW



398

Employees



9

Global hubs



2.35m

Subscribers



160+

Subscriber countries





**DON ELGIE**  
NON-EXECUTIVE CHAIRMAN

### **Kape's growing range of 'privacy first' solutions are now well-positioned to capitalise on this sizeable global market opportunity.**

#### **Introduction**

Consumers' awareness of the importance of digital privacy reached new heights in 2019, given the significant number of high-profile data breaches, which saw hundreds of millions of data records exposed. This included, in some instances, sensitive medical data and financial data, as well as the unprecedented 600 million passwords revealed by the largest social networks. Consumers are now even more mindful of the need to protect their data given the apparent inability of some of the world's largest companies to keep data safe. It has also highlighted to consumers the true value of their personal data to those businesses. This ongoing desire for personal information by corporates has driven consumers to control and protect their online footprint.

This strong macro landscape continues to fuel our end-markets, and consequently our addressable market expands almost daily. Kape has now developed a strong suite of solutions that directly help consumers maintain their online privacy to combat the ever evolving and diverse threats to individuals' online security.

#### **2019 overview**

We made significant progress in 2019, strategically, operationally and financially. Clearly the acquisition of Private Internet Access ("PIA") in December will be particularly important in our ongoing development, but over and above this, management delivered strong organic growth and seamlessly integrated prior acquisitions, Intego and ZenMate. This proved the team's expertise in integrating software solutions into the Group to deliver cost synergies and material growth. The integration of PIA has already begun, and we look forward to realising the significant benefits that this transaction will bring our business.

#### **Growth strategy**

Our ongoing growth strategy will continue to be focused on a combination of organic growth and the execution of select acquisitions. We expect that 2020 will be focused on the integration of PIA and specifically the implementation of our business intelligence systems and proprietary infrastructure management technology as well as our user acquisition. Our over-arching strategy will focus on the following 3 pillars, which we intend to leverage to generate material growth:

- **Product** – our internal R&D developments, as well as the acquisition of PIA, significantly enhanced our suite of solutions and R&D team, giving us a significant platform from which to further broaden our technology stack.
- **Brand and market presence** – Private Internet Access is a well-recognised brand, which we intend to leverage globally, with the enlarged Group servicing a significant user-base through which to grow.
- **Business model** – we operate a robust SaaS-based business model which continues to deliver strong levels of recurring revenue growth and earnings predictability.

#### **Corporate Governance**

At Kape we strive to create a company culture which adheres to the highest levels of corporate governance. One of the many initiatives we have undertaken is to ensure a constant dialogue between internal and external stakeholders. This includes holding regular meetings with key employees across the business and engaging proactively with all our Board members, ensuring the highest levels of transparency across the organisation. Employees are the key to our success and as such we endeavour to sustain an inclusive environment across all our global offices, always ensuring open lines of communication.

One of our key stakeholders is our worldwide customer base, whose satisfaction we constantly monitor and review as we believe it sets us apart from many of our peers. We now service over 2.35 million customers worldwide and this emphasis on service is evidenced in the 81 per cent retention rate achieved in the period. Therefore, customer support is at the front of Management's mind and prioritised through our wholly-owned customer support centres, where we have expanded our 24/7 support to additional product lines, as well as constantly improving response times.

With regards to the environmental impact of the business, given that we are a digital business, our environmental footprint is low, but despite this, we constantly monitor our travel and infrastructure footprint and have strict guidelines and technologies in place to minimise our impact.

#### PIA bonus award

Following the transformational acquisition of PIA, the Kape Remuneration Committee has approved an exceptional bonus award of \$900,000 to Ido Erlichman (CEO) and \$675,000 to Moran Laufer (CFO), (the "PIA Bonus"). No other bonuses will be paid to the Executive Directors for the financial year ended 31 December 2020. This exceptional award, due to be paid in 2020 based on the completion of integration milestones in the first quarter of 2020, is separate from the 2019 bonus awards (which relate to performance in that year and will be set out in the Remuneration Report in the Kape Annual Report).

On a pro-forma basis this transaction is a significant contribution to revenues of over \$120 million and EBITDA of over \$35 million in 2020, with the prospect of increased growth in the future. Underpinning this are the addition of 1.1 million SaaS subscribers, bringing the group's total subscribers to over 2.35 million. This enlarged subscriber group will now benefit from Kape's high-quality digital marketing channels which will further strengthen the PIA revenues.

The PIA bonus is subject to clawback of up to 20 per cent of the award in relation to meeting revenue and EBITDA targets in FY2020.

The grant of the PIA Bonus is a related party transaction under Rule 13 of the AIM Rules for Companies. Myself, David Cotterell and Martin Blair, being the independent directors, consider, having consulted the Company's Nominated Adviser, Shore Capital & Corporate Limited, that the terms of the related party transaction are fair and reasonable insofar as the Company's shareholders are concerned.

## Investment case



**01** Fully focused on the high growth privacy-first digital security space

**02** Strong customer proposition underpinned by proven user acquisition model

**03** Market leading privacy and software security products designed for global consumer markets model

**04** Proven track record of revenue and EBITDA growth

**05** Strong revenue visibility underpinned by a SaaS-based financial model

## Outlook

I am confident in Kape's prospects and that the combination of organic growth, coupled with selected acquisitions and a clear vision and strategy in mind, provides us with an unrivalled platform through which to drive material growth.

I would like to take this opportunity to thank the Kape team for their continued hard work and dedication to the ongoing success of our business.

As per Corona Virus we would like to note that we do not see material effect on demand for our products as a result of recent global developments; we have also made full preparations across our different locations to ensure we can continue our business operations and provide a full service to our customers through remote working arrangements.

## DON ELGIE

NON-EXECUTIVE CHAIRMAN

16 March 2020

**The global privacy market is a fast growing billion-dollar market.**

- Fast-growing internet penetration globally has increased the number of cyber attacks, resulting in heightened concerns around data privacy
- As more data breaches and cyber attacks occur, consumers are increasingly concerned about their data security
- Proliferation of mobile phone use and internet-linked devices is driving the need to protect users' data-research indicates that 48 per cent of phishing attacks occur on mobile devices

◀ **81% of Americans say they have little/no control over the data collected about them\***

**Digital privacy awareness is growing, supported by new regulations and a more educated market** ▶



\* Source: Pew research center



## High-profile data breaches with identities compromised

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Verizon<br/><b>14m</b> (identities compromised)</li> <li>• EQUIFAX<br/><b>143m</b> (identities compromised)</li> <li>• Yahoo<br/><b>500m</b> (identities compromised)</li> <li>• LinkedIn<br/><b>117m</b> (identities compromised)</li> </ul> | <ul style="list-style-type: none"> <li>• Ashley Madison<br/><b>11m</b> (identities compromised)</li> <li>• HOME DEPOT<br/><b>50m</b> (identities compromised)</li> <li>• TARGET<br/><b>70m</b> (identities compromised)</li> <li>• ebay<br/><b>148m</b> (identities compromised)</li> </ul> |
|--|---|

## High-profile breaches and regulation have contributed to growing public concern for online privacy

### Regulatory changes

The Senate joint resolution to do away with FCC broadband privacy rules (S.J. Res. 34) passed through Congress and was subsequently signed by the President on 3 April 2017.

### Allowing internet service providers to:

- Sell confidential data pertaining to how consumers use the internet
- Share consumers' information without consent
- Withhold news of a data breach from consumers and law enforcement, even where consumer information is at risk.

## Themes driving growth in digital privacy market\*

**81%**  
of consumers concerned they have little control

Consumers have little/no control over the data collected

**81%**  
of consumers believe the risks outweigh benefits

Potential risks of collecting personal data outweigh the benefits

**79%**  
of consumers concerned over data use

Consumers are concerned about how the data collected is used

**59%**  
of consumers have lack of understanding about data use

Consumers have very little to no understanding about what is done with the data collected

## Market drivers



**Internet Of Things (IoT)**  
increasing levels of data and connected devices



**B2C market**  
replicating B2B trends



**Individuals**  
increasingly becoming targets of cybercrime



**Rise in personal data**  
stored in the cloud



**Increasing awareness**  
of need to protect digital presence

\* Source: Pew research center



**IDO ERLICHMAN**  
CHIEF EXECUTIVE OFFICER

**We are now fast-tracking our vision into a reality by creating one of the most prominent privacy companies globally.**

**Introduction**

We have entered 2020 in a very strong position. 2019 was a landmark year for Kape, in which we delivered extensive organic growth and successfully executed our mergers and acquisition strategy. During 2019, our core Digital Privacy segment revenues grew by 81.6% (excluding PIA) compared to last year, we made the game-changing acquisition of Private Internet Access and completed the successful integration of Zenmate and Intego.



Kape now has a significant base from which to capture the explosive growth in the digital privacy and security market, underpinned by our recent acquisition which has established our business as the pre-eminent digital privacy company globally. The enlarged Group has a sizeable global footprint and boasts an enviable portfolio of privacy-first products, positioning it at the forefront of this rapidly expanding market.

Beyond the acquisition, the Group traded strongly in the year-ended 31 December 2019, delivering Adjusted EBITDA of \$14.6 million, which was slightly above management expectations and represents a 40% increase on the prior year (2018: \$10.4 million). This was achieved with revenues of \$66.1 million (2018: \$52.1 million), representing an increase of 27% and an increase in net profit to \$2.0 million (2018: (\$0.5) million) as the Group continued its focus on profitable growth.

**Operational overview**

**Key Performance Indicators**

Kape continues to deliver a strong return on investment and attractive unit economics, supported by its subscription revenue stream and innovative customer acquisition model.

In order to ensure the ongoing profitability, growth and earnings predictability of the Group, Kape reports against the following key KPIs:

- **Subscriber base** demonstrates the development of our SaaS business model and future revenue potential
- **Retention rate** indicates levels of customer satisfaction and the high quality of our services and products
- **Deferred income** and **Adjusted operating cash flow** are indicators of the high visibility over revenues and quality of earnings

	<b>31 Dec 2019</b>	31 Dec 2018
	<b>'000</b>	'000
Adjusted EBITDA	<b>14,559</b>	10,374
Subscribers (000s)	<b>2,350</b>	830
Retention rate	<b>81%</b>	74%
Deferred income (\$'000)	<b>35,312</b>	9,514
Adjusted operating cash flow:		
Attributable to current year (\$'000)	<b>17,902</b>	15,936
Investment in growth (\$'000)	<b>(16,928)</b>	(10,215)
Adjusted operating cash flow (\$'000) <sup>1</sup>	<b>974</b>	5,721

1 Adjusted operating cash flow attributable to current year is calculated as Adjusted operating cash flow excluding change in deferred contract costs.

December 2019  
acquired Private  
Internet Access for  
total consideration of

**\$130.1m**

December 2020  
expected group revenue

**\$120-123m**

December 2020  
expected EBITDA

**\$35-38m**

In 2019, Kape performed strongly against its KPIs, with a combination of strong organic growth and the acquisition of PIA transforming our user base. At year-end the Group serviced 2.35 million subscribers (31 December 2018: 830,000), an increase of 42.2% in organic growth, excluding the user base of PIA. Kape also expects to generate a much higher level of visibility over income with expected revenues of \$98.8 million in future financial years, anticipated to be generated from existing customers, an increase of 230% (31 December 2018: \$30.0 million), driven by the increase in the Group's user base. The decrease in adjusted operating cashflow is due to our strategy to invest in expanding our user base. In addition, Kape sustains a high retention rate across its user base of 81%, which is very strong for a consumer-focused software business.

Kape generated significant adjusted operating cash flow in 2019, up 12.3% to \$17.9 million (31 December 2018: \$15.9 million), supported by its subscription revenue stream, which enabled the Company to increase its investment in growth by 65.7% to \$16.9 million in 2019 (31 December 2018: \$10.2 million).

Another important capability, which we continue to measure, is our success in both integrating and growing acquired businesses. Since the acquisition of CyberGhost in March 2017, we have grown our paying customer base at Cyberghost by 400% and we have organically grown our digital privacy revenue by 81.5% (in the year ended 31 December 2019), demonstrating our ability to leverage our digital marketing engine to grow a business servicing both consumers and SMEs.

Furthermore, in 2019, we have been able to successfully complete the integration of both Zenmate and Intego, acquired in 2018, reducing the cost-base while continuing to develop our core cybersecurity capabilities. These successful transactions gave us the confidence to proceed with the much larger Private Internet Access acquisition and are testament to our success in integrating businesses to enhance revenue growth rates, optimise synergies and realise cost benefits.

### Acquisition of Private Internet Access

On the 16 December 2019, Kape acquired Private Internet Access. This deal is transformational for the Group, both strategically and financially. Kape has now doubled its paying customer base, whilst creating a significant foothold in the US market with 49% of the Group's customers based in the US.

In addition, the PIA brand has positioned Kape as a top player in the North American market within the digital privacy and security space. The enlarged business is also highly cash-generative and the acquisition was significantly earnings-enhancing, with the enlarged Group expected to generate over US\$120 million in revenues and over \$35 million in Adjusted EBITDA, in the year ended 31 December 2020.

Moving forward, the acquisition provides 3 core levers for growth and we are already ahead of schedule in leveraging these:

- **User growth:** we are currently implementing our customer acquisition engine to increase users as, prior to its acquisition, PIA's customer acquisition strategy was primarily organic.
- **Brand expansion:** Private Internet Access is a well-established brand in the US and, when combined with our growth-engine, has the potential to be the largest global brand in this space.
- **Product development:** as part of the transaction, we added new digital privacy products, which are currently being launched or are in the late stages of development. We expect these to provide further opportunity to grow our user base:
  - LibreBrowser – a completely private browser
  - Private.sh – a private and encrypted search engine based on cryptography technology
  - Private Storage – a cloud-based, secure, private storage solution.

Our integration programme is now well-underway and has been progressing ahead of expectations. We plan to realise between \$3.5 to \$4.5 million in annualised cost-savings by the end of 2020. Savings will mainly be driven by the implementation of our infrastructure and capacity management technology, developed in-house, into PIA's infrastructure, delivering a reduction in the cost to serve our users, while increasing the quality of our service across our entire customer base. In addition, economies of scale allow us to improve our capacity management as well as vendor relations. Already, we have almost completed the integration of the customer service side where we are providing PIA's customers with our 24/7 customer support.

### Organic growth

The Group's existing solutions performed strongly in 2019, benefiting from growing demand coupled with the ongoing implementation of our digital marketing expertise. Growth was derived mainly from our Digital Privacy segment, driven by overall growth in the market, as well as management's focus on privacy solutions given the high retention rates in that division.

Overall, we have experienced 42% growth in paying subscribers from 830,000 (December 2018) to 1.18 million (December 2019) excluding PIA. We have also demonstrated a substantial growth in revenues from \$52.1 million (December 2018) to \$63.6 million (December 2019) excluding PIA.

### Product development

We have made significant progress on the R&D front, including the launch of a landmark infrastructure revamp for our privacy solution, Gen4, an internal technology development which allows Kape to upgrade our infrastructure in a modular way, facilitating technological updates at a speed well-above industry standards. This upgrade increases the speed of connection by an average of 35% in key geographies and our server fleet performs significantly more efficiently than before the upgrade. This provides our customers with better performance and increased scalability; and improves our security levels with server encryption, 'man-in-the-middle' attack prevention and other protections. Most notably, we have already started integrating this solution into the PIA infrastructure.

In addition, in 2019, the Group continued to demonstrate its ability to launch innovative solutions to combat the increasing diversity of digital threats to consumers. In June 2019, the Group launched the ZenMate Ultimate app, the most comprehensive update of ZenMate's VPN platform to-date, which has seen strong traction since launch. Furthermore, in July 2019, our macOS security analyst team was the first to discover several important malware security threats for Apple users, against which Intego's users are now fully protected.

Looking forward, we expect to launch our privacy and security control centre in Q2 2020, which will allow our customers to have visibility over their exposure and to control their security and privacy measures from 1 dashboard. This will deliver a complete solution of digital privacy and security features in a unified experience.

### Growth strategy

We believe Kape is very well-placed to markedly increase its market share in what is a rapidly expanding space. Central to this are our core growth engines, which aim to:

- Expand our global customer base
  - Utilise the strong foundation of the Group's 2.35 million plus paying subscribers to accelerate future growth
- Drive product innovation and R&D
  - Execute on opportunities to increase the breadth of solutions we currently provide globally
- Leverage brand recognition
  - Take advantage of the significant opportunity to further leverage the 'Private Internet' brand internationally, beyond North America
- Utilise our unique technology platform
  - Further bolster the implementation of our user acquisition technologies
- Continue to evaluate select acquisitions
  - Build upon our track-record of integrating and growing SaaS products to create a dominant, global business

### Outlook

2019 was undoubtedly a seminal year for the Group, in which we created a strong launchpad from which to accelerate our growth. These excellent foundations have enabled the Group to make a strong start to 2020 and we expect this to continue beyond the current financial year.

We are pleased to be able to deliver on what we have previously pledged to our partners and shareholders and have a clear roadmap to continue delivering profitable growth in future periods.

We are now fast-tracking our vision into a reality by creating one of the most prominent privacy companies globally. In one acquisition, I believe we have positioned Kape to become one of the leading digital privacy service providers in the world, empowering consumers to manage their own data and digital security.

**IDO ERLICHMAN**  
CHIEF EXECUTIVE OFFICER  
16 March 2020

## STRATEGIC PRIORITIES

**Following our ongoing  
and successful strategic priorities.****EXPAND GLOBAL  
CUSTOMER BASE**

Utilise the strong foundation of the Group's 2.35 million plus paying subscribers to accelerate future growth

**LEVERAGING  
BRAND RECOGNITION**

Take advantage of the significant opportunity to further leverage the 'Private Internet' brand internationally, beyond North America

**DRIVE FURTHER  
PRODUCT INNOVATION**

Execute opportunities to increase the breadth of solutions we currently provide globally

**UTILISE UNIQUE  
TECHNOLOGY PLATFORM**

Further bolster the implementation of our user acquisition technologies

**CONTINUE  
ACQUISITIVE EXPANSION**

Build upon our track record of integrating and growing SaaS products to create a truly dominant business globally



# Through digital distribution technology, we can optimise customer reach and create a superb user experience.

## 1 Target market

### User acquisition

- Advanced user-acquisition technology and leveraging of digital marketing platform
- Utilise extensive network to drive users to our products
- Leverage wide user base for indirect user acquisition
- Highly efficient method to drive traffic

### Organic

- High brand awareness drives users to products
- Referrals from existing customers
- Consumers go directly to product websites or search for product as a result of growing media presence

## 2 Digital funnel optimisation

### Funnel expertise

- Proprietary data-driven automatic funnel
- Ongoing customisation of product
- Automatic personalisation of user journey
- Proprietary targeting of purchase process

## 3 Existing customers

### Retention and cross-selling

- Once acquired, provide a subscription model to grow customer's life time value
- Provide servicing such as remote technician and 24/7 support to increase customer retention
- Convert users to additional Kape products by channelling customers to other owned software solutions
- Increase the value of the user
- In-house support personnel in Manila, supporting main market languages

2.35m

Subscribers



Target market  
User acquisition



Digital funnel optimisation  
Funnel expertise



Existing customers  
Retention and Cross-Selling



Our ability to manage and implement highly-targeted customer acquisition methodologies enables our team to reach millions of customers daily, and has enabled management to both accelerate organic growth and enhance the customer traction of the software solutions we have acquired

– Ido Erlichman, CEO



# Private Internet Access Acquisition

Kape acquired LTMI Holdings (“LTMI”), the holding company of Private Internet Access, for a total consideration of c. **US\$130.1 million\*** (“the Total Consideration”) and an enterprise value of c. **US\$162.3 million**. This is to be satisfied by a combination of c.**\$52.9 million** in cash and the issue of 42,701,548 new Kape ordinary shares which will repay c. **\$32.1** in LTMI’s debt.

## \$130.1m

Acquisition

**Creates a global brand that uniquely positions Kape as a market leader**

### Accelerates Kape’s product innovation and R&D capabilities

Delivers a privacy product suite at the forefront of the privacy technology space, which comprises:

- Plus Ultra- a software that speeds up internet connection
- LibreBrowser- a completely private browser
- Private.sh private and encrypted search engine based on proprietary cryptography technology
- Expanding Kape’s R&D team to include PIA’s market-leading development team





## Broadens Kape's customer reach to over 2 million paying subscribers globally

### Operational leverage

#### Customer reach

- Doubling Kape's existing customer base, with the enlarged Group servicing over 2 million paying subscribers globally;

#### Product extension

- Enhances Kape's product stack with a suite of privacy-based software solutions focused on browsing, encryption and connectivity;

#### Brand awareness

- Uniquely positions Kape as a truly global leader within the fast-growing digital privacy sector with a strong presence in North America;

#### Technology platform

- Provides the opportunity to leverage Kape's proprietary technology platform to deliver continued, strong organic growth.

### Significantly earnings-enhancing

#### Earnings growth

- The enlarged Group is expected to generate consolidated proforma 2020 revenues of between \$120-123 million and Adjusted EBITDA of between \$35 and \$38 million;

#### Earning accretion

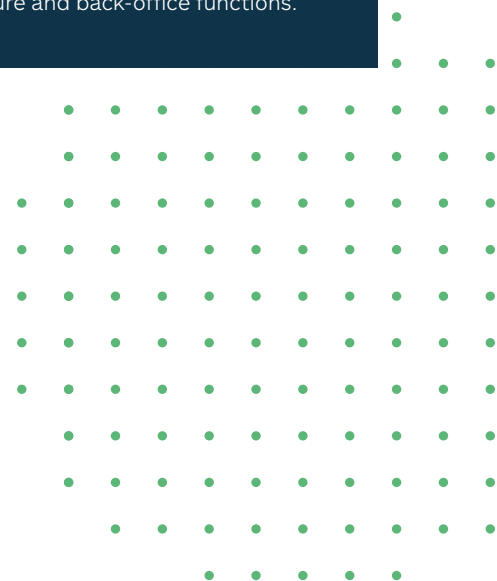
- 90% earnings accretion anticipated in the year ending 31 December 2020;

#### Cash generation

- LTM is a highly cash-generative business, generating c. \$16.3 million of adjusted operational cash flow in 2018 and cash conversion of over 100% with expectations of ongoing strong cash generation;

#### Integration upside down

- Expected immediate annual cost synergies of either between \$3.5 and \$4.5 million to be achieved within 12 months primarily in the infrastructure and back-office functions.





**MORAN LAUFER**  
CHIEF FINANCIAL OFFICER

## **Strong performance, the Digital Privacy Segment has seen continued growth with a 98% increase in revenues.**

### **Overview**

Revenue from continued operations for the year to 31 December 2019 increased by 26.9% to \$66.1 million (2018: \$52.1 million). Adjusted EBITDA<sup>1</sup> from continued operations increased by 40.3% to \$14.6 million (2018: \$10.4 million) with the increase in Adjusted EBITDA driven by the strong performance of Kape's Digital Privacy activity, with an overall increase of 98.0% in revenues and 72.3% in segment results. Organically, excluding the contribution of PIA, the Digital Privacy segment revenues and segment results increased by 81.5% to \$27.6m and 48.3% to \$13.4m respectively.

Adjusted cash flow from operations attributable to the year ended 31 December 2019 was \$17.9 million (2018: \$15.9 million), which represents cash conversion of 123%. In addition, during the period \$16.9 million was reinvested in user-acquisition costs that will be expensed in future periods (2018: \$10.2 million). When including this investment, adjusted cash flow from operations decreased to \$1.0 million (2018: \$5.7 million). At 31 December 2019 the Group's cash balance was \$8.2 million (31 December 2018: \$40.4 million) and the net debt was \$32.0 million after a cash investment of \$64.3 million for the acquisition of PIA.

On 16 December 2019, the Group acquired 100% of the share capital of LTMI Holdings, trading as Private Internet Access, for a total consideration of \$130.1 million<sup>2</sup> and enterprise value of \$162.3 million<sup>3</sup>. PIA was established in 2009 and is a security software business, based in Denver, Colorado, with a focus on the provision of virtual private network ("VPN") solutions. Since its inception, PIA has grown to become a leading VPN service provider focused on the consumer market and employing 65 employees of which just over a third work in R&D. PIA has over 1 million paying subscribers globally, with around half of them based in North America.

The divestment of the Media division in July 2018, resulted in changes to its management reporting system and we now operate with 2 reportable segments:

- Digital Privacy – comprising the Group's Virtual Private Network products which comprise Cyberghost, Private Internet Access and Zenmate;
- Digital Security – comprising the Group's end-point security and PC performance products



## Segment result

	Revenue		Segment result	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Digital Security	<b>35,949</b>	36,849	<b>17,873</b>	16,672
Digital Privacy	<b>30,111</b>	15,211	<b>15,536</b>	9,018
Revenue	<b>66,060</b>	52,060	<b>33,409</b>	25,690

The segment result has been calculated using revenue less costs directly attributable to that segment. Cost of sales comprises payment processing fees and infrastructure costs of the group's privacy products. Direct sales and marketing costs are user-acquisition costs.

## Digital Privacy

	2019 \$'000	2018 \$'000
Revenue	<b>30,111</b>	15,211
Cost of sales	<b>(5,440)</b>	(3,036)
Direct sales and marketing costs	<b>(9,135)</b>	(3,157)
Segment result	<b>15,536</b>	9,018
Segment margin (%)	<b>51.6</b>	59.3

During the period, the Digital Privacy segment has seen continued growth with a 98% increase in revenue to \$30.1 million (2018: \$15.2 million) and a 72.3% increase in segment result to \$15.5 million (2018: \$9.0 million). The segment margin has decreased to 51.6% (2018: 59.3%) mainly because the revenue growth is driven by user-acquisition activities. Following the acquisition of PIA in December 2019, PIA contributed \$2.5 million to revenues and \$2.0 million to segment results. Excluding the acquisition of PIA, the segment results increased by 48.3% to \$13.4 million in 2019.

## Digital Security

	2019 \$'000	2018 \$'000
Revenue	<b>35,949</b>	36,849
Cost of sales	<b>(2,085)</b>	(2,569)
Direct sales and marketing costs	<b>(15,991)</b>	(17,608)
Segment result	<b>17,873</b>	16,672
Segment margin (%)	<b>49.7</b>	45.2

During the period, the Digital Security segment margins have improved to 49.7% (2018: 45.2%) resulting in an increase of 7.2% in segment results to \$17.9 million (2018: \$16.7 million), despite a 2.4% decrease in revenues to \$35.9 million (2018: \$36.9 million). The increase in margins is driven by the higher proportion of recurring revenue of Intego's end-point security products.



# 51.6%

Digital Privacy  
Segment margin



# 49.7%

Digital Security  
Segment margin

- Adjusted EBITDA is a company specific measure which is calculated as operating profit before depreciation, amortisation (including right to use asset amortisation), exceptional and non-recurring costs, employee share-based payment charges and charge of repurchase of employee options which are considered to be one-off and non-recurring in nature as set out in note 4. The Directors believe that this provides a better understanding of the underlying trading performance of the business.
- Total consideration as per note 19 plus cash paid to PIA's phantom shareholder: the value of the share consideration was calculated based on the closing share price on 16 December 2019.
- Total consideration in (2) above plus cash paid to repay long-term debt.

## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

### Adjusted EBITDA from continued operations

Adjusted EBITDA from continued operations for the year to 31 December 2019 was \$14.6 million (2018: \$10.4 million). Adjusted EBITDA is a non-GAAP company-specific measure which is considered to be a key performance indicator of the Group's financial performance. It excludes share-based payment charges and expenses which are considered to be one-off and non-recurring in nature and are excluded from the following analysis:

	2019 \$'000	2018 \$'000
Revenue	66,060	52,060
Cost of sales	(7,525)	(5,605)
Direct sales and marketing costs	(25,126)	(20,765)
<b>Segment result</b>	<b>33,409</b>	25,690

Indirect sales and marketing costs	(7,903)	(6,398)
Research and development costs	(3,149)	(1,389)
Management, general and administrative costs	(7,798)	(7,529)
<b>Adjusted EBITDA</b>	<b>14,559</b>	10,374

### Operating profit

A reconciliation of Adjusted EBITDA to operating profit is provided as follows:

	2019 \$'000	2018 \$'000
<b>Adjusted EBITDA</b>	<b>14,559</b>	10,374
Employee share-based payment charge	(1,680)	(1,490)
Charge for repurchase of employee options	-	-
Other operating income	(91)	
Exceptional and non-recurring costs	(2,331)	(1,441)
Depreciation and amortisation	(6,314)	(3,800)
<b>Operating profit</b>	<b>4,143</b>	3,643

Exceptional and non-recurring costs in 2019 comprised restructuring costs of \$0.4 million due to restructuring of Zenmate and Intego, acquired in 2018, and \$1.9 million for professional services and other acquisition-related costs that derive from the acquisition of PIA (2018: \$0.8 million).

### Profit before tax from continuing operations

Profit before tax from continuing operations was \$2.8 million (2018: \$3.3 million).

### Profit after tax from continuing operations

Profit from continuing operations was \$2.5 million (2018: \$2.2 million). The tax charge derives mainly from Group subsidiaries' residual profits. The Group recognises a deferred tax asset of \$1.6 million (2018: \$0.2 million) in respect of tax losses accumulated in previous years. The increase is due to recognition of tax assets in Germany following the merger of 2 subsidiaries, ZenGuard GMBH and Mobile Concepts GMBH.

## Cash flow

	2019 \$'000	2018 \$'000
<b>Cash flow from operations</b>	<b>1,357</b>	3,695
Exceptional and non-recurring payments	<b>2,331</b>	1,441
Net cash flow from discontinued operating activities	–	336
Net cash paid due to restructuring plan	–	249
<b>Adjusted cash flow from operations</b>	<b>974</b>	5,721
<b>% of Adjusted EBITDA</b>	<b>7%</b>	55%
<b>Excluding increase of deferred contract costs</b>	<b>16,928</b>	10,215
<b>Adjusted cash flow from operations attributable to current year</b>	<b>17,902</b>	15,936
<b>% of Adjusted EBITDA</b>	<b>123%</b>	154%



# \$155.0m

Net assets at  
31 December 2019

Cash flow from operations was \$1.4 million (2018: \$3.7 million). Adjusted cash flows from operations, after adding back payments that are one-off in nature was \$1.0 million (2018: \$5.7 million). This represents a cash conversion of 7% of Adjusted EBITDA (2018: 55%). The decrease in operating cash flow is due to an increase in user acquisition investment attributable to future periods to \$16.9 million (2018: \$10.2 million). Excluding the investment, adjusted operating cash flow attributable to the current financial period increased to \$17.9 million (2018: \$15.9 million), which represents a cash conversion of 123%.

Tax paid, net of refunds, in the period was \$1.4 million (2018: \$0.5 million). The increase was mainly due to prepayments in France and the United States by Group subsidiaries related to Intego.

Cash spent in the period on capital expenditure of \$67.5 million (2018: \$23.6 million) mainly comprises \$64.4 million for the acquisition of PIA, \$2.6 million (2018: \$2.3 million) capitalised development costs and \$0.5 million (2018: \$0.2 million) purchase of fixed assets.

## Financial position

At 31 December 2019, the Company had cash of \$8.2 million (31 December 2018: \$40.4 million), net assets of \$155.0 million (31 December 2018: \$73.0 million) and net debt of \$32 million (2018: Nil). At 31 December 2019, trade receivables and contract assets were \$3.4 million (31 December 2018: \$3.6 million).

## MORAN LAUFER

CHIEF FINANCIAL OFFICER

16 March 2020

# Product innovation and R&D to further competitive advantage and user satisfaction

## Our products

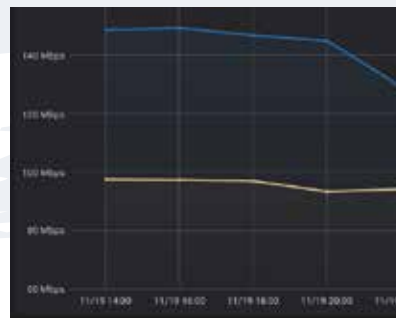
Kape's enhanced product stack includes a suite of privacy based software solutions focused on browsing, encryption and connectivity.



### Better speed

Increase in speed, providing our customers with better service worldwide with up to 45% improvement in speed in major locations.

Drive retention



### Better scalability

Our server fleet performs 1,000% more efficiently than before the upgrade; providing our customers with better performance and increased scalability.

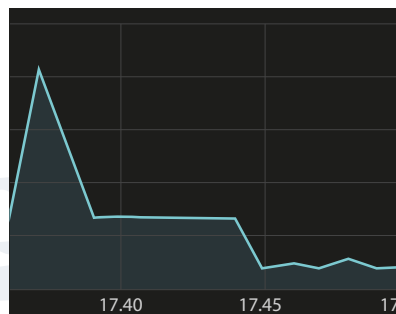
Allow for hyper-growth



### Better flexibility

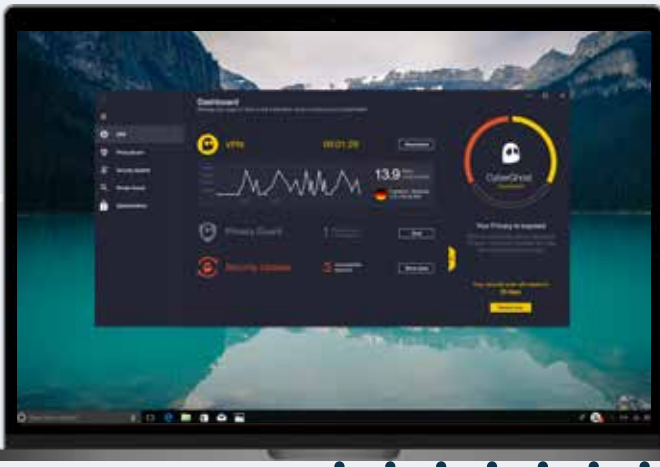
Infrastructure is completely modular which allows for agile development, and the ability to constantly improve enables Kape to be ahead of the competition with new developments.

Fast to react and agile tech



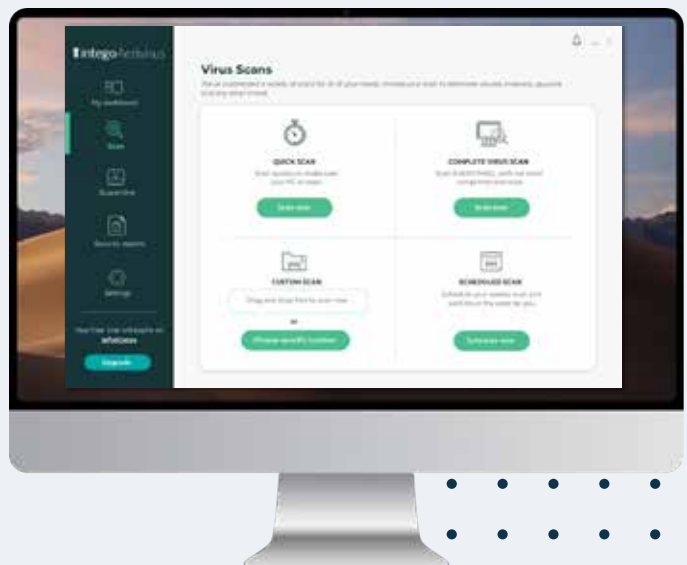
### Product development progress

Last year we demonstrated a technology leap in our product development efforts.



## CyberGhost

## End Point Security for PC





**There are a number of potential risks and uncertainties that could have a material impact on the Group’s long-term performance and could cause results to differ materially from expected and historical results. The risks to which the business is exposed are set out below:**

**Risks**

Regulatory, legislative or self-regulatory developments regarding internet privacy matters could adversely affect the Group’s ability to conduct its business.

Large and established internet, antivirus and technology companies may be able to significantly impair the Group’s ability to operate.

**Background**

International regulatory bodies are increasingly focused on online privacy issues and user data protection. In particular, GDPR was approved by the EU and it took effect from May 2018. It intends to strengthen and unify data protection for all individuals within the European Union (EU). It also addresses the export of personal data outside the EU. The GDPR aims primarily to give back control of their personal data to citizens and residents, and to simplify the regulatory environment for international business by unifying the regulations within the EU.

Large and established internet, antivirus and technology companies such as Symantec Corporation, Apple, eBay Inc., Facebook, Inc. (“Facebook”), Google and Microsoft, may have the power to significantly change the very nature of the app-distribution and internet display-advertising marketplace. These changes could materially disadvantage the Group. For example, Amazon, Apple, Facebook, Google and Microsoft have substantial resources and control a significant share of widely-adopted industry platforms such as web browsers and mobile operating systems. Changes to their web browsers, mobile operating systems, platforms, exchanges, networks or other products or services could be very harmful to the Group’s business. Such companies could also seek to replicate all or parts of the Group’s business.

**Mitigating controls**

- All the information that the Group obtains regarding users and their profiling is information that may correspond to a particular person, account or profile, but does not identify, allow contact with, or enable Kape to locate the person to whom such information pertains. As a consequence, the Group is not regulated by any regulator or subject to any regulatory approval for its day-to-day operations.
- Whilst not externally regulated, the Group adheres to a strict set of controls with its partners. Partners, developers, publishers and vendors are required to comply with these contractually-imposed controls, which have been jointly created by the Group and its legal advisers.
- The regulation also increases public awareness to the importance of digital privacy, which the company believes was one of the drivers for the digital privacy market growth.
- The Group actively monitors the developments of the large and established internet, antivirus and technology companies to identify any threats that may impair the Group’s ability to operate.

**Risks**

If the Group fails to innovate and respond effectively to rapidly changing technology, the Group's solution may become less competitive or even obsolete.

Failures in the Group's IT systems and infrastructure supporting its solution could significantly disrupt its operations and cause it to lose clients.

The Group is a multinational organisation faced with increasingly complex tax issues in many jurisdictions, and it could be obliged to pay additional taxes in various jurisdictions as a result of new taxes, laws or interpretation, including sales taxes, which may negatively affect its business.

Price pressure as a result of competition.

**Background**

To remain competitive, the Group's future success will depend on its ability to continuously enhance and improve its solutions to meet client needs, to add functionality to its product portfolio and to address technological advancements.

In addition to the optimal performance of the Kape Engine, the Group's business relies on the continued and uninterrupted performance of its software and hardware infrastructures. Sustained or repeated system failures of its software and hardware infrastructures, which interrupt its ability to deliver its software products and services quickly and reliability, could significantly reduce the attractiveness of its solution to advertiser clients and publishers, reduce its revenue and affect its reputation. In addition, a breach of its infrastructure which results in exposure of user data may harm the Group's reputation.

As a multinational organisation, operating in multiple jurisdictions such as the Isle of Man, Cyprus, Israel, Romania, Germany, France, the Philippines, the United States and the United Kingdom, the Group may be subject to taxation in several jurisdictions around the world, with diverse and complex tax laws, the application of which can be uncertain. The amount of taxes it pays in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on its liquidity and results from operation.

As a company operating in a primarily consumer-driven space, price competition is an element the business is exposed to. Competitors might lower their prices and this could affect the business's ability to grow, as well as Kape's margins.

**Mitigating controls**

- The Group invests in research and development staff and resources to ensure that the Group's technology platforms are continually enhanced, through evolution and innovation.
- The Group also invests in acquisitions to expand its technology platforms and enable it to adapt to the rapidly-changing technology environment.
- The Group outsources hosting services, holding minimal server infrastructure itself. This allows the Group to flex and grow its operations efficiently.
- Kape invests significant resources in research and development relating to its IT infrastructure, to make sure it is reliable, efficient and secure.
- The Group uses advisers to review its tax position and ensure compliance with local tax legislation.
- Kape's cost structure is focused on continuously reducing our cost to serve; we have been developing technology on the infrastructure side that allows us to grow substantially without growing our costs, thus allowing us to be more flexible on prices.
- Kape has an advantage of scale on the cost side as well as the user-acquisition side. New incumbents will find it hard to compete in this space.
- We are expanding our vertical integration across our user-acquisition operations allowing us to control a growing percentage of our margins.
- In addition, we operate a multi-brand strategy which allows us to capture a wider price range across the competitive landscape.



### **Don Elgie Non-Executive Chairman**

Don has many years' experience in marketing services including developing companies organically and by acquisition. Don retired as Group CEO of Creston plc, which was listed on the Main Market of the London Stock Exchange, at the end of March 2014. He founded Creston as a digitally-focused communications and insight group in 2001 and built it into an international group which generated £75m revenue, £12m EBITDA and employed over 800 people as at March 2014.



### **Ido Erlichman Chief Executive Officer**

Ido joined Kape Plc in May 2016 as Group Chief Executive Officer. Ido has more than 9 years' experience in the technology sector garnered through roles in private equity, consulting and finance. Prior to joining Kape, Ido was acting Joint Chief Executive Officer of VisualDNA (which was acquired by The Nielsen Company), a leading psychographic data business, where he led its geographic expansion and oversaw significant EBITDA growth. Prior to VisualDNA, Ido worked as a Senior Associate within KPMG's Private Equity deal advisory practice in London and as a Senior Manager within KPMG's Transaction Services practice, focusing on technology deals in Israel and with the Israeli Ministry of Finance. Ido is the author of the bestselling book 'Battle of Strategies' published in Israel by Yediot Books. Ido is a Certified Public Accountant, having graduated magna cum laude in Accounting and Economics from The Hebrew University of Jerusalem. He also obtained his Masters degree in Law from Bar-Ilan University, and has received an MBA from the University of Cambridge's Judge Business School.



### **Moran Laufer Chief Financial Officer**

Moran joined Kape as Group Financial Controller in 2012. He was a key member of the finance team that successfully supported the Group's admission to AIM in September 2014. Prior to joining Kape, Moran was a Divisional Controller at SafeCharge international Ltd (AIM: SCH), a global provider of payments services, technologies and risk management solutions for online and mobile businesses. Previously Moran worked for Ernst & Young as a senior auditor on London Stock Exchange and NASDAQ traded companies, primarily focused on the technology sector. Moran is a Certified Public Accountant, who graduated in Accounting and Economics and received an MBA from Tel Aviv University.



### David Cotterell Non-Executive Director

David has over 30 years' experience in the information technology software and service sector. He has held senior management roles with firms such as ACT Financial Systems, DST, Advent and SQS Group Plc and has led and successfully integrated many trade sales of technology companies. Between 2006 and 2011 David served as the CEO of UKIISA Region (UK, Ireland, South Africa and India) and as Board Director at SQS Group plc (LSE:SQS). David is a director of David Cotterell Partnership Limited. Additionally, David is Chairman of IT services company Qualitest UK. David is Kape Group's Senior Independent Director and also Chairman of the Company's Remuneration Committee.



### Martin Blair Non-Executive Director

Prior to joining the Board of Kape, Martin acted as CFO of Pilat Media Global plc, a company which previously traded on both AIM and the Tel Aviv Stock Exchange and developed, marketed and supported new-generation business management software solutions for content and service providers in the media industry. Martin joined Pilat Media in 2001, ahead of its admission to AIM in 2002. Pilat Media was acquired by SintecMedia Ltd for £63.3 million in April 2014. Martin qualified as a chartered accountant with Ernst & Young in 1982 and between 1983 and 1986 worked for PwC. Martin is Chairman of Kape's Audit Committee. Martin is also currently a non-executive director and Chairman of the Audit Committees at both Green Biologics Ltd and Cake Box PLC.



### Ted Kim Non-Executive Director

Ted joined the Board in December 2019 with nearly 30 years of professional experience as an attorney and corporate executive in media and technology. Prior to joining KAPE, Ted was the Chief Executive Officer of London Trust Media, Inc., the parent of Private Internet Access. He became the CEO after successful stints as the Chief Operating Officer and Chief Marketing Officer. Prior to joining LTM, Ted was the CEO of MNET America, a subsidiary of CJ ENM. Ted has a bachelors degree from the University of California, Berkeley and a JD from the University of Arizona.

### Overview

2 years ago, Kape's Board decided to adopt the Quoted Company Alliance's (QCA) Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA Code"); the Board believes this is still the relevant code and the company continues to adhere to that code. The principal means of communicating our application of the Code are this Annual Report and our website (<http://investors.kape.com/corporate-governance>). As Chairman, I am the custodian of the corporate governance approach adopted by the Board to ensure that the Company has the right people, strategy and culture to deliver success in the medium to long term. Since adopting the QCA Code I have led the Company's application of its 10 principles to ensure that the Company's strategy is linked to and supported by its governance arrangements. The remainder of this statement sets out the Company's application of the Code including, where appropriate, cross references to other sections of the Annual Report.

#### 1. Establish a strategy and business model which promote long-term value for shareholders

The strategy and business operations of the Group are set out in the Chairman's Statement on page 4 to 5 and the Chief Executive Officer's Review on pages 8 to 10. The Group's strategy and business model and amendments thereto, are developed by the Chief Executive Officer and the senior management team and approved by the Board. The management team, led by the Chief Executive Officer, is responsible for implementing the strategy and managing the business at an operational level.

The Group's overall strategic objective is to become the leading, next-generation provider of consumer and SME cybersecurity products.

The Group continues to grow and develop its product portfolio in the growing cybersecurity market, with a renewed focus in consumer cybersecurity. The acquisition of Private Internet Access towards the end of last year (2019) is an illustration of how the Group intends to meet this objective. Along with selected acquisitions that meet the Group's strategic objectives, the Group deploys its financial and other resources towards developing products through internal R&D, as well as growing and strengthening its existing products in the SaaS business model.

The Board believes that this approach will continue to deliver significant long-term value for shareholders through strong share performance and ensure we perform well when measured against the Group's key performance indicators, reported on a bi-annual basis. The Board also believes that remaining admitted to trading on AIM is of long-term value to shareholders as it offers a combination of access to capital markets, flexibility to make acquisitions, incentives and rewards to management through share schemes, and a regulatory environment appropriate to the size of the Company.

#### 2. Seek to understand and meet shareholder needs and expectations

The Group seeks to maintain a regular dialogue with both existing and potential new shareholders in order to communicate its strategy and progress and to understand the expectations and needs of shareholders. Beyond the Annual General Meeting, the Chairman, Chief Executive Officer and Chief Financial Officer, and where appropriate, other members of the senior management team, meet regularly with investors (including institutional shareholders) and analysts to actively build the relationship, provide them with updates on the Group's business and to obtain feedback regarding the market's expectations for the Group. Shareholders also have access to current information on the Group through its website <http://investors.kape.com/>, and via its financial PR advisor and the Executive Directors who are available to answer investor relation queries.

#### 3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Group is aware of its corporate social responsibilities and the need to maintain working relationships across a range of stakeholder groups. The Group's operations and working methodologies take account of the requirement to balance the needs of all of these stakeholder groups while maintaining focus on the Board's primary responsibility to promote the success of the Group for the benefit of members as a whole. Our employees are key to our success and therefore regular meetings are held with staff to ensure the strategic vision of the Group is communicated. It also provides a forum for employees to engage in open and confidential dialogue and ensures successful 2-way communication on goals, targets and aspirations of employees and the Group. This is done through regular meetings with senior management in our different locations as well as regular email and Slack communications. In addition, the Group is now finalising its whistleblowing policies which will be shared with all employees. These feedback processes help to ensure that the Group can respond to new issues and opportunities that arise to further the success of employees and the Group. In addition, there are a range of processes and systems in place with other stakeholders to ensure that there is close oversight and contact with key stakeholders; such as our move to 24/7 support for our products and minimum response time, holding a bi-annual meeting with key employees and the Board, and facilitating direct communications between management and all employees in the form of Slack, emails and ongoing site visits. These relationships are addressed at regular Board meetings. The Group also sees its environmental responsibility in highest regard; as a digital business our environmental footprint is minimal, but we always strive to improve it, focusing on only allowing air travel when required, having strict policies around travelling in basic class to reduce our footprint. In addition, we are constantly improving the efficiency of our infrastructure, allowing for a lower environmental footprint while improving the service to our customers.



#### 4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for the systems of risk management and internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk, and provide reasonable but not absolute assurance against material misstatement or loss. Through the activities of the Audit Committee, the scope and effectiveness of these internal controls is reviewed annually, identifying key financial and non-financial risks, risk-control measures and the implementation status of risk-control measures. The review was presented to the Audit Committee by the Chief Financial Officer. A summary of the principal risks and uncertainties facing the Group, as well as mitigating controls, are set out on pages 22 to 23. All material contracts are required to be reviewed and signed by a senior Director of the Company and reviewed by our General Counsel. Whilst not externally regulated, the Group adheres to a strict set of controls with its partners. Partners, developers and publishers are required to comply with these contractually-imposed controls, which have been jointly created by the Group and its legal advisers. A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. Actual results are monitored on a weekly and monthly basis and compared to the yearly budget. In addition, the Group performs quarterly re-forecasts for expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets. The Group maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured amounts and type of cover are reviewed periodically. The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

#### 5. Maintain the Board as a well-functioning, balanced team led by the Chair

The Board currently comprises 4 Non-Executive Directors (one of whom also acts as Senior Independent Director and one who acts in an executive role in a Kape subsidiary) and 2 Executive Directors. As part of the Private Internet Access Acquisition, Mr Kim was appointed Non-Executive Director on the Board; Ted Kim is 52 and is CEO of LTMI. Prior to taking that position he was the CEO of MNET America, and Head of America at the Korean conglomerate CJ E&M.

The Directors' biographies are set out on page 24 to 25. The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively. The Board considers, after careful review, the Non-Executive Directors to be independent of management and free of any relationship

which could materially interfere with the exercise of their independent judgment. The Board is responsible for the overall strategy and direction of the Group. It provides robust leadership of the Company within a framework of effective controls which enables risk to be assessed and managed. The Board, in setting the Company's aims, ensures that the necessary financial and human resources are in place to meet its objectives. It regularly reviews management performance on a yearly basis and upholds the Company's values and standards so that its obligations to shareholders and others are understood and met. The Board is supplied with information in a timely manner to enable it to discharge its duties. The Board also reviews arrangements under which employees can raise concerns in confidence, about possible improprieties in matters of financial reporting or other areas. The Board meets at regular, scheduled intervals 10 times a year and follows a formal agenda. It also meets as and when required. During 2019, all the Directors attended all the Board meetings. No one individual has unfettered powers of decision. The Directors may take independent, professional advice at the Group's expense. The Non-Executive Directors normally do not have any day-to-day involvement in the running of the business but are responsible for scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. All Board members are considered able to allocate sufficient time to the Company to discharge their responsibilities as Directors effectively, with a minimum of 45 days a year dedicated to fulfil their roles.

#### 6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Board considers that all of the Non-Executive Directors are of sufficient competence and calibre to add strength and objectivity to its activities. The Directors' biographies are set out on page 24 to 25. The Board considers that the combination of the complementary skills and experience of its members provides it with an appropriate balance of sector, financial and public-markets skills. The composition of the Board is reviewed regularly to ensure that it has the necessary breadth and depth of skills to support the ongoing development of the Group. The Chairman has a clear and distinct responsibility for running the Board whilst the executive responsibility for running the Company's business was delegated to the Chief Executive Officer.

#### 7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Board and Committee meetings are scheduled in advance for each calendar year. Additional meetings are arranged as necessary.

The Chairman assesses the individual contributions of each member of the Board to ensure that:

- their contribution is relevant and effective;
- that they are committed;
- they understand the business and its strategy;
- and where relevant, they have maintained their independence.

### 8. Promote a corporate culture that is based on ethical values and behaviours

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Group's operations. These values are enshrined in written policies and working practices adopted by all employees in the Group; these are shared with each new employee who joins the Group. We strive to create an agile, creative and open-minded culture to support our success in a constantly-evolving market where time to market and outside the box thinking is essential for success. We promote cross-company discussions as well as encourage the involvement of employees in proposing new and innovative project initiatives – we do that through cross-company activities as well as regular subject-based meetings.

The Board believes that diversity is a key to the future success of our business; we focus on monitoring and improving the gender ratio in the company. We report that the percentage of women in the company is high for the industry, although it has fallen slightly year on year at 31% (2018: 35%). We firmly believe that part of the company's success is the global and diverse nature of our workforce and we intend to continue our effort to promote diversity.

### 9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Our corporate governance structures and processes are summarised and discussed under the heading "Role of the Board" on page 28.

### 10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the activities summarised under the QCA Code principle, "Seek to understand and meet shareholder needs and expectations" the Company provides information for investors on its website, arranges Investor meetings and maintains contact with institutional shareholders and fund managers. The Company's joint-brokers provide independent feedback to the Board on market views and produce regular research notes on the Company. This enables the Board to understand the concerns of shareholders and the wider investment community.

#### Role of the Board

The Board is responsible for the overall strategy and direction of the Group. It provides robust leadership of the Company within a framework of effective controls which enables risk to be assessed and managed. The Board, in setting the Company's aims, ensures that the necessary financial and human resources are in place to meet its objectives. It regularly reviews management performance and upholds the Company's values and standards so that its obligations to shareholders and others are understood and met.

The Board is supplied with information in a quality form and in a timely manner to enable it to discharge its duties. The Board also reviews the arrangements under which employees can raise concerns in confidence about possible improprieties in matters of financial reporting or other areas.

#### Division of responsibilities

During 2019, the Chairman, Donald (Don) Elgie had the clear and distinct responsibility of running the Board, whilst the executive responsibility of running the Company's business was delegated to the Chief Executive Officer, Ido Erlichman.

As at 31 December 2019, the Board comprised 6 Directors, 4 of whom were Non-Executive Directors.

The Non-Executive Directors normally do not have any day-to-day involvement in the running of the business but are responsible for scrutinizing the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. All Board members are considered to be able to allocate sufficient time to the Company to discharge their responsibilities as Directors effectively.

The Board meets at regular scheduled intervals and follows a formal agenda; it also meets as and when required. No one individual has unfettered powers of decision-making. The Directors may take independent professional advice at the Group's expense.

#### Board committees

The Group has an Audit Committee, a Nominations Committee, and a Remuneration Committee, each consisting of 3 Non-Executive Directors. Each committee has written terms of delegated responsibilities, available for review at the end of the 2020 Annual General Meeting and also in the Investor Relations section of the Group's website <https://investors.kape.com/> The Board and its committees are considered to have an appropriate balance of skills, experience, independence, and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

#### Remuneration committee

The Remuneration Committee comprises of David Cotterell (Chair of the Committee), Don Elgie and Martin Blair, all of whom are Non-Executive Directors. It is responsible for making recommendations to the Board on remuneration policy as applied to the Company's Executive Directors. The Remuneration Committee also considers grants of options under the company's share option schemes. The policy of the Remuneration Committee is to grant share options to employees as part of a remuneration package to motivate them to contribute to the growth of the Group over the medium to long term.

The Chief Executive may, at the Remuneration Committee's invitation, attend meetings, except where his own remuneration is discussed. The Remuneration Committee met twice during the past financial year. The Remuneration Committee's terms of reference, which can be found on the Company's website [www.Kape.com](http://www.Kape.com), are reviewed on an annual basis and updated as required.



The Remuneration Committee Report, which includes details of Directors' remuneration, pension entitlements and Directors' interests, together with information on service contracts, is set out on pages 30 to 31.

### Audit committee

The Audit Committee is comprised of Martin Blair (Chair of the Committee), David Cotterell and Don Elgie, all of whom are Non-Executive Directors.

The Committee meets at least twice a year and at other times as agreed between the members of the Committee. In 2019 the Committee met 4 times. Executive Directors and the Group's auditors may be invited to attend all or part of any meetings. The Committee also meets with the Group's external auditors without the presence of the Executive Directors.

The Committee's terms of reference, which can be found on the Company's website [www.Kape.com](http://www.Kape.com), are reviewed on an annual basis and updated as required.

### Risk management and internal controls

During the year, the Audit Committee has reviewed the scope and effectiveness of the systems in place to identify and address financial and non-financial risks. The review identified the key risks, risk control measures and the implementation status of the risk control measures. The report was presented to the Committee by the Chief Financial Officer.

### Audit of the Group's annual report financial statements

In advance of the audit of the Group's Annual Report and financial statements, the Audit Committee reviewed the plans as presented by the Group's external auditor, BDO LLP. The plans set out the proposed scope of work, audit approach, materiality and identified areas of audit risk.

The Audit Committee also reviewed the Annual Report and financial statements along with the audit findings report presented by BDO LLP.

### Auditor independence

The Audit Committee monitors the independence of the Group's external auditor. During the year BDO LLP provided the Group with the following non-audit services:

- Taxation compliance services; and
- Taxation advisory services.

The Audit Committee considered the threats to the independence of BDO LLP created by the provision of the non-audit services and concluded that sufficient safeguards were in place.

BDO was appointed as auditor of the Group in the year ended 31 December 2013. The Audit Committee will keep under review, in consultation with major shareholders, the decision as to whether to conduct a tender in respect of the audit in line with the recommendations of the Financial Reporting Council.

### Nominations committee

The Nominations Committee comprises Don Elgie (Chair of the Committee), Martin Blair and David Cotterell, all of whom are independent Non-Executive Directors. The Committee meets when appropriate and considers the composition of the Board, retirements and appointments of additional and replacement Directors and makes appropriate recommendations to the Board. The objective of the Committee is to review the composition of the Board and to plan for its progressive refreshing, with regard to balance and structure. The Committee is responsible for:

- Reviewing the structure of the Board;
- Evaluating the balance of skills, knowledge, experience and diversity of the Board;
- Advising the Board on any areas where further recruitment may be appropriate; and
- Succession planning for key executives at Board level and below.

Where necessary and appropriate, recruitment consultants are used to assist the Committee in delivering its objectives and responsibilities. The Committee leads the process for the identification and selection of new Directors and makes recommendations to the Board in respect of such appointments. The Committee also makes recommendations to the Board on membership of its committees. The Committee terms of reference, which can be found on the Company's website [www.Kape.com](http://www.Kape.com), are reviewed on an annual basis and updated as required.

Signed on behalf of the Board by:

**DON ELGIE**  
NON-EXECUTIVE CHAIRMAN  
16 March 2020

## REMUNERATION COMMITTEE REPORT (UNAUDITED)

The Remuneration Committee (for the purpose of the Remuneration Committee report) comprises David Cotterell (Chair of the Committee), Don Elgie and Martin Blair, all of whom are Non-Executive Directors.

The Directors shall be entitled to receive by way of fees for their services as Directors (in addition to fees paid for employment or executive services) such sum as the Board may from time to time determine, provided that such amount shall not exceed in aggregate £500,000 per annum or such greater sum as the Company in general meeting shall from time to time determine by ordinary resolution. Any fees payable shall be distinct from any salary, remuneration or other amounts payable to a Director.

Each Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in or about the performance of his duties as a Director, including any expenses incurred in attending meetings of the Board or any committee of the Board or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company.

### Directors' emoluments

Directors' emoluments for the 2019 financial year are set in Pounds Sterling. These are set out in the tables below along with the US Dollar equivalent cost to the Company:

Name	Base Salary/Fees GBP£	Benefits GBP£	Pension GBP£	Bonus GBP£	Total GBP£
Ido Erlichman	300,000	50,000	30,000	200,000	580,000
Don Elgie	80,000	–	–	–	80,000
David Cotterell	50,000	–	–	–	50,000
Martin Blair	50,000	–	–	–	50,000
Moran Laufer	116,700	39,950	–	80,000	236,650
Ted Kim	10,150	1,569	–	–	11,719

The US Dollar equivalent cost to the Company has been calculated using an average USD/GBP rate of 1.2765.

Name	Base Salary/Fees \$	Benefits \$	Pension \$	Bonus \$	Total \$
Ido Erlichman	383,435	68,894	44,997	255,300	752,626
Don Elgie	102,120	–	–	–	102,120
David Cotterell	63,825	–	–	–	63,825
Martin Blair	63,825	–	–	–	63,825
Moran Laufer	148,968	50,996	–	102,120	302,084
Ted Kim	12,952	2,002	–	–	14,954

The beneficial interests of the Directors who held office at 31 December 2019, together with those persons connected with the Directors, in the share capital of the Company were as follows:

### Directors' interests in shares

Name	2019		2018	
	Percentage of issued share capital	Number of ordinary shares	Percentage of issued share capital	Number of ordinary shares
Ido Erlichman	<b>0.06%</b>	<b>100,000</b>	0.07%	100,000
Don Elgie	<b>0.06%</b>	<b>97,087</b>	0.07%	97,087
Martin Blair	<b>0.01%</b>	<b>19,417</b>	0.01%	19,417
David Cotterell	<b>0.06%</b>	<b>88,544</b>	0.03%	48,544
Moran Laufer	<b>0.05%</b>	<b>74,000</b>	0.04%	50,000
Ted Kim	<b>0.41%</b>	<b>627,597</b>	–	–

## Directors' interests in share options

Name	Number of ordinary shares under option at 31 December 2018	Date of grant	Exercise price	Number of ordinary shares under option at 31 December 2019
Ido Erlichman	2,000,000	1 June 2016(*)	£0.275	<b>2,000,000</b>
	1,200,000	24 August 2018(**)	£0.000	<b>1,200,000</b>
Moran Laufer	215,054	29 May 2014(*)	£0.380	<b>215,054</b>
	50,000	5 January 2016(*)	£0.555	<b>50,000</b>
	634,946	26 October 2016(*)	£0.365	<b>634,946</b>
	600,000	24 August 2018(**)	£0.000	<b>600,000</b>

(\*) Vesting schedule: 25% 1 year from date of grant and then in 12 equal quarterly instalments thereafter.

(\*\*) The Awards vest equally over the 3 year period from grant, subject to the achievement of certain performance metrics relating to the 3 financial years of the Company commencing 1 January 2018, as set out below:

	SaaS Revenue Target 50% of Award	Adjusted EPS Target 25% of Award	G&A Target 25% of Award	Total Vesting
<b>FY 2018</b>	25% of total Company revenues	\$0.049	The adjusted G&A expenses as a proportion of the total revenue of the Company is	<b>33.33%</b>
<b>FY 2019</b>	40% of total Company revenues	\$0.065		<b>33.33%</b>
<b>FY 2020</b>	55% of total Company revenues	\$0.130	15% for each financial year	<b>33.34%</b>

For the purposes of the above:

- "SaaS Revenue" means revenues from customer contracts that will renew automatically at the end of their term unless actively terminated by the customer;
- "Adjusted EPS" means the fully diluted adjusted Earnings Per Share of the Company (as presented in the annual accounts related to each financial year of the Performance Period); and
- "G&A" means the general and administrative expenses after adjusting for one-off or non-recurring expenses of the Company (as presented in the annual accounts related to each financial year of the Performance Period).

Should the SaaS Revenue, Adjusted EPS or G&A expenses fail to meet these target levels in any of the financial years, the proportion of the Award for that financial year will be lost and will not be capable of vesting for the Executives.

The Awards have been granted as Jointly Owned Equity Awards ("JOE Awards"). The Company will transfer 1,800,000 Ordinary Shares out of treasury to Intertrust Employee Benefit Trustee Limited as trustee of the Kape Technologies plc Employee Benefit Trust, to be held jointly with the Executives in order to satisfy the proposed JOE Awards. Under the terms of the Awards, the Executives will benefit from the growth in value of their respective Award from the date of grant along with the right to acquire the Trustee's interest by way of a nil cost option in the event that the Awards vest.

### Annual bonus

The bonuses for the Executive Directors for 2019 are based on Revenue, Adjusted EBIDTA, Cash conversion and non-financial and strategic objectives. The level of bonus payable by reference to the financial performance of the Company will be determined on a sliding scale based on the Company's budget for the forthcoming financial year.

All targets for 2018 and 2019 were met. Adjusted EPS target for 2020 was updated from \$0.072 following the acquisition of LTM Holdings.

### Service contracts

#### Executive Directors

The service agreements of the Executive Directors are for an indefinite term and provide for formal notice of 6 months for the Chief Executive Director and 3 months for the Chief Financial Officer to be served to terminate the agreement, either by the Company or by the Director. In addition to their annual salaries, the Executive Directors are entitled to annual pension contributions starting at 1 per cent. as well as other benefits commensurate with their positions including health related benefits.

#### Non-Executive Directors

Fees for Non-Executive Directors are set with reference to time commitment, the number of committees chaired and relevant external market benchmarks.

The Non-Executive Directors each have specific letters of appointment, rather than service contracts. Non-Executive Directors are appointed for an initial term of 3 years and, under normal circumstances would be expected to serve for additional 3-year terms, up to a maximum of 9 years, subject to satisfactory performance and re-election at the annual general meeting as required.

#### DAVID COTTERELL

CHAIRMAN, REMUNERATION COMMITTEE  
16 March 2020

## DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's report for the year ended 31 December 2019. The Corporate Governance Statement set out on pages 26 to 29 forms part of this report.

The Company's full name is Kape Technologies plc, domiciled in the Isle of Man with company number 011402V. Kape Technologies plc is a public listed company, listed on the AIM market of the London Stock Exchange ("AIM").

### Principal activity

Kape develops and distributes a variety of digital products in the online security space. The Company utilises its proprietary digital distribution technology to optimise its reach and distribute its software products to consumers. The Company offers products which provide online security, privacy and optimisation tools for consumers. A detailed overview of the Group's activities is set out on pages 2 to 13.

### Review of business and future developments

Details of the Group's performance during the year under review and expected future developments are set out in the Chairman and Chief Executive Officer statements on pages 4 to 10. A description of the principal risks and uncertainties facing the Group is set out on pages 22 to 23.

### Dividends

The Directors do not recommend the payment of a dividend (2018: \$nil). The declaration and payment by the Company of any future dividends on the Ordinary Shares 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.

The Board recognises the importance of dividend income to Shareholders and intends to adopt, at the appropriate time, a progressive dividend policy to reflect the expectation of future cash-flow generation and long-term earnings potential of the Company. However, it is not the current intention of the Board to declare any dividends in the near term. The Board may revise the Company's dividend policy from time to time in line with the actual results of the Company.

The Directors who served during the period were as follows:

Ido Erlichman	Active
Donald (Don) Elgie	Active
David Cotterell	Active
Martin Blair	Active
Moran Laufer	Active
Theodore (Ted) Kim	Active

### Re-election of Directors

The Articles of Association require that at each Annual General Meeting one third of the Directors (excluding any Director who has been appointed by the Board since the previous Annual General Meeting) or, if their number is not an integral multiple of 3, the number nearest to one third but not exceeding one third shall retire from office (but so that if there are fewer than 3 Directors who are subject to retirement by rotation 1 shall retire).

Any Director who is not required to retire by rotation but who has been in office for 3 years or more since his appointment or his last re-appointment, or who would have held office at not less than 3 consecutive Annual General Meetings of the Company without retiring, shall retire from office.

### Appointment of a Director

The Articles of Association require that any Director appointed by the Board shall, unless appointed at such meeting, hold office only until the dissolution of the next Annual General Meeting of the Company following such appointment.

### Directors' responsibility statement

The statement of Directors' responsibility is set out on page 34.

### Directors' indemnities

The Directors have been granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office which remains in force at the date of this report.

### Employee policies

At the 31 December 2019, the Group employed 398 people, (31 December 2018: 344 people). The Group is committed to attracting and retaining personnel with the requisite technical skills and experience to implement its growth strategy, and maintain its position in the competitive industry in which it operates. Kape therefore places significant emphasis on ensuring that it has a strong recruitment team as well as appropriate remuneration and bonus policies which are set by reference to appropriate objectives, and include share-based incentive schemes, details of which are set out in note 16 to the financial statements.

### Financial instruments

The Group does not currently use derivative financial instruments. A summary of the Group's financial instruments, changes in share capital and related disclosures are set out in notes 14 and 15 to the financial statements. The Group has no material exposure to price, liquidity, or cash-flow risk that would impact its objectives.

### Capital structure

Under the IOM Companies Act, the Company is not required to have an authorised share capital. The Ordinary Shares in issue at 31 December 2019 have been created pursuant to the BVI Companies Act and the articles of association of the Company in place prior to the re-domiciliation of the Company from the BVI to the IOM on 13 August 2014, and are ordinary shares of USD 0.0001 par value.

Details of the issued share capital as at 31 December 2019 of 160,144,132 ordinary shares of USD 0.0001 par value, together with details of the movements in the Company's issued share capital during the year are shown in note 14 to the financial statements. The Company has 1 class of ordinary shares, which carry no right to fixed income. Each share carries the right to 1 vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. Save as provided by the terms of certain lock-in agreements entered into between the Company, the Directors and certain shareholders, the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

As at 31 December 2019 the Company held 3,865,223 shares in treasury and 1,800,000 are held by Intertrust Employee Benefit Trustee Limited as trustee of the Kape Technologies plc Employee Benefit Trust. No other shares in the capital of the Company are held by or on behalf of the Company or by any of the Company's subsidiaries.

Details of employee share schemes are set out in note 16 to the financial statements.

### Related party transactions

Details of all related party transactions are set out in note 21 to the financial statements.

### Research and development

The Group maintains an integrated global research and development team which has a staff of 102 (2018: 68). In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth. The amount of research and development costs capitalised in the year was \$2,620,000 (2018: \$2,289,000).

### Going concern

The Directors, having considered the Group's resources financially and the associated risks with doing business in the current economic climate, believe the Group is capable of successfully managing these risks. The Board has reviewed the cash-flow forecast and business plan as provided by management which includes the rate of revenue growth, margins and cost control. The bridge loan term granted by Unikmind for the acquisition of LTMI Holdings has been extended until 31 March 2021. The directors of Kape consider, having consulted with the Company's nominated adviser, that the grant of the option to extend the term of the Term Loan to 31 March 2021 is fair and reasonable insofar as the Company's shareholders are concerned. The Company is currently working on refinancing it with a long-term bank debt. As such, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

### Annual General Meeting

The Annual General Meeting for 2020 will be held on Thursday, 21 May 2020 at 12 noon. The notice convening the Annual General Meeting for this year, and an explanation of the items of non-routine business are set out in the circular that accompanies the Annual Report.

### Auditor

A resolution to reappoint BDO LLP as the Company's auditor will be proposed at the 2020 Annual General Meeting. Each of the persons who are Directors at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed on behalf of the Board by:

**DON ELGIE**  
NON-EXECUTIVE CHAIRMAN  
16 March 2020

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## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Isle of Man company law does not require the Directors to prepare financial statements for each financial year, however the Group is required to do so to satisfy the requirements of the AIM Rules for Companies. Under company law, when preparing the financial statements, the Directors are required to prepare the Group financial statements in accordance with an appropriate set of generally accepted accounting principles or practices. The Directors have elected to use International Financial Reporting Standards (IFRSs) as issued by the IASB.

Under Company law the Directors must not approve the accounts 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 period.

In preparing these financial statements, International Accounting Standard 1 (revised) requires that Directors:

- Properly select and apply accounting policies;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that correctly explain the transactions of the Company, enable the financial position of the Company to be determined with reasonable accuracy at any time and allow financial statements to be prepared. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The Directors' responsibility also extends to the continued integrity of the financial statements contained therein.

Signed on behalf of the Board by:

**DON ELGIE**  
NON-EXECUTIVE CHAIRMAN  
16 March 2020

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAPE TECHNOLOGIES PLC

### Opinion

We have audited the financial statements of Kape Technologies Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the consolidated financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud), including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key audit matter

#### How we addressed the matter in our audit

#### Revenue recognition and contract costs

The Group has a number of revenue streams for which the accounting must be individually considered. Due to the different nature of agreements entered into by the Group, and the fact that revenue is recognised both at a point in time and over a period of time, there is a key risk of material misstatement arising from both the recognition of revenue around the year-end and the revenue recognition policy itself, as detailed in note 2 to these financial statements and expanded on below.

In particular, estimation is required to allocate the transaction price to standalone performance obligations in the contract.

We assessed whether the revenue recognition policies adopted by the Group comply with relevant accounting standards.

We performed specific substantive testing including selecting a sample of items and tracing to source documentation such as third-party payment processor reports or to bank.

We performed procedures including re-calculations of contract liabilities around the year-end based on the contract dates, in order to get comfort over contracts spanning the year-end. For those contracts spanning the year-end, a sample of the balances deferred were re-calculated.

We reviewed the revenue recognition policy with respect to the significant revenue streams of the Group to identify the method by which the Group unbundles its contracts and allocates the transaction price across the separate elements of the contract. We performed substantive procedures to test a sample of the transaction prices back to supporting documentation, such as standalone prices identifiable via current or historic sales, or by reference to market prices for similar products.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAPE TECHNOLOGIES PLC**  
**CONTINUED**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**Key audit matter**

In accordance with accounting standards, costs that are directly incremental to obtaining a contract are eligible to be recognised as an asset, provided the entity expects to recover the costs. A material deferred contract cost asset has been capitalised in respect of costs incurred to obtain and fulfil contracts. There is a key risk of material misstatement or overstatement due to the judgement surrounding costs meeting the capitalisation criteria and the expected life of the asset used to amortise the deferred cost.

**How we addressed the matter in our audit**

We performed specific substantive procedures to test a sample of capitalised customer acquisition costs back to incremental amounts paid for direct marketing, or fulfilment costs to obtain the customer, and we also ensured such costs met the definition of contract costs per the accounting standard. We reviewed the length of time over which costs are amortised based upon evidence of customer lifetime value, which exceeds the licence length. We also generated an expectation of the expected amortisation of the deferred contract costs recognised in the year to ensure the calculation used by the Directors was appropriate.

*Key observations*

There were no material issues identified by our testing of revenue recognition and contract costs in the year.

**Business combinations**

See accounting policy in note 2, and the intangible assets note (note 9) and the business combinations note (note 20).

There is a risk of material misstatement on the accounting for the business combination of Private Internet Access ("PIA") in the year as a result of the Directors' requirement to make significant judgements in assessing the fair values of consideration and of the assets and liabilities acquired. The directors engaged external valuations experts to undertake the purchase price allocation exercise required.

The acquisition resulted in the Group recognising, on consolidation, goodwill and intangible assets of \$111.79m and \$96.28m respectively.

With input from our valuations team, we challenged the assumptions underpinning the significant judgements and estimates used by the Directors in the assessment of the fair values of the assets and liabilities acquired and consideration paid including; reviewing underlying cash flow projections and comparing against historical and post-acquisition performance, royalty rates, discount rates applied and the long-term growth rates.

We performed specific substantive testing over material assets and liabilities acquired. We also focused on both material and more judgemental fair value adjustments that were recorded including:

**Intangible assets** – the Directors obtained external valuations for the acquired intangible assets. Utilising our valuations experts we evaluated the completeness and appropriateness of the assets recognised, the valuation methodologies used for each type of asset and used these to check that the methodology used by the Directors was appropriate and consistent with market practice. We also examined the key assumptions used as inputs to the valuation models to assess whether these were consistent with our underlying understanding of the business acquired, its historical performance and the market in which it operates. These assumptions included revenue and profit forecasts, discount rates, customer attrition rates, technology obsolescence rates and royalty rates.

**Share consideration** – the consideration for the acquisition included shares to be issued in the future and the issuance of shares that are subject to a lock-in period. In order to "fair value" this consideration the Directors applied a discount to the share price at the date of completion for the time value of money and the lack of marketability of this share consideration. We generated an independent expectation of the deferred share based on tracing the inputs to source documentation.

With the input of our tax team, we examined and satisfied ourselves with the methodology and tax rates used to calculate the associated deferred tax liabilities arising from the creation of intangible assets. This involved reference to the tax jurisdictions in which PIA operates.

*Key observations*

There were no material issues identified by our testing on the PIA business combination in the year.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account the nature of identified misstatements and the particular circumstances of their occurrence, when evaluating the effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be \$637,000 (2018: \$560,000) which represents approximately 1% of revenues (2018: 1% of revenues). Revenue has been determined to be the most relevant performance measure to the stakeholders of the Group given the Directors' current focus on expansion and growth of customer numbers.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriate level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at \$478,000 (2018: \$420,000), which represents 75% (2018: 75%) of the above materiality levels based on our overall risk assessment and history of misstatements.

Individual component audits were carried out using component materialities of 20-75% of overall financial statement materiality (this ranged from \$135,000 to \$460,000).

We agreed with the Audit Committee that we would report to them all individual audit differences in excess \$32,000 (2018: \$28,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results. We will also considered the changes to the overall Group as a result of the acquisition of LTMI Holdings Inc. (trading as "Private Internet Access") and where the key business activities and transactions reside.

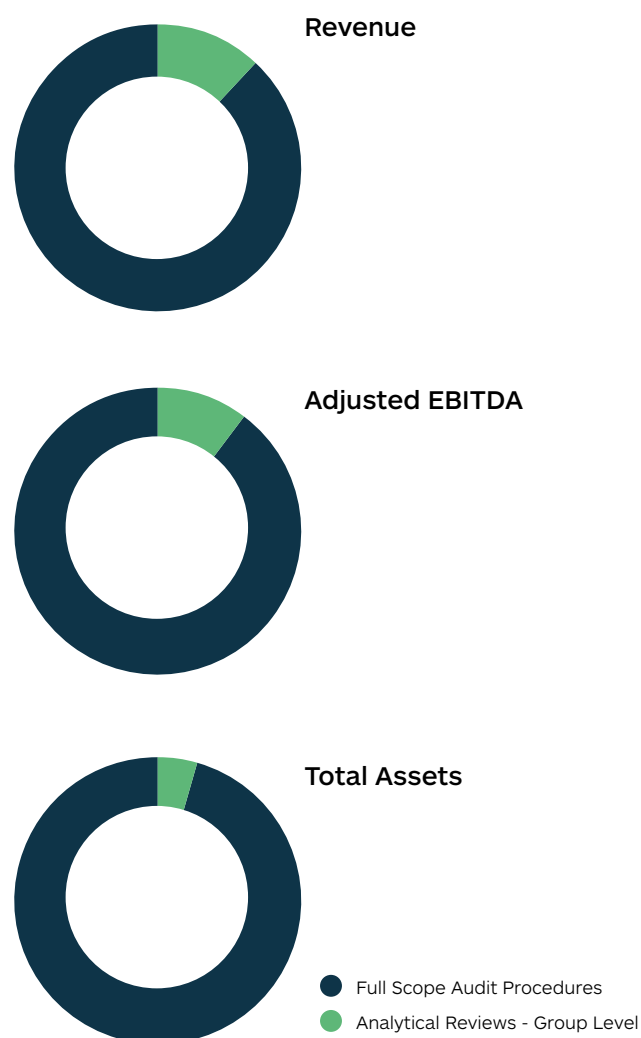
We instructed BDO's member firm in Romania as component auditor, to perform a full scope audit of financial information of CyberGhost, the significant component accounted for in that territory. We visited this location during the year to ensure we obtained a full understanding of the operational activities and appropriately-scoped risks and agreed responses to those risks.

We also attended an audit clearance meeting in Romania, and reviewed the work undertaken by our component auditor.

In addition, the Group audit team performed the full scope audit of the 2 remaining significant components, Intego Inc and Reimage. The accounting for these entities is based on Cyprus and the Group audit team visited this location to complete the necessary audit procedures.

This together with the additional procedures performed at Group level over the acquisition accounting and consolidation process gave us the evidence we needed for our opinion on the financial statements as a whole.

## Classification of Components



We identified 3 individually significant components, being Intego Inc, Reimage and CyberGhost, which together make up 89% of Group revenue.

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In addition we have performed full scope audit procedures at a Group level to give coverage of 98% of Group total assets.

The remaining components not subject to full scope audit have been reviewed for Group reporting purposes by the Group team, using analytical procedures to corroborate the conclusions reached that there are no significant risks of material misstatement of the aggregated financial information of those components.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with our engagement letter dated 5 March 2020. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### LEIGHTON THOMAS

FOR AND ON BEHALF OF BDO LLP

London, UK

16 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 \$'000	2018 \$'000
Revenue	3,4	<b>66,060</b>	52,060
Cost of sales		<b>(7,525)</b>	(5,605)
<b>Gross profit</b>		<b>58,535</b>	46,455
Selling and marketing costs	3c	<b>(33,124)</b>	(27,564)
Research and development costs		<b>(3,349)</b>	(1,653)
Management, general and administrative costs		<b>(11,514)</b>	(9,795)
Depreciation and amortisation	9,10,22	<b>(6,314)</b>	(3,800)
Other operating expenses		<b>(91)</b>	-
Total operating costs		<b>(54,392)</b>	(42,812)
<b>Operating profit</b>	5	<b>4,143</b>	3,643
<b>Adjusted EBITDA</b>	5	<b>14,559</b>	10,374
Employee share-based payment charge	16	<b>(1,680)</b>	(1,490)
Other operating expenses		<b>(91)</b>	-
Exceptional or non-recurring costs	5	<b>(2,331)</b>	(1,441)
Depreciation and amortisation	9,10,22	<b>(6,314)</b>	(3,800)
<b>Operating profit</b>		<b>4,143</b>	3,643
Finance income		<b>300</b>	587
Finance costs	7	<b>(1,644)</b>	(938)
<b>Profit before taxation</b>		<b>2,799</b>	3,292
Tax charge	8	<b>(314)</b>	(1,064)
<b>Profit from continuing operations</b>		<b>2,485</b>	2,228
Loss from discontinued operations (attributable to equity holders of the company)	20	<b>(465)</b>	(2,734)
<b>Profit/(Loss) for the year</b>		<b>2,020</b>	(506)
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit and loss:</b>			
Foreign exchange differences on translation of foreign operations		<b>(81)</b>	7
<b>Total comprehensive income/(loss) for the year</b>		<b>1,939</b>	(499)
<b>Total profit/(loss) for the year attributable to:</b>			
Owners of the parent		<b>2,020</b>	(518)
Non-controlling interests		<b>-</b>	12
<b>Total comprehensive income/(loss) attributable to:</b>			
Owners of the parent		<b>1,939</b>	(511)
Non-controlling interests		<b>-</b>	12
<b>Total profit/(loss) for the year attributable to Owners of the parent:</b>			
Continuing operations		<b>2,485</b>	2,228
Discontinuing operations		<b>(465)</b>	(2,746)
		<b>2,020</b>	(518)
<b>Earnings per share from continuing operations attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share (cents)	17	<b>1.7</b>	1.5
Diluted earnings per share (cents)	17	<b>1.7</b>	1.5
<b>Earnings per share from discontinued operations attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share (cents)	17	<b>(0.3)</b>	(0.3)
Diluted earnings per share (cents)	17	<b>(0.4)</b>	(0.3)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 \$'000	2018 \$'000
<b>Non-current assets</b>			
Intangible assets	9	242,100	36,265
Property, plant and equipment	10	2,351	713
Right-of-use assets	22	2,985	1,769
Deferred consideration	20,24	446	934
Deferred contract costs	3c	16,542	7,196
Deferred tax asset	8	2,180	728
		<b>266,604</b>	47,605
<b>Current assets</b>			
Software license inventory		96	52
Deferred contract costs	3c	12,798	5,216
Deferred consideration	20,24	346	323
Trade and other receivables	11	6,687	6,101
Cash and cash equivalents	12	8,211	40,405
		<b>28,138</b>	52,097
<b>Total assets</b>		<b>294,742</b>	99,702
<b>Equity</b>			
Share capital		16	15
Additional paid in capital		209,501	131,091
Foreign exchange differences on translation of foreign operations		778	859
Retained earnings		(55,291)	(58,991)
<b>Equity attributable to equity holders of the parent</b>		<b>155,004</b>	72,974
<b>Non-controlling interests</b>		-	-
<b>Total equity</b>		<b>155,004</b>	72,974
<b>Non-current liabilities</b>			
Contract liabilities	3b	6,013	2,165
Deferred tax liabilities	8	22,102	3,125
Long-term lease liabilities	22	1,753	1,693
Deferred and contingent consideration	24	14,578	143
		<b>44,446</b>	7,126
<b>Current liabilities</b>			
Trade and other payables	13	19,632	11,131
Shareholder loan	21c	40,221	-
Contract liabilities	3b	29,299	7,349
Short-term lease liabilities	22	1,365	226
Deferred and contingent consideration	24	4,775	896
		<b>95,292</b>	19,602
<b>Total equity and liabilities</b>		<b>294,742</b>	99,702

The financial statements were approved by the Board and authorised for issue on 16 March 2020.

**IDO ERLICHMAN**  
CHIEF EXECUTIVE OFFICER

**MORAN LAUFER**  
CHIEF FINANCIAL OFFICER

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital \$'000	Additional paid in capital \$'000	Shares to be issued \$'000	Foreign exchange differences on translation of foreign operations \$'000	Retained earnings \$'000	Equity attributable to equity holders of the parent \$'000	Non- controlling interests \$'000	Total \$'000
<b>At 1 January 2018</b>	15	130,728	-	852	(53,200)	78,395	977	79,372
Loss for the year	-	-	-	-	(518)	(518)	12	(506)
<b>Other comprehensive income:</b>								
Foreign exchange differences on translation of foreign operations	-	-	-	7	-	7	-	7
Total comprehensive loss for the year	-	-	-	7	(518)	(511)	12	(499)
<b>Non-controlling interest from disposal of subsidiary</b>	-	-	-	-	-	-	(989)	(989)
<b>Transactions with owners:</b>								
Share-based payments	-	-	-	-	1,490	1,490	-	1,490
Exercise of employee options (note 14)	*	363	-	-	-	363	-	363
Dividend paid to company's shareholders	-	-	-	-	(6,763)	(6,763)	-	(6,763)
<b>At 31 December 2018</b>	15	131,091	-	859	(58,991)	72,974	-	72,974
<b>At 1 January 2019</b>	15	131,091	-	859	(58,991)	72,974	-	72,974
Profit for the year	-	-	-	-	2,020	2,020	-	2,020
<b>Other comprehensive income:</b>								
Foreign exchange differences on translation of foreign operations	-	-	-	(81)	-	(81)	-	(81)
Total comprehensive loss for the year	-	-	-	(81)	2,020	1,939	-	1,939
<b>Transactions with owners:</b>								
Share-based payments	-	-	-	-	1,680	1,680	-	1,680
Exercise of employee options (note 14)	*	255	-	-	-	255	-	255
Issue of equity share capital (note 19)	1	21,656	-	-	-	21,657	-	21,657
Deferred share consideration (note 19)	-	-	56,499	-	-	56,499	-	56,499
<b>At 31 December 2019</b>	16	153,002	56,499	778	(55,291)	155,004	-	155,004

\* amounts below 1000.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 \$'000	2018 \$'000
<b>Cash flow from operating activities</b>			
Profit/(loss) for the year after taxation		2,020	(506)
Adjustments for:			
Amortisation of intangible assets	9	4,784	2,617
Loss from selling the media activity	20	–	2,252
Amortisation of right-of-use assets	22	1,177	1,209
Depreciation of property, plant and equipment	10	353	288
Loss on sale of property, plant and equipment	10	57	58
Tax charge	8	314	1,230
Interest income		(300)	(587)
Interest expenses, fair value movements on deferred consideration	7,20	814	232
Share-based payment charge	16	1,680	1,490
Interest received		300	587
Unrealised foreign exchange differences		143	(168)
<b>Operating cash flow before movement in working capital</b>		<b>11,342</b>	8,702
Decrease in trade and other receivables		374	3,142
(Increase)/decrease in software licenses inventory		(44)	13
Increase in trade and other payables		1,824	82
Increase in deferred contract costs		(16,928)	(10,215)
Increase in contract liabilities		2,075	1,971
<b>Cash (outflow)/inflow from operations</b>		<b>(1,357)</b>	3,695
<b>Tax paid net of refunds</b>		<b>(1,416)</b>	(502)
<b>Cash (used in)/generated from operations</b>		<b>(2,773)</b>	3,193
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment	10	(518)	(179)
Sale of property, plant and equipment	10	7	10
Net cash paid on business combinations	19	(64,324)	(20,823)
Net cash paid on business sold	20	–	(341)
Intangible assets acquired	9	(2)	(6)
Capitalisation of development costs	9	(2,620)	(2,289)
<b>Net cash used in investing activities</b>		<b>(67,457)</b>	(23,628)
<b>Cash flow from financing activities</b>			
Repurchase of employee share options	24	(880)	(929)
Dividend paid		–	(6,763)
Payment of leases	22	(1,246)	(1,087)
Proceeds from loan	21	40,000	
Exercise of options by employees	14	255	363
<b>Net cash generated/(used in) from financing activities</b>		<b>38,129</b>	(8,416)
<b>Net (decrease) in cash and cash equivalents</b>		<b>(32,101)</b>	(28,851)
Revaluation of cash due to changes in foreign exchange rates		(93)	(246)
Cash and cash equivalents at beginning of year		40,405	69,502
<b>Cash and cash equivalents at end of year</b>	12	<b>8,211</b>	40,405



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Basis of preparation

The financial information provided is for Kape Technologies Plc (“the Company”) and its subsidiary undertakings (together the “Group”) in respect of the financial years ended 31 December 2019 and 2018. The company is incorporated in the Isle of Man.

The financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRS) as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group’s accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effects are disclosed in note 2.

### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The bridge loan term granted by Unikmind for the acquisition of LTMH Holdings was due to expire on 12 June 2020, but post year-end was extended to expire on 31 March 2021. The company is currently working on refinancing the bridge loan granted by Unikmind with long-term bank debt. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

### Adoption of new and revised standards

A new standard impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group’s accounting policies:

- IFRIC 23 - Uncertainty over Income Tax Positions (IFRIC 23);

### IFRIC 23 - Uncertainty over Income Tax Positions

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 January 2019. The Group has maintained provisions for potential historic tax liabilities. As at 31 December 2019 the amount of these provisions is \$ 5.3 million (2018:\$1.4 million). The increase in tax liabilities comprises \$3.3 million related to the acquisition of LTMH Holdings and \$0.6 million from uncertainties over the income tax treatment related to cross-border services and transactions that derive from the multi-national nature of the Company.

### New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 2 Significant accounting policies

#### Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the parent company Kape Technologies Plc and the financial statements of the subsidiaries as shown in note 18 of the consolidated financial statements.

The financial statements of all the Group companies are prepared using uniform accounting policies. All transactions and balances between Group companies have been eliminated on consolidation.

#### Business combinations and goodwill

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Contingent consideration that is classified as an asset or a liability is initially recognised at fair value and subsequently at fair value through profit or loss as appropriate.

Deferred cash consideration is measured initially at fair value and subsequently at amortised cost.

Deferred share consideration that is classified as equity instrument, measured at date of recognition at fair value using the share price at the acquisition date adjusted for the time value of money and lack of marketability if needed.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Any provisional amounts are subsequently finalised within the 12-month measurement period, as permitted by IFRS 3.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

#### Non-Controlling Interests

For business combinations, the Group initially recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests. On disposal of non-wholly owned subsidiaries the Group derecognises non-controlling interest with any resulting gain or loss recognised in profit or loss attributable to the parent.

#### Foreign currencies

##### (a) Presentational currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which each entity of the Group operates (the "functional currency"). The financial statements are presented in United States Dollars (\$000).

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Exchange rates gains and losses are recognised net within Finance costs.

##### (c) Consolidation

The functional currency of the Company, and the presentation currency for the consolidated financial statements is United States Dollars. For the purpose of the consolidated financial statements, the assets and liabilities of the Group's foreign operations with a functional currency other than United States Dollars are translated into United States Dollars using exchange rates prevailing on the reporting date. Income and expense items (including comparatives) are translated at the exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised within other comprehensive income.

Effective 31 March, 2018, the functional currency of one of the Company's subsidiaries, CyberGhost SRL, has changed to United States Dollars ("USD" or "\$") from Romanian Lei ("Lei"). The change was following an assessment by company's management that found that the USD is the primary currency of the economic environment in which the subsidiary operates. The exchange rate at that date was Lei 1= \$0.2646. Non-monetary assets and liabilities were translated permanently into the new functional currency as of this date with any exchange differences recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control over a product or service to a customer.

The majority of the Group revenue is derived from sales of products to customers in a B2C model; transaction price being determined by the fixed price of each product which may be changed according to management decision.

- The CyberGhost, Zenmate, Private Internet Access, VirusBarrier and ContentBarrier products are SaaS products which contain 1 performance obligation that is satisfied over time. Since the service is being provided evenly across the contract period, revenue is recognised on a straight-line basis. All payments from customers are received upfront. Some of these contracts' term are greater than 1 year, mostly for 24 and 36 months. The Company determined that the upfront payments are for reasons other than providing a financing benefit to the Company and thus there are no significant financing components in its contracts. The following factors were considered in the analysis:
  - The intent of the payment terms that require all payments in advance is to preserve the customers, and to make it economically unlikely for them to stop using the Company's services.
  - The company has no need for financing and it charges its customers with an upfront payment, since otherwise it would incur high administration costs related to renewals and collection of payments.
  - An upfront payment of the entire consideration is in accordance with the typical payment terms in the industry.
- The Reimage PC, Restoro and DriverFix products contain 3 performance obligations: 1-time repair, unlimited use of the repair software for 1 year and technical support for 1 year. Revenue for performing the 1-time repair obligation is recognised at the time of the sale. For 1 year package of the Reimage, Restoro and DriverFix products, customers benefit from the use of the repair software and technical support for 1 year, revenues are recognised in line with the pattern of usage of the products and technical support, which is substantially within the first 30 days of the 12 months period.
- Revenue from the sale of Intego Mac Washing Machine, NetBarrier and Backup products is recognised at the time of sale as the customer is able to use the products independently without any additional resources of the company.
- The Company also offers its products for sale as a bundle. For software bundles, the company allocates revenue to each of the performance obligations based on their relative standalone selling price. The stand-alone selling prices are determined based on the prices charged to customers who acquire software packages individually or by reference pricing for similar products sold in the market.

Customers are provided with a 30-60 day refund period in which they can receive a full refund. Historical experience allows management to estimate the value of products that will be returned; these are not material to the Group and a refund liability has therefore not been recognised.

### Costs to obtain and fulfil a contract

Incremental costs of obtaining a contract are those costs that the entity would not have incurred if the contract had not been obtained (for example, sales commissions). The Company recognises an asset in relation to marketing costs to obtain a contract. The costs include fees paid to marketing partners on behalf of subscription sales of the Group Digital Security and Privacy products to customers referred by the partners. The company believes that the costs are recoverable as the proceeds from the customer over the expected relationship period exceed the costs to obtain the contract. The asset is amortised through the selling and marketing costs as the Company expects to recover the cost over the expected relationship period with the customer which includes the initial contract period and expected renewals. The expected relationship period with the customer is estimated based on historical contract renewals data. The asset is amortised over the expected customer life on a systematic basis.

In addition, the company recognises an asset for fulfilment costs that are considered directly attributable to fulfilling a contract. The fulfilment costs comprise payment processing fees paid to third party processing service providers. This asset is amortised through the cost of sales on a systematic basis over the contract period.

Assets recognised from the costs to obtain or fulfil a contract are subject to impairment testing. An impairment loss should be recognised in profit or loss to the extent that the carrying amount of an asset exceeds:

- a. The remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates, less
- b. The costs that relate directly to providing those goods or services and that have not been recognised as expenses.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 2 Significant accounting policies continued

#### Intangible assets

Amortisation for all classes of intangible assets is included within amortisation and depreciation costs in the income statement.

##### (a) Externally acquired intangible assets

Externally acquired intangible assets comprise intellectual property ("IP"), customer lists, trademarks and internet domains. All such intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of these intangible assets is calculated using the straight-line method over their useful economic lives.

Where intangible assets are acquired as part of a business combination they are recorded initially at their fair value. The useful economic life each of these assets is deemed to be as follows:

- Intellectual property: 3 to 8 years
- Trademarks: 5 to 12 years
- Customer lists: 4 to 5 years

Internet domains are generally considered to have an indefinite useful economic life. They are purchased due to the marketability of the related domain name, are not specific to a particular product, brand, market or service and therefore are not expected to diminish in value or use as a function of time.

An intangible asset is de-recognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is de-recognised.

##### (b) Internally-generated intangible assets (development costs)

An internally-generated intangible asset arising from the Group's e-business development is recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful life, which is 2 to 3 years. Amortisation commences when the asset is available for use.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

##### (c) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

#### Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line method so as to write-off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

- Computer equipment: 2-3 years
- Furniture, fixtures and office equipment: 6-15 years
- Leasehold improvements: 10 years or the term of the lease if shorter
- Cars: 4-5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss in the year in which it is incurred.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## Impairment of property, plant and equipment and internally-generated intangible assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## Cash and cash equivalents

For the purpose of the consolidated balance sheet and cash flow statement, cash and cash equivalents comprise cash in demand bank accounts and bank deposits that require notice of 3 months or less.

## Financial assets

### (a) Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group's financial assets are trade receivables, other receivables and cash and cash equivalents. These assets are held within a business model whose objective is to collect contractual cash flows, and give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As such, they are classified as measured at amortised cost.

### (b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value, through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expenses in profit or loss. Changes in the fair value of financial assets at FVTPL are recognised in the statement of comprehensive income.

Financially assets measured at amortised cost arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 365 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Other receivables consist of amounts generally arising from transactions outside the usual operating activities of the Group. Due to the short-term nature of the other current receivables, their carrying amount is considered to be the same as their fair value.

### (c) Impairment

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

## Financial liabilities

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## Current and deferred tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 2 Significant accounting policies continued

#### Current tax

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

#### Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the period end-date, and is not discounted.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

#### Uncertainty over income tax positions

It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect the Group's accounting for a current or deferred tax asset or liability.

If it is not probable that the uncertain tax treatment will be accepted, the Group measures the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

#### Leases

IFRS 16 requires lessees to recognise a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts within scope, with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or when the underlying asset has a low value.

The Company has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for leases of low-value assets only. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the following lease payments:

- Fixed payments
- Variable payments that are based on index or rate
- The exercise price of an extension or purchase option if reasonably certain to be exercised
- Payment of penalties for terminating the lease, if relevant

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset, or the lease-term, using the straight-line method. The lease-term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

### Share-based payments

Kape operates equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for Kape equity instruments (options). The fair value of the options and share awards is recognised as an employee-benefit expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, Recurring Revenue and Earning Per Share targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each reporting date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (par value) and share premium when the options are exercised.

Cancellation or settlement is recognised as an acceleration of the vesting period, and therefore the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately. Repurchase of cancelled or settled share-based compensation plans, is accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at purchase date. Such excess is accounted as an expense.

### Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Group and the nominal value of the share capital being issued is classified as additional paid in capital.

### Critical accounting estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgments that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following accounting policies cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

#### (a) Capitalisation of development expenses

Research and development costs which create identifiable assets and are expected to generate future economic benefits are capitalised, and the remainder is expensed to the income statement. This requires the Group to perform judgements in apportioning costs to identifiable assets and making judgements about which assets are expected to give rise to future economic benefits. The Group tracks research and development employees' and advisors', time invested in each research and development project. The Group then estimates whether it has adequate technical, financial and other resources to complete the development of the intangible asset and how the intangible asset will generate probable future economic benefits. Wrong estimations might cause the Company to capitalise costs that otherwise would be recorded as operational expenses.

#### (b) Valuation of separately identifiable intangible assets

To determine the value of separately identifiable intangible assets in a business combination, the Group is required to make judgements when utilising valuation methodologies. These methodologies include the use of discounted cash-flows, revenue forecasts and the estimates for the useful economic lives of intangible assets. There are significant judgements involved in assessing what amounts are recognised as the estimated fair value of assets and liabilities acquired through business combinations, particularly the amounts attributed to separate intangible assets such as brands and customer relationships. These judgements impact the amount of goodwill recognised on acquisitions. Any provisional amounts are subsequently finalised within the 12-month measurement period, as permitted by IFRS 3. Details of acquisitions in the year are set out in Note 19.

#### (c) Determining the customer lifetime

On recognising an asset in relation to marketing costs to obtain a contract, the Group determined the expected lifetime of the customer. The lifetime value been determined after taking into consideration the product sold, the period of the license, and the Group's past experience.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

The Group is monitoring changes which can affect the assessment during the period such as changes with the product, renewal rate etc.

Different assessment of the customer lifetime might impact the amount of Contract costs that are capitalised to the balance sheet and the rate in which the deferred contract costs are amortised.

### 3 Revenue

	2019 \$'000	2018 \$'000
Sale of Digital Security, malware protection and PC performance products	35,949	36,849
Sale of Digital Privacy software solutions	30,111	15,211
	<b>66,060</b>	52,060

Revenues from software and SaaS products offering security, malware protection and PC performance are generated from the Digital Security CGU, while revenues from provision of Digital privacy software solutions are generated from the Digital Privacy CGU. The revenues generated from the Media CGU in the period ended 31 December 2019 are presented as discontinued operations.

#### (a) Disaggregation of revenue

The following table presents our revenues disaggregated by the timing of revenue recognition in accordance with our reporting segments:

	2019 (USD '000s)			2018 (USD '000s)		
	Digital Security	Digital Privacy	Total	Digital Security	Digital Privacy	Total
Revenue recognised over a period	4,294	20,191	24,485	1,817	9,971	11,788
Revenue recognised at a point in time	31,655	9,920	41,575	35,032	5,240	40,272
<b>Total</b>	<b>35,949</b>	<b>30,111</b>	<b>66,060</b>	36,849	15,211	52,060

#### (b) Contract liabilities

The company has recognised the following revenue-related contract liabilities:

	31 December 2019 (USD '000s)	31 December 2018 (USD '000s)
Contract liabilities	<b>35,312</b>	9,514

#### Significant changes in relation to contract liabilities

The following table shows the significant changes in the current reporting period which relate to carried-forward contract liabilities.

	31 December 2019 (USD '000s)	31 December 2018 (USD '000s)
Significant changes in the contract liabilities' balances during the period are as follows:		
Business combinations	<b>(23,723)</b>	(3,415)
Revenue recognised that was included in the contract liability balance from business combinations	<b>1,946</b>	1,863
Revenue recognised that was included in the contract liability balance at the beginning of the period	<b>7,349</b>	3,189
Increases due to cash received, excluding amounts recognised as revenue during the period	<b>(11,370)</b>	(7,022)
Revaluation of contract liabilities in foreign currency	-	(117)

Management expects that 83.0% of the transaction price allocated to the unsatisfied contracts (which represent to contract liabilities) as of 31 December 2019 will be recognised as revenue during the next annual reporting period (\$29,299,000), 13.6% and 2.9% (\$4,812,000 and \$1,032,000) will be recognised in the financial years 2021 and 2022, respectively. The remaining 0.5% (\$169,000) will be recognised in the following financial years.

**(c) Assets recognised from costs to obtain and fulfil a contract**

Significant changes in relation to assets recognised from costs to obtain and fulfil a contract

	<b>31 December 2019 (USD, in thousands)</b>	31 December 2018 (USD, in thousands)
Short-term asset recognised from marketing cost to obtain a contract	<b>12,057</b>	4,624
Long-term asset recognised from marketing cost to obtain a contract	<b>16,325</b>	7,066
Short-term asset recognised from fulfilment cost to fulfil a contract	<b>741</b>	592
Long-term asset recognised from fulfilment cost to fulfil a contract	<b>217</b>	130
Significant changes in the deferred contract costs' balances during the period are as follows:		
Business combinations	-	387
Amortization recognised during the period - marketing costs	<b>(12,033)</b>	(3,954)
Amortization recognised during the period - fulfilment costs	<b>(2,963)</b>	(1,318)
Increases due to cash paid - marketing costs	<b>28,725</b>	14,054
Increases due to cash paid - fulfilment costs	<b>3,199</b>	1,443
Revaluation of contract costs in foreign currency	-	8

**4 Segmental information****Segments revenues and results**

The divestment of the Media division in July 2018 (note 20), resulted in changes to its management reporting system and now operates 2 reportable segments:

- Digital Security – comprising software and SaaS products offering security, malware protection and PC performance.
- Digital Privacy – comprising virtual private network (“VPN”) solutions and privacy SaaS products.

The Media division which represented a separate reportable segment in the prior year and this has been accounted for as a discontinued operation, as set-out in note 20.

Year ended 31 December 2019	<b>Digital Security 2019 \$'000</b>	<b>Digital Privacy 2019 \$'000</b>	<b>Total 2019 \$'000</b>
Revenue	35,949	30,111	66,060
Cost of sales	(2,085)	(5,440)	(7,525)
Direct sales and marketing costs	(15,991)	(9,135)	(25,126)
<b>Segment result</b>	<b>17,873</b>	<b>15,536</b>	<b>33,409</b>
Central operating costs			(18,850)
Adjusted EBITDA <sup>(1)</sup>			<b>14,559</b>
Other operating income			(91)
Depreciation and amortisation			(6,314)
Employee share-based payment charge			(1,680)
Exceptional or non-recurring costs			<b>(2,331)</b>
Operating profit			4,143
Finance income			300
Finance costs			(1,644)
<b>Profit before tax</b>			<b>2,799</b>
Taxation			(314)
<b>Profit from continuing operations</b>			<b>2,485</b>
Loss from discontinued operation (attributable to equity holders of the company)			(465)
<b>Profit from the year</b>			<b>2,020</b>

Exceptional or non-recurring costs in 2019 comprised restructuring costs of \$0.4 million mainly due to the restructuring of ZenMate and Intego both acquired during 2018, \$1.9 million (2018: \$0.8 million) for professional services and other business combinations' related costs which derive from LTM Holdings' acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 Segmental information continued

Year ended 31 December 2018	Digital Security 2018 \$'000	Digital Privacy 2018 \$'000	Total 2018 \$'000
Revenue	36,849	15,211	52,060
Cost of sales	(2,569)	(3,036)	(5,605)
Direct sales and marketing costs	(17,608)	(3,157)	(20,765)
Segment result	16,672	9,018	25,690
Central operating costs			(15,316)
Adjusted EBITDA <sup>(1)</sup>			10,374
Depreciation and amortisation			(3,800)
Employee share-based payment charge			(1,490)
Exceptional or non-recurring costs			(1,441)
Operating profit			3,643
Finance income			587
Finance costs			(938)
Profit before tax			3,292
Taxation			(1,064)
Profit from continuing operations			2,228
Loss from discontinued operations (attributable to equity holders of the company)			(2,734)
Loss from the year			(506)

Exceptional or non-recurring costs in 2018 comprised non-recurring staff costs of \$0.5 million mainly due to payments made to option-holders in parallel to the special dividend paid in June, \$0.8 million for professional services for acquisitions and rebranding expenses and \$0.1 of onerous costs related to lease contracts.

(1) Adjusted EBITDA is a company-specific measure which is calculated as operating loss before depreciation (including right to use assets amortisation), amortisation, exceptional or non-recurring costs, employee share-based payment charges and charges for repurchase of employees options which are considered to be one-off and non-recurring in nature as set out in note 5. The Directors believe that this provides a better understanding of the underlying trading performance of the business.

#### Information about major customers

In 2019 and 2018 there were no customers contributing more than 10% of total revenue of the Group.

#### Geographical analysis of revenue

Revenue by origin of the recording entity

	2019 \$'000	2018 \$'000
Europe	56,793	49,302
US	9,267	2,758
	66,060	52,060

#### Geographical analysis of non-current assets

	2019 \$'000	2018 \$'000
Europe	23,212	23,972
Asia	160	90
US	221,079	12,916
Total intangible assets and property, plant and equipment	244,451	36,978

## 5 Operating profit

### Adjusted EBITDA

Adjusted EBITDA is calculated as follows:

	2019 \$'000	2018 \$'000
Operating profit	4,143	3,643
Depreciation and amortisation	6,314	3,800
Other operating income	91	–
Employee share-based payment charge	1,680	1,490
Exceptional or non-recurring costs:		
Non-recurring staff and restructuring costs	416	543
Exceptional costs	1,915	898
Adjusted EBITDA	14,559	10,374

Operating profit has been arrived at after charging:

	2019 \$'000	2018 \$'000
<b>Exceptional or non-recurring operating costs</b>		
Non-recurring staff costs	416	543
Professional services related to business combinations	1,915	813
Costs related to onerous rent agreement	–	85
	2,331	1,441
Auditor's remuneration:		
Audit	210	220
Taxation services	21	7
Amortisation of intangible assets	4,784	2,305
Depreciation	353	286
Amortisation of Right-of-use assets	1,177	1,209
Employee share-based payment charge (note 16)	1,680	1,490

### Operating costs

Operating costs are further analysed as follows:

	2019 Adjusted \$'000	2019 Total \$'000	2018 Adjusted \$'000	2018 Total \$'000
Direct sales and marketing costs	25,126	25,126	20,765	20,765
Indirect sales and marketing costs	7,903	7,998	6,398	6,799
Selling and marketing costs	33,029	33,124	27,163	27,564
Research and development costs	3,149	3,349	1,389	1,653
Management, general and administrative cost	7,798	11,514	7,529	9,795
Other operating expenses	–	91	–	–
Depreciation and amortisation	2,652	6,314	2,079	3,800
Total operating costs	46,628	54,392	38,160	42,812

Adjusted operating costs exclude share-based payment charges, exceptional or non-recurring costs, other operating expenses and amortisation of acquired intangible assets. See note 4.

## 6 Staff costs

Total staff costs comprise the following:

	2019 \$'000	2018 \$'000
Salaries and related costs	14,280	9,988
Expenses for defined contribution plans	893	421
Employee share-based payment charge (note 16)	1,680	1,490
	16,853	11,899

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 6 Staff costs continued

The remuneration of the key management personnel of the Group which comprises the Executive Directors and senior management team, is set out below:

	2019 \$'000	2018 \$'000
The aggregate remuneration comprised:		
Wages and salaries	2,197	2,504
Expenses for defined contribution plans	86	54
Employee share-based payment charge	1,461	655
	<b>3,744</b>	3,213

Details of Directors' remuneration are set out in the Remuneration Committee report on pages 30 to 31.

### 7 Finance costs

	2019 \$'000	2018 \$'000
Interest expense on short-term shareholder loans (note 21)	221	–
Interest expense on lease liabilities (note 22)	77	93
Fair value movements on deferred consideration	82	219
Net foreign exchange and other finance expenses	1,264	626
	<b>1,644</b>	938

### 8 Taxation

The parent company is domiciled, for tax purposes, in both the Isle of Man and the UK. The final tax charge shown below arises partially from the difference in tax rates applied in the different jurisdictions in which the subsidiaries are based.

The Group recognised a deferred tax asset of \$1,598,000 (2018: \$159,000) in respect of tax losses accumulated in previous years.

The total tax charge can be reconciled to the overall tax charge as follows:

	2019 \$'000	2018 \$'000
Profit from continuing operations before income tax expense	2,799	3,292
Loss from discontinuing operation before income tax expense	(465)	(2,568)
	<b>2,334</b>	724
Tax at the applicable tax rate of 19% (2018: 19%)	443	137
Tax effect of		
Differences in overseas rates	(386)	83
Expenses not deductible for tax purposes	999	835
Previously unrecognised tax losses now recouped to reduce current tax expense	(14)	–
Deferred tax not recognised on losses carried forward	454	81
Recognition of previously unrecognised deferred tax assets	(1,561)	–
Tax expense for previous years	379	94
Tax charge for the year	<b>314</b>	1,230
Income tax expenses is attributable to:		
Profit from continuing operations	314	1,064
Loss from discontinued operation	–	166
	<b>314</b>	1,230
The tax expense/(credit) from continuing operations analysed as:		
Deferred taxation in respect of the current year	(1,608)	173
Current tax charge	1,922	891
Tax charge for the year	<b>314</b>	1,064

The Group has maximum corporation tax losses carried forward at each period-end as set out below:

	2019 \$'000	2018 \$'000
Corporate tax losses carried forward	<b>35,671</b>	38,974

Details of the deferred tax asset recognised arising in respect of losses and timing differences is set out below:

	2019 \$'000	2018 \$'000
At the beginning of the year	<b>728</b>	97
Additions through business combinations	–	770
Disposal of the media division	–	(12)
Recognised/(de-recognised) in the year from continuing operations	<b>1,443</b>	(115)
Foreign exchange revaluation	<b>9</b>	(12)
At the end of the year	<b>2,180</b>	728

Details of the deferred tax liability recognised arising from timing differences is set out below:

	Business combinations \$'000	Deferred contract costs \$'000	Capitalised software development costs \$'000	Total \$'000
At 1 January 2018	349	–	–	349
Arising from business combinations	2,631	87	–	2,718
Foreign exchange differences	–	–	–	–
Movement in the year due to temporary differences from continuing operations	(262)	11	309	58
At 31 December 2018	<b>2,718</b>	<b>98</b>	<b>309</b>	<b>3,125</b>
Arising from business combinations	<b>19,145</b>	–	–	<b>19,145</b>
Foreign exchange differences	<b>(3)</b>	–	–	<b>(3)</b>
Movement in the year due to temporary differences from continuing operations	<b>(726)</b>	<b>261</b>	<b>300</b>	<b>(165)</b>
<b>At 31 December 2019</b>	<b>21,134</b>	<b>359</b>	<b>609</b>	<b>22,102</b>

In addition, the Group has an unrecognised deferred tax asset in respect of the following:

	2019 \$'000	2018 \$'000
Tax losses carried forward	<b>30,457</b>	38,218
Unrecognised deferred tax assets due to tax losses carried forward	<b>4,057</b>	6,603

The Group maintained provisions for potential historic tax liabilities presented in Other payables. In 2019 the Group increased its provision of corporate tax liabilities by \$0.6 million to \$2.0 million (2018: \$1.4 million). The increase in tax liabilities is driven by the multi-national nature of the Company which gives rise to uncertainty over the income tax treatment related to cross border services and transactions. In addition, Other payables as of 31 December 2019 include a tax exposure balance of \$3.3 million (2018: \$Nil) following the due diligence performed with LTMI Holding acquisition.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**9 Intangible assets**

	Intellectual property \$'000	Trademarks \$'000	Customer lists \$'000	Goodwill \$'000	Internet domains \$'000	Capitalised software development costs \$'000	Cryptocurrencies \$'000	Total \$'000
<b>Cost</b>								
At 1 January 2018	38,342	10,168	3,218	6,854	94	5,102	–	63,778
Additions	–	6	–	–	–	2,289	–	2,295
Acquisition through business combinations	5,751	2,491	2,342	16,168	–	–	–	26,752
Disposals	(3,663)	(2,035)	(2,078)	(2,524)	–	(768)	–	(11,068)
Foreign exchange differences	(81)	10	24	125	–	(30)	–	48
At 31 December 2018	40,349	10,640	3,506	20,623	94	6,593	–	81,805
Additions	–	–	–	–	–	2,620	11	2,631
Acquisition through business combinations	31,991	36,257	27,796	111,794	231	–	6	208,075
Disposals	–	–	–	–	–	–	–	–
Foreign exchange differences	(76)	–	–	–	–	(57)	–	(133)
<b>At 31 December 2019</b>	<b>72,264</b>	<b>46,897</b>	<b>31,302</b>	<b>132,417</b>	<b>325</b>	<b>9,156</b>	<b>17</b>	<b>292,378</b>
<b>Accumulated amortisation</b>								
At 1 January 2018	(35,891)	(9,567)	(2,548)	–	–	(3,422)	–	(51,428)
Charge for the year	(1,031)	(241)	(450)	–	–	(895)	–	(2,617)
Disposals	3,663	2,035	2,078	–	–	719	–	8,495
Foreign exchange differences	15	(5)	(4)	–	–	4	–	10
At 31 December 2018	(33,244)	(7,778)	(924)	–	–	(3,594)	–	(45,540)
Charge for the period	(2,050)	(544)	(1,069)	–	–	(1,121)	–	(4,784)
Disposals	–	–	–	–	–	–	–	–
Foreign exchange differences	37	–	–	–	–	9	–	46
<b>At 31 December 2019</b>	<b>(35,257)</b>	<b>(8,322)</b>	<b>(1,993)</b>	<b>–</b>	<b>–</b>	<b>(4,706)</b>	<b>–</b>	<b>(50,278)</b>
<b>Net book value</b>								
At 1 January 2018	2,451	601	670	6,854	94	1,680	–	12,350
At 31 December 2018	7,105	2,862	2,582	20,623	94	2,999	–	36,265
<b>At 31 December 2019</b>	<b>37,007</b>	<b>38,575</b>	<b>29,309</b>	<b>132,417</b>	<b>325</b>	<b>4,450</b>	<b>17</b>	<b>242,100</b>

On 13 December 2019, the Group acquired 100% of the share capital of LTMI Holdings ("LTMI"). LTMI is the holding company for Private Internet Access Inc ("PIA"), a leading US-based digital privacy company with a strong position in the data privacy market. PIA was established in 2009 and is a security software business, based in Denver, Colorado, with a focus on the provision of virtual private network ("VPN") solutions. Since its inception, PIA has grown to become a leading VPN service provider focused on the consumer market and employing approximately 65 employees of which 35% are in an R&D capacity. PIA has over 1 million paying subscribers globally, with 48% of them based in the US. See note 19.

On 16 October 2018, the Group acquired 100% of the share capital of ZenGuard GMBH, trading as ZenMate ("ZenMate"), a multi-platform security software business with a focus on the provision of virtual private network ("VPN") solutions. ZenMate is a digital privacy company, headquartered in Berlin, focused on encrypting and securing internet connections and protecting individuals' privacy and digital data.

On 24 July 2018, the Group acquired 100% of the share capital of Neutral Holdings Inc, trading as Intego ("Intego"), a leading Mac and IOS cybersecurity and malware protection SaaS business. Intego is focused on the provision of malware protection, firewall, anti-spam, back-up, data protection and parental controls software for Mac.

On 26 July 2018, the Group sold the media division to Ecom Online Ltd. This sale is in line with the Company's strategy to develop and distribute its own cybersecurity products. The carrying value of the Intangible assets of the Media division on the Group balance sheet as the date of the sale is \$2.6 million, of which the majority related to Goodwill.

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs), or group of units that are expected to benefit from that business combination.



The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. Goodwill allocated to the Digital Security CGU has a carrying amount of \$11,688,000 (2018: \$11,688,000) and the Digital Privacy CGU has a carrying amount of \$120,729,000 (2018: \$8,935,000).

The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

For the Digital Security CGU, the recoverable value has been determined from value-in-use calculations based on cash flow projections for the next 5 years from the most recent budgets approved by management and extrapolated cash flows beyond this period using an estimated growth rate of 1 per cent (2018: 1 per cent). This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount these forecast cash flows is 17 per cent (2018: 25 per cent).

The discount rate used in the valuation of the Digital Security CGU was 17 per cent. If the discount rate was increased by 1 percentage point the effect would have been nil. There is no reasonably possible change in assumption that would give rise to an impairment.

For the Digital Privacy CGU, the recoverable value has been determined from value-in-use calculations based on cash-flow projections for the next 5 years from the most recent budgets approved by management and extrapolated cash flows beyond this period using an estimated growth rate of 1 per cent (2018: 1 per cent). This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount these forecast cash flows is 15 per cent (2018: 25 per cent).

The discount rate used in the valuation of the Digital Privacy CGU was 15 per cent. If the discount rate was increased by 1 percentage point the effect would have been nil. There is no reasonably possible change in assumption that would give rise to an impairment.

Following the acquisition of LTMI Holdings the company reassessed the discount rate attributable to the company's activities, which resulted in a reduction in the discount rates used to 17 and 15 per cent (compared to 25 per cent in 2018) for the Digital Security and Digital Privacy CGUs, respectively. The reduction in the discount rate reflects the increasing growth and share of revenues from higher customer retention over time product revenues and therefore an increased visibility of future user cash flows. As at 31 December 2019, no impairment would have been recognised if a 25 per cent discount rate was used in the impairment reviews for both the Digital Privacy and Digital Security CGUs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**10 Property, plant and equipment**

	Computer equipment \$'000	Furniture, fixtures and office equipment \$'000	Leasehold improvements \$'000	Cars \$'000	Total \$'000
<b>Cost</b>					
At 1 January 2018	1,240	245	290	162	1,937
Additions	99	43	37	-	179
Disposals	(17)	(57)	(146)	(17)	(237)
Acquisition through business combinations	35	47	-	-	82
Foreign exchange differences	(15)	-	5	4	(6)
At 31 December 2018	1,342	278	186	149	1,955
Additions	192	108	101	117	518
Disposals	(12)	(88)	(4)	(11)	(115)
Acquisition through business combinations	-	46	36	1,457	1,539
Foreign exchange differences	(4)	-	-	-	(4)
<b>At 31 December 2019</b>	<b>1,518</b>	<b>344</b>	<b>319</b>	<b>1,712</b>	<b>3,893</b>
<b>Accumulated depreciation:</b>					
At 1 January 2018	(915)	(74)	(117)	(16)	(1,122)
Charge for the period	(196)	(37)	(10)	(45)	(288)
Disposals	12	22	126	15	175
Foreign exchange differences	(5)	(1)	-	(1)	(7)
At 31 December 2018	(1,104)	(90)	(1)	(47)	(1,242)
Charge for the period	(205)	(40)	(47)	(61)	(353)
Disposals	11	33	-	7	51
Foreign exchange differences	2	-	-	-	2
<b>At 31 December 2019</b>	<b>(1,296)</b>	<b>(97)</b>	<b>(48)</b>	<b>(101)</b>	<b>(1,542)</b>
<b>Net book value</b>					
At 1 January 2018	325	171	173	146	815
At 31 December 2018	238	188	185	102	713
<b>At 31 December 2019</b>	<b>222</b>	<b>247</b>	<b>271</b>	<b>1,611</b>	<b>2,351</b>

**11 Trade and other receivables**

	2019 \$'000	2018 \$'000
Trade receivables and contract assets	3,446	3,648
Prepayments	1,389	1,267
Other receivables	1,852	1,186
	<b>6,687</b>	6,101

Other receivables as of 31 December 2019 include a VAT receivable balance of \$1,164,121 (2018: \$736,000).

The fair values of trade and other receivables due within 1 year approximate to their carrying amounts as presented above. The exposure of the Group to credit risk and impairment losses in relation to trade and other receivables is set out in note 15 of the consolidated financial statements.

**12 Cash and cash equivalents**

	2019 \$'000	2018 \$'000
Cash in bank accounts	7,472	22,462
Bank deposits	739	17,943
	<b>8,211</b>	40,405

The carrying value of these assets represents a reasonable approximation to their fair value.

### 13 Trade and other payables

	2019 \$'000	2018 \$'000
Trade payables	5,023	4,146
Accrued expenses	4,874	3,303
Employee liabilities	2,943	1,361
Current tax liability (*)	583	616
Other payables (*)	6,209	1,705
	<b>19,632</b>	11,131

(\*) Reclassified.

Other payables as of 31 December 2019 include a tax exposure balance of \$5.3 million (2018: \$1.4 million), the increase comprises \$3.3 million related to the acquisition of LTMI Holding and \$0.6 million from uncertainties over the income tax treatment related to cross-border services and transactions that derive from the multi-national nature of the Company.

The Group's management consider that the carrying value of trade and other payables approximates their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices.

### 14 Shareholder's equity

	2019 Number of Shares	2018 Number of Shares
Issued and paid up ordinary shares of \$0.0001	<b>160,144,132</b>	148,496,073

During the year a total of 610,930 new ordinary shares of \$0.0001 par value from treasury were sold for cash in relation to share option schemes resulting in cash consideration of \$255,000 (2018: \$363,000).

As part of the LTMI Holdings acquisition (note 19), the company issued 42,701,548 new ordinary shares ("Consideration Shares") to be paid in 3 phases. LTMI co-founders Andrew Lee and Steve DeProspero, will each be entitled to be issued 19,247,723 Consideration Shares representing approximately 10.4% of the enlarged issued share capital of Kape, of which 5,250,363 are being issued on completion, 10,498,020 will be issued on the first anniversary of completion and 3,499,340 will be issued on the second anniversary of completion. The balance of the Consideration Shares, being 4,206,102 in aggregate, are being issued to 4 senior executives of PIA, of which 1,147,333 are being issued on completion, 2,294,077 will be issued on the first anniversary of completion and 764,692 will be issued on the second anniversary of completion. The deferred shares consideration is disclosed as shares to be issued.

During 2018, 1,800,000 shares were transferred out of treasury to an employee benefit trust as part of a jointly-owned equity shares award to members of the executive management.

As at 31 December 2019, the Company hold in the treasury a total of 3,865,223 ordinary shares of \$0.0001 par value (2018: 4,476,153). During 2019, 610,930 ordinary shares of \$0.0001 par value were transferred out of treasury to satisfy the exercise of options by the Company employees (2018: 374,095).

In June 2018, the Company paid a special dividend in the amount of \$6.8 million. No additional dividend was declared in 2019 and 2018.

The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Additional paid in capital	Share premium (i.e. amount subscribed or share capital in excess of nominal value)
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income
Foreign exchange	Cumulative foreign exchange differences of translation of foreign operations

In accordance with Isle of Man Company Law, all of the reserves with the exception of share capital are distributable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 Financial Instruments and risk management

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this section of the Annual Report.

#### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

	Measurement category
<b>Non-current financial assets</b>	
Deferred consideration	FVTPL
<b>Current financial assets</b>	
Deferred consideration	FVTPL
Trade receivables and contract assets	Amortised cost
Other receivables	Amortised cost
Cash and cash equivalents	Amortised cost
<b>Non-current liabilities</b>	
Lease liabilities	Amortised cost
Deferred consideration	Amortised cost
Contingent consideration	FVTPL
<b>Current liabilities</b>	
Trade payables	Amortised cost
Other payables and accrued expenses	Amortised cost
Shareholder loan	Amortised cost
Lease liabilities	Amortised cost
Deferred consideration	Amortised cost
Contingent consideration	FVTPL

#### Financial assets

The Group held the following financial assets:

	2019 \$'000	2018 \$'000
Deferred consideration (see note 20)	792	1,257
Trade receivables and contract assets	3,446	3,648
Other receivables	1,852	1,186
Cash	8,211	40,405
	<b>14,301</b>	<b>46,496</b>

#### Financial liabilities

The Group held the following financial liabilities:

	2019 \$'000	2018 \$'000
Trade payables	5,023	4,146
Other payables and accrued expenses	8,675	4,728
Shareholder loan (see note 21)	40,221	-
Lease liabilities (see note 22)	3,118	1,919
Deferred consideration (see note 24)	18,536	1,039
	<b>75,573</b>	<b>11,832</b>

The Group's Directors monitor and manage the financial risks relating to the operation of the Group. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

## Market risk

### (a) Foreign currency risk management

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Israeli New Shekel, British Pound, Euro, Philippines Peso and Romanian Lei. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly, and also avoids engaging in a significant level of transactions in currencies which are considered volatile or exposed to risk of significant fluctuations.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Israeli New Shekel	950	1,135	213	696
Euro	2,459	1,744	1,986	5,612
British Pound	731	262	1,083	962
Australian Dollar	5	3	-	-
Romanian Lei	571	941	94	309
Philippines Peso	1,318	316	18	357
Canadian Dollar	-	-	1	-
Japanese Yen	6	6	6	5
	<b>6,040</b>	4,407	<b>3,401</b>	7,941

A 10 per cent weakening of the United States Dollar against the following currencies at 31 December 2019 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10 per cent strengthening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Profit or loss	
	2019 \$'000	2018 \$'000
Israeli New Shekel	(74)	(44)
Euro	(47)	387
British Pound	35	70
Australian Dollar	-	-
Romanian Lei	(48)	(63)
Philippines Peso	(130)	4
Canadian Dollar	-	-
Japanese Yen	-	-
	<b>(264)</b>	354

### (b) Interest rate risk management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group is exposed to changes in market rates of interest or fair value interest rate risk, due to the shareholder short-term loan which bears fixed interest rate plus USD Libor.

At the reporting date the interest rate analysis of financial instruments was:

	2019 \$'000	2018 \$'000
<b>Fixed rate financial instruments</b>		
Financial assets	8,211	40,405
Financial liabilities (note 22)	(3,118)	(1,919)
	<b>5,093</b>	38,486

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 Financial Instruments and risk management continued

	2019 \$'000	2018 \$'000
<b>Fluctuating rate financial instruments</b>		
Financial liabilities (note 21)	<b>(40,221)</b>	–
	<b>(40,221)</b>	–

Any increase/(decrease) by 1 per cent in USD Libor interest rates will have an effect of \$0.03 million on equity and profit or loss. This analysis assumes that all other variables will remain constant.

#### Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The principle credit risk is considered to result from new relationships with customers with which the Group does not have a long working relationship and for which reliable information as to their credit ratings cannot be obtained. In such cases the Group limits the initial credit facility afforded to these customers. Cash balances are held with high credit-quality financial institutions and the Group has policies to limit the amount of credit exposure to any financial institution or customer.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019 \$'000	2018 \$'000
Trade and other receivables	<b>5,268</b>	4,184
Cash at bank	<b>7,472</b>	22,462
Bank deposits	<b>739</b>	17,943
Receivables from related companies	<b>30</b>	650
	<b>13,509</b>	45,239

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

Wherever possible and commercially practical the Group invests cash with major financial institutions that have a rating of at least A- as defined by Standard & Poors. While the majority of money is held in line with the above policy, a small amount is held at various institutions with no rating. The Group holds approximately 19.3% of its funds (2018: 3.5%) in financial institutions below A- rate and 0.1% in payment methods with no rating (2018:0.3%).

	Total \$'000	Financial institutions with A- and above rating \$'000	Financial institutions below A- rating and no rating \$'000
At 31 December 2019	8,211	6,623	1,588
At 31 December 2018	40,405	38,860	1,545

Before accepting a new customer, the Group assesses each potential customer's credit quality and risk. Customer contracts are drafted to reduce any potential credit risk to the Group. Where appropriate the customer's recent financial statements are reviewed.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on the days past due. The expected loss rates are based on the payment profiles of sales over a period of 90 days a month before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period.

At 31 December 2019 the expected credit losses provision for trade receivables and contract assets is as follows:

	Current \$'000	Between 1 and 30 days past due \$'000	Between 31 and 60 days past due \$'000	More than 60 days past due \$'000
Expected loss rate	0%	0%	0%	0%
Gross carrying amount	3,346	10	12	78
Loss provision	–	–	–	–

The ageing of trade receivables is shown below:

	2019 \$'000	2018 \$'000
Current	3,346	3,536
Between 1 and 30 days	10	40
Between 31 and 60 days	12	32
More than 60 days	78	40
	<b>3,446</b>	3,648

The Group holds a specific loss provision of \$Nil at 31 December 2019 (2018: \$17,000). The expected credit loss rate is immaterial to the Group, given the nature of the Group's activities operating within B2C markets.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and any change in the credit quality from the date the credit was initially granted up to the reporting date.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written-off are credited against the same line item.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group does not hold any collateral as security. Impairments of trade receivables are expensed as operating expenses.

### Liquidity risk management

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets.

The Group's liquidity risk is monitored using regular cash flow reporting and projections to ensure that it is able to meet its obligations as they fall due.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2019	Carrying amounts \$'000	Contractual cash flows \$'000	3 months or less \$'000	3-12 months \$'000	1-5 years \$'000	More than 5 years \$'000
Trade and other payables	13,640	13,640	13,640	-	-	-
Shareholder's loan	40,221	40,221	-	40,221	-	-
Payables to related parties	58	58	58	-	-	-
Lease liabilities	3,118	3,330	431	957	1,942	-
Deferred consideration	18,536	20,532	-	5,020	15,220	292
	<b>75,573</b>	<b>77,781</b>	<b>14,129</b>	<b>46,198</b>	<b>17,162</b>	<b>292</b>

2018	Carrying amounts \$'000	Contractual cash flows \$'000	3 months or less \$'000	3-12 months \$'000	1-5 years \$'000	More than 5 years \$'000
Trade and other payables	8,664	8,664	8,664	-	-	-
Payables to related parties	210	210	210	-	-	-
Lease liabilities	1,919	2,026	366	782	878	-
Deferred consideration	1,039	1,243	226	717	300	-
	11,832	12,143	9,466	1,499	1,178	-

### Capital risk

The Group seeks to maintain a capital structure which enables it to continue as a going concern and which supports its business strategy. The Group's capital is provided by equity and the Group manages its capital structure through cash flow from operations and a shareholder loan which was taken to support PIA's acquisition.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 16 Employee share-based payments

Options have been granted under the Group's share option scheme to subscribe for ordinary shares of the Company. At 31 December 2019, the following options were outstanding (2018: 12,158,805):

Group	Grant date	Number of shares under option	Subscription price per share
Group 1	29 May 2014	1,166,540	\$0.538
Group 2	21 April 2015	245,063	\$1.305
Group 3	5 January 2016	231,563	\$0.710
Group 4	31 May 2016	2,000,000	\$0.352
Group 5	26 October 2016	2,232,270	\$0.467
Group 6	3 April 2017	586,833	\$0.0001
Group 7	15 June 2017	660,587	\$0.845
Group 8	26 April 2018	67,500	\$0.0001
Group 9	26 April 2018	373,375	\$1.280
Group 10	13 July 2018	1,810,000	\$1.437
Group 11	24 August 2018	1,800,000	\$0.000
Group 12	21 May 2019	367,500	\$1.090
Group 13	20 November 2019	827,000	\$1.040
Group 14	3 December 2019	650,000	\$1.230
<b>Total</b>		<b>13,018,231</b>	

#### Vesting conditions

Groups 1-5, 7-10 and 12-14 – 25% at the end of the first year following the grant date. 6.25% on a quarterly basis during 12 quarters period thereafter.

Group 6 – 50% at the end of the second year following the grant date and the remainder at the end of the third year following the grant.

Group 11 – 33.33% on a yearly basis during the 3 year period following the grant date subject to certain performance conditions. The total number of shares exercisable as of 31 December 2019 was 6,977,213 (2018: 5,864,311).

The weighted average fair value of options granted in the year using the Cox, Ross and Rubinstein's Binomial Model (the "Binomial Model") was \$1.03. The inputs into the Binomial model are as follows:

	2019 \$'000	2018 \$'000
Early exercise factor	100%	100%
Fair value of Group's stock	\$1.12-\$1.91	\$1.51-\$1.61
Expected Volatility	45%	60%
Risk free interest rate	0.47%-1.08%	0.72%-1.50%
Dividend yield	-	-
Forfeiture rate	0%-28%	0%-28%

We used the empirical observations for early exercise factor of public companies as an appropriate benchmark for the expected early exercise factor.

Expected volatility was determined based on the historical volatility of comparable companies.

Forfeiture rate is assumed to be 0% for senior management and 28% for other employees.

The risk-free interest rate was estimated based on average yields of UK Government Bonds.

The Group recognised total share based payments relating to equity-settled share based payment transactions as follows:

	2019 \$'000	2018 \$'000
Share-based payment charge	1,680	1,490

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At the beginning of the year	\$0.59	12,158,805	\$0.55	8,490,329
Granted	\$1.14	1,844,500	\$0.81	4,162,500
Lapsed	\$1.00	(374,144)	\$0.96	(119,929)
Exercised	\$0.43	(610,930)	\$1.02	(374,095)
At the end of the year	\$0.66	13,018,231	\$0.59	12,158,805

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 7.3 years (2018: 7.9 years).

On 24 August 2018, the Company awarded 1,800,000 in respect of its ordinary shares of \$0.0001 each have been granted under the Company's 2014 Global Equity Plan to members of its executive management. The Awards vest equally over the 3 year period from grant, subject to the achievement of certain performance metrics relating to the 3 financial years of the Company commencing 1 January 2018. The Awards have been granted as Jointly Owned Equity Awards ("JOE Awards"). Under the terms of the Awards, the Executives will benefit from the growth in value of their respective Award from the date of grant along with the right to acquire the Trustee's interest by way of a nil cost option in the event that the Awards vest.

## 17 Earnings per share

Basic loss/earnings per share is calculated by dividing the loss/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2019 cents	2018 Cents
<b>Basic earnings per share:</b>		
From continuing operations	1.7	1.5
from discontinued operations	(0.3)	(1.8)
Total basic earnings per share	1.4	(0.3)
<b>Diluted earnings per share:</b>		
From continuing operations	1.7	1.5
from discontinued operations	(0.4)	(1.8)
Total diluted earnings per share	1.3	(0.3)
Adjusted basic	6.8	5.2
Adjusted diluted	6.5	5.0

Adjusted earnings per share is a non-GAAP measure and therefore the approach may differ between companies. Adjusted earnings have been calculated as follows:

	2019 \$'000	2018 \$'000
Profit (loss) for the year	2,020	(506)
Post tax adjustments:		
Employee share-based payment charge	1,767	1,578
Exceptional or non-recurring costs	2,136	1,403
Amortisation on acquired intangible assets	3,112	1,905
Loss from discontinued operations	465	2,723
Other operating income	92	-
Finance cost on deferred consideration for options repurchase	138	247
Adjusted profit for the year	9,730	7,350

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 17 Earnings per share continued

	Number	Number
Denominator – basic:		
Weighted average number of equity shares for the purpose of earnings per share	143,217,060	142,008,376
Adjustments for calculation of diluted earnings per share:		
Impact of potentially dilutive shares related to employee options	6,257,713	5,947,197
Impact of potentially dilutive shares related to deferred shares consideration for business combinations	951,231	–
Denominator – diluted		
Weighted average number of equity shares for the purpose of diluted earnings per share	150,426,004	147,955,573

The diluted denominator has not been used where this has anti-dilutive effect. Basic and diluted loss per share are therefore the same for reporting purposes.

The difference between weighted average number of Ordinary shares used for basic earnings per share and the diluted earnings per share is 7,208,944 (2018: 5,947,197) being the effect of all potentially dilutive Ordinary shares derived from the number of share options granted to employees and deferred share consideration relating to the acquisition of LTMI Holding ("PIA") that are held in escrow against future claims.

### 18 Subsidiaries

Name	Country of incorporation	Principal activities	Holding %
CyberGhost SRL (**)	Romania	A leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions	100
Neutral Holding Inc	United States of America	Holding company of Intego inc, a leading cybersecurity SaaS provider, with a focus on the provision of malware protection to MAC operating systems.	100
Intego SA (**)	France	Development and technical support services.	100
Intego Inc (**)	United States of America	A leading cybersecurity SaaS provider, with a focus on the provision of malware protection to MAC operating systems	100
ZenGuard GMBH (*) (**)	Germany	A leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions and Provision of software development services to its parent company	100
Reimage Limited	Isle of Man	Development and sale of the "Reimage" software tool.	100
Reimage Limited (**)	Cyprus	Consulting, market research and software development services	100
R.S.F Remote Software Fixing Limited (**)	Israel	Provision of development, technical support and marketing support services to its parent company	100
KLTM5 Holding (***)	United States of America	Holding company of Private Internet Access Inc, a leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions	100
Private Internet Access Inc (**)	United States of America	A leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions	100
Kape Technologies (Cyprus) Limited (formerly Crossrider Technologies Limited)	Cyprus	Provision of professional services to the Group entities	100
Crossrider Sports Limited (**)	United Kingdom	Provision of consulting services to the Group entities	100

Name	Country of incorporation	Principal activities	Holding %
Definiti Media Ltd (**)	Israel	Providing user-acquisition services for the Group's activities	100
Crosspath Trading Limited	British Virgin Islands	Provision of professional services to the Group's entities	100
Kape Technologies Employee Benefit Trust	Jersey	Employee benefit trust	100
Plus Ultra Link LLC (**)	United States of America	Development of a speeds-up internet connections software	80
Ember Infrastructure Services, LLC (**)	United States of America	Provision of Infrastructure Services	100
BestAd HiTech Media Limited (**)	Israel	Inactive	100
Crossrider Advanced Technologies Limited (**)	Israel	Inactive	100
Crossrider (Israel) Limited (**)	Israel	Inactive	100
Blueroad Trading Limited (**)	Cyprus	Inactive	100
Frontbase Trading Limited (**)	Cyprus	Inactive	100
Crossrider ROM SRL(**)	Romania	Inactive	100

(\*) Merged with MobileConcept GMBH.

(\*\*) Indirect shareholding.

(\*\*\*) Merged with LTMI Holding as part of the acquisition.

The Group was formed from a series of common control transactions which have been accounted for using merger accounting; and acquisitions from third parties which have been accounted for using the acquisition method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2019

### 19. Business combinations

#### (a) Acquisition of LTMI Holdings

On 13 December 2019, the Group acquired 100% of the share capital of LTMI Holdings ("PIA"). LTMI is the holding company for Private Internet Access Inc ("PIA"), a leading US-based digital privacy company with a strong position in the data privacy services.

The Acquisition will deliver substantial operational benefits to Kape, transforming the Group's user-base with the addition of over 1 million customers, 48% of which are based in the US. The acquisition includes an additional suite of software-based privacy solutions available across mobile, tablet and desktop and which includes Plus Ultra, a software that speeds up internet connections, and LibreBrowser, a completely private browser.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill, are as follows:

	Acquiree's carrying amount before combination \$'000	Provisional fair value \$'000
Brand and domain name	–	36,257
Technology	478	31,991
Customer relations	–	27,796
Deferred tax liability	(942)	(25,804)
Cash and cash equivalents	676	676
Trade and other receivables	976	976
Property, plant and equipment, net	1,539	1,539
Intangible assets, net	237	237
Right-of-use assets	386	386
Deferred Contracts costs	3,491	–
Deferred tax assets	6,438	6,659
Contract liabilities	(23,723)	(23,723)
Trade and other payables	(11,935)	(11,935)
Long-term debt	(32,161)	(32,161)
Lease liabilities	(314)	(314)
	<b>(54,854)</b>	<b>12,580</b>
Fair value of consideration		
Cash		27,076
Shares		21,657
Deferred cash consideration		18,325
Deferred shares consideration		56,499
Deferred assets consideration		817
Goodwill		111,794

#### Net cash outflow on acquisition of business

	2019 \$'000
Cash consideration	<b>27,076</b>
Cash paid to LTMI Holding's phantom shareholder	<b>5,763</b>
Cash paid to repay long-term debt	<b>32,161</b>
Cash and cash equivalents acquired	<b>(676)</b>
	<b>64,324</b>

PIA is being acquired for a total consideration of \$130.1 million (including the \$5.7 million to PIA phantom shareholder) and an enterprise value of \$162.3 (including \$32.2 million for repayment of PIA's existing debt), to be satisfied by combination of \$85.0 million cash and issuance of 42,701,548 new Kape ordinary shares to be paid in 3 phases:

- A payment upon closing of \$65.0 million in cash of which \$27.1 million to PIA founders, \$5.7 million to PIA phantom shareholder and \$32.2 million for repayment of PIA's existing debt, and 11,648,059 consideration shares.
- A payment on the first anniversary of completion of \$5.0 million in cash ("deferred cash consideration"), 23,290,117 consideration shares and Company owned cars ("deferred assets consideration").
- A payment on the second anniversary of completion of \$15.0 million in cash ("deferred cash consideration"), 7,763,372 consideration shares and Company owned cars ("deferred assets consideration").

Andrew Lee and Steve DeProspero will each be entitled to be issued 19,247,723 Consideration Shares (subject to the escrow and set-off arrangements described below) representing approximately 10.4% of the enlarged issued share capital of Kape, of which 5,250,363 will be issued on completion, 10,498,020 will be issued on the first anniversary of completion and 3,499,340 will be issued on the second anniversary of completion. The balance of the Consideration Shares, being 4,206,102 in aggregate, are being issued to 4 senior executives of PIA, of which 1,147,333 are being issued on completion, 2,294,077 will be issued on the first anniversary of completion and 764,692 will be issued on the second anniversary of completion.

The Founders' Consideration Shares will be subject to a graduated lock-in, whereby the Consideration Shares to be issued on completion will be subject to a 12 month lock-in and the Consideration Shares issuable on the first anniversary of completion will be subject to a lock-in which is released as to 25% of such Consideration Shares each quarter thereafter. Following the expiry of their respective lock-in periods, the Consideration Shares to be issued to the Founders on completion and on the first anniversary of completion will be subject to a 12-month orderly market period. The Consideration Shares issuable to the Founders on the second anniversary of completion will not be subject to a lock-in period but will be subject to a 12-month orderly market period from the time of their issue.

All of the lock-in arrangements will be subject to customary exclusions. In addition, if Unikmind or any of its concert parties disposes of the beneficial interest in any Kape ordinary shares during the lock-in period to a person other than another concert party of Unikmind, the same proportion of the Founders' then locked-in Consideration Shares (ignoring any shares held in escrow) will be released from the lock-in but will remain subject to the orderly market arrangements for 12 months after such release.

The initial cash consideration and repayment of PIA's existing debt to be funded through Kape's internal cash resources a \$25.0 million and a \$40.0 million short-term debt facility from Unikmind Holdings Limited ("Unikmind"), Kape's largest shareholder, as well as provide an additional debt facility of \$20.0 million, which the Company does not expect to draw, to satisfy the deferred cash consideration, on similar terms. Further details of the Term Loan, which is a related party transaction, are set out on note 21.

Since the acquisition date, PIA has contributed \$2.5 million to Group's revenues, profit of \$0.2 million to Group profit. In addition, since the acquisition date PIA contributed \$2.0 million to segment results of the Privacy segment (as set out in note 4). If the acquisition had occurred on 1 January 2019, Group revenue would have been \$113.2 million, Group loss for the period would have been \$9.5 million and the Digital Privacy result would have been \$52.1 million.

Acquisition costs of \$1.8 million arose as a result of the transaction. These have been recognised as part of administrative expenses in the statement of comprehensive income.

## 20 Discontinued operation

### (a) Description

On 26 July 2018, the Group sold the Media division to Ecom Online Ltd. As for the sale date, the Media division included Clearvelvet Trading Limited ("Clearvelvet") and Intangible assets of the Media CGU. As consideration, the Group will receive a 50% share of EBITDA from the Media division for the next 5 years following the sale. The Company estimate the recoverable value based on cash-flow projections for the next periods agreed upon with the acquiree. The fair value of the deferred consideration as at 31 December 2019 was \$0.8 million (2018: \$1.3 million). Decrease to the fair value is presented as discontinued operation.

The deferred consideration fair value has been determined based on cash-flow projections for the deferred period left using the most recent expectations received from the acquiree. The rate used to discount these forecast cash flows is 25 per cent (2018: 25 per cent).

The discount rate used in the valuation was 25 per cent. If the discount rate was increased by 1 percentage point the effect would have been \$0.01 million. There is no reasonably possible change in assumption that would give rise to an impairment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**20 Discontinued operation** continued

**(b) Financial performance**

The financial performance and cash flow information presented are for the years ended 31 December 2019 and 2018.

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Revenue	-	4,185
Expenses	-	(4,501)
Loss before income tax	-	(316)
Income tax expenses	-	(166)
Loss after income tax of discontinued operation	-	(482)
Fair value movements on deferred consideration	<b>(465)</b>	-
Loss on sale of the Media division	-	(2,252)
Loss from discontinued operation	<b>(465)</b>	(2,734)
Net cash outflow from operating activities	-	(336)
Net cash outflow from investing activities	-	(341)
Net cash flow from financing activities	-	-
Net decrease in cash generated by the Media division	-	(677)

**(c) Details of the sale of the subsidiary**

	<b>2018</b>
	<b>\$'000</b>
Consideration received or receivable:	
Short term fair value of contingent consideration	<b>323</b>
Long term fair value of contingent consideration	<b>934</b>
Total consideration	<b>1,257</b>
Carry amount of net assets sold	
Goodwill	<b>(2,524)</b>
Capitalised Software Development Costs	<b>(49)</b>
Investment	<b>(50)</b>
Property, plant and equipment	<b>(4)</b>
Trade and other receivables	<b>(2,517)</b>
Deferred tax asset	<b>(12)</b>
Cash and cash equivalents	<b>(341)</b>
Trade and other payables	<b>999</b>
	<b>(4,498)</b>
Non-controlling interest	<b>989</b>
Loss on sale	<b>(2,252)</b>



## 21 Related party transactions

The Group is controlled by Unikmind Holdings Limited incorporated in British Virgin Islands, which owns 67.03% of the Company's shares as at 31 December 2019. The controlling party, Unikmind Holdings Ltd, has re-domiciled from the British Virgin Islands to the Isle of Man. Mr. Teddy Sagi is the sole ultimate beneficiary of Unikmind Holdings Ltd.

### (a) Related party transactions

The following transactions were carried out with related parties:

	2019 \$'000	2018 \$'000
Revenue from common controlled companies	–	85
Technical support services to end customers and administration services provided by common controlled companies	(254)	(2,227)
Office expenses to common controlled companies	(163)	–
Payment processing services provided by common controlled company	(189)	(376)
Development services provided by common controlled company	(29)	–
Amortisation of right-of-use assets with common controlled companies (note 22)	(941)	(744)
Interest expenses from lease liabilities to common controlled companies	(65)	(71)
Interest expenses from shareholder short-term loan and debt facility	(221)	–
Loss debt from related parties	–	(323)
	<b>(1,862)</b>	<b>(3,656)</b>

On 6 December 2019, Kape entered into a \$40.0 million short-term debt facility from Unikmind Holdings Limited ("Unikmind"), Kape's largest shareholder, and was also provided with an additional debt facility of \$20.0 million, which the Company does not expect to draw, to satisfy the deferred cash consideration, on similar terms. Term Loan has a fixed interest rate of 5% above 6 months USD Libor. Each tranche of the Term Loan is repayable on the earlier of a third-party refinancing of the Term Loan and 6 months after its utilisation, unless such tranche's maturity is extended until 31 March 2021. The Term Loan can be repaid early in whole or part by the Borrower free of any penalty. The Term Loan will also include a commitment fee on undrawn amounts only from the moment they become available in accordance to the payment schedule and certain other customary obligations on the Borrower in relation to the Lender's costs and expenses and in relation to taxes. Term debt facilities have a fixed interest of 1.5% upon availability, \$5.0 million on the first anniversary and \$15.0 million on the second anniversary.

Borrowings under the Term Loan will be guaranteed by Kape and secured by a share charge granted by Kape in respect of its shares in the Borrower.

Kape intends to re-finance the Term Loan with third party facilities as soon as practicable.

### (b) Receivables owed by related parties (Note 15)

Name	Nature of transaction	2019 \$'000	2018 \$'000
Parent company	Unpaid share capital	10	10
Companies related by virtue of common control	Other	20	–
Companies related by virtue of common control	Trade	–	650
		<b>30</b>	<b>660</b>

### (c) Payables to related parties (Note 15)

Name	Nature of transaction	2019 \$'000	2018 \$'000
Companies related by virtue of common control	Other	58	210
Unikmind Holdings Limited	Shareholder loan	40,221	–
		<b>40,279</b>	<b>210</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**21 Related party transactions continued**

**(d) Right-of-use assets and lease liabilities to related parties (Note 22)**

	<b>2019</b> <b>\$'000</b>	2018 \$'000
Right-of-use assets	<b>2,058</b>	1,422
Lease liabilities	<b>(2,387)</b>	(1,543)

**22 Leases**

The recognised right-of-use assets relate to the following types of assets:

	<b>2019</b> <b>\$'000</b>	2018 \$'000
Right-of-use assets:		
Real estate leases	<b>2,847</b>	1,720
Vehicles	<b>138</b>	49
	<b>2,985</b>	1,769

**Right-of-Use Assets**

	Real estate leases \$'000	Vehicles \$'000	Total \$'000
At 1 January 2018	1,331	77	1,408
Additions	1,265	–	1,265
Additions through business combinations	305	–	305
Amortisation	(1,181)	(28)	(1,209)
At 31 December 2018	1,720	49	1,769
Additions	<b>2,026</b>	<b>44</b>	<b>2,070</b>
Additions through business combinations	<b>308</b>	<b>78</b>	<b>386</b>
Effect of modification to lease terms	<b>(63)</b>	–	<b>(63)</b>
Amortisation	<b>(1,144)</b>	<b>(33)</b>	<b>(1,177)</b>
At 31 December 2019	<b>2,847</b>	<b>138</b>	<b>2,985</b>

**Lease liabilities**

	Real estate leases \$'000	Vehicles \$'000	Total \$'000
At 1 January 2018	1,331	77	1,408
Additions	1,265	–	1,265
Additions through business combinations	305	–	305
Interest expense	82	11	93
Lease payments	(1,058)	(29)	(1,087)
Foreign exchange movements	(62)	(3)	(65)
At 31 December 2018	1,863	56	1,919
Additions	<b>2,026</b>	<b>44</b>	<b>2,070</b>
Additions through business combinations	<b>314</b>	–	<b>314</b>
Effect of modification to lease terms	<b>(66)</b>	–	<b>(66)</b>
Interest expense	<b>76</b>	<b>1</b>	<b>77</b>
Lease payments	<b>(1,207)</b>	<b>(39)</b>	<b>(1,246)</b>
Foreign exchange movements	<b>50</b>	–	<b>50</b>
At 31 December 2019	<b>3,056</b>	<b>62</b>	<b>3,118</b>

2019	Carrying amount \$'000	Contractual cash flow \$'000	3 months or less \$'000	3-12 months \$'000	1-5 years \$'000	More than 5 years \$'000
Lease liabilities	3,118	3,330	431	957	1,942	–

The Company leases various offices and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts.

### 23 Contingent liabilities

The Group had no contingent liabilities as at 31 December 2019.

### 24 Deferred and contingent consideration

#### (a) Acquisition of DriverAgent intangibles

In October 2016, the Group acquired the intellectual property of PC maintenance software product, DriverAgent, from eSupport.com, Inc for a total consideration of \$1.2 million. As for 31 December 2019, the consideration included \$0.2 million of consideration (2018: \$0.17 million) which is contingent on future results.

#### (b) Repurchase of share-based consideration

On 20 November 2017, the Company repurchased 3,810,667 options out of the 4,057,813 option granted to the Cyberghost's former founder for a total cash consideration of \$3.8 million (€3.2 million). \$1.9 million (€1.625 million) was paid upon execution of the purchase agreement, while the remaining amount is to be paid in 8 equal instalments amounting to \$235,000 (€197,000) per quarter over the course of 2 years and recognised as deferred consideration. On 28 March 2019, the company accepted Cyberghost's former founder request for immediate remittance of the remaining consideration in exchange for reduction on the amount of said consideration, equal to 7 per cent. As at 31 December 2019, the deferred consideration is fully paid with Nil balance (2018: \$0.9 million).

#### (c) Sale of the Media Division

On 26 July 2018, the Group sold the media division to Ecom Online Ltd. This sale is in line with the Company's strategy to develop and distribute its own cybersecurity products. As consideration, the Group will receive a 50% share of EBITDA from the Media division for the next 5 years following the sale, which will be reinvested in the Group's core Digital Security and Digital Privacy segments. As at 31 December 2019, the consideration included \$0.8 million (2018: \$1.3 million) of deferred consideration receivable.

#### (d) Acquisition of Private Internet Access Inc

On 13 December 2019, the Group acquired 100% of the share capital of LTMI Holdings ("PIA"). LTMI is the holding company for Private Internet Access Inc ("PIA"), a leading US-based digital privacy company with a strong position in the data privacy market. PIA is being acquired for a total consideration of \$130.1 million (including the \$5.7 million to PIA phantom shareholder) and an enterprise value of \$162.3 (including \$32.2 million for repayment of PIA's existing debt), to be satisfied by the combination of \$85.0 million cash and issuance of 42,701,548 new Kape ordinary shares to be paid in 3 phases:

- A payment upon closing of \$65.0 million in cash of which \$27.1 million to PIA founders, \$5.7 million to PIA phantom shareholder and \$32.2 million for repayment of PIA's existing debt, and 11,648,059 Consideration shares.
- A payment on the first anniversary of completion of \$5.0 million in cash ("Deferred cash consideration"), 23,290,117 Consideration shares and Company owned cars ("Deferred assets consideration").
- A payment on the second anniversary of completion of \$15.0 million in cash ("Deferred cash consideration"), 7,763,372 Consideration shares and Company owned cars ("Deferred assets consideration").

As for 31 December 2019, the deferred consideration balance included \$19.14 million of deferred cash consideration, of which \$4.75 million will be paid on 2020.

### 25 Subsequent events

There were no material events after the reporting period, which have a bearing on the understanding of the consolidated financial statements.

Shareholder information, including financial results, news and information on products and services, can be found at <https://investors.kape.com>

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## NOTES



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## SHAREHOLDER INFORMATION AND ADVISORS

### Independent Auditor

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London W1U 7EU

### Nominated Adviser and Broker

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### Registrars

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### Stock exchanges

The Company's ordinary shares are listed on the AIM market of the London Stock Exchange under the symbol "KAPE". The Company does not maintain listings on any other stock exchanges.





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