

Rapid7 International Limited

Report and Financial Statements

Year Ended

31 December 2017

Company Number 07587098

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Rapid7 International Limited

Company Information

Directors	C E Thomas (resigned 30 October 2017) P B Kaes R Moseley J A Kalowski (appointed 30 October 2017)
Company secretary	Fieldfisher Secretaries Limited
Registered number	07587098
Registered office	Riverbank House 2 Swan Lane London EC4R 3TT
Independent auditors	KPMG LLP, Statutory Auditor Arlington Business Park Theale Reading RG7 450

Rapid7 International Limited

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Rapid7 International Limited

Strategic Report For the Year Ended 31 December 2017

The directors present the Strategic Report and the audited financial statements Rapid7 International Limited ("the Company") for the year ended 31 December 2017.

Principal activity and business review

The principal activity of the Company is the provision of security data and analytics solutions.

The loss for the year, after taxation, amounted to £20,094,927 (2016 - £3,444,566).

Principal risks and uncertainties

The Company is in the central phase of its development. The challenge for the Company is to maintain its current development impetus and achieve market acceptance for its products and services. In addition to this, the Company is presented with a number of financial risks which are discussed below:

Future developments

It is the intention of the directors to continue to develop the existing activities of the Company.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market. In order to mitigate this risk, the Company does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchanges.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. As of the balance sheet date, the Company has no significant concentrations of credit risk. It is the Company's policy to enter into financial instruments with a diversity of creditworthy third parties, and as such, the Company does not expect to incur material losses.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company actively manages its operating cash flows to ensure that it has sufficient funding for its working capital requirements. In addition, the company also maintains surplus cash for future investment opportunities

Rapid7 International Limited

Strategic Report (continued)
For the Year Ended 31 December 2017


Key performance indicators (KPIs)

	2017	2016
Turnover	£10,510,486	£10,263,751
Operating loss	(£20,604,287)	(£3,584,333)
Research expenditure	£4,384,352	£3,567,127

The directors are of the opinion that the KPIs are turnover, operating profit, and research expenditure.

Turnover rose marginally in the financial year by £246,735, an approximate 2% increase resulting from the Company's principal activities. The Company reported an operating loss this year of £20,604,287 (2016 - £3,548,333) due to becoming a selling entity during the year and the revenue does not yet support the international sales efforts. The Company continued to undertake research to support the continued enhancement of current products and development of new products.

This report was approved by the board and signed on its behalf.



J A Kalowski
Director

Date: 27 September 2018

Rapid7 International Limited

Directors' Report For the Year Ended 31 December 2017

The directors present their report and the audited financial statements of Rapid7 International Limited ("the Company") for the year ended 31 December 2017.

Directors

The directors who served during the year and up to the date of approval of the financial statements were:

C E Thomas (resigned 30 October 2017)
P B Kaes
R Moseley
J A Kalowski (appointed 30 October 2017)

Dividends

The directors do not recommend the payment of a dividend for the year (2016 - £nil).

Future developments

The directors have addressed the matter of future developments within the Strategic Report on pages 1 to 2 of the financial statements.

Research and development activities

The Company maintains a research and development programme to identify and bring new products to the market place. Research and development takes place in all areas of the business.

Foreign branches

The Company has a foreign branch in Denmark.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG LLP, Statutory Auditor are deemed to be reappointed in accordance with section 487(2) of the Companies Act 2006.

This report was approved by the board and signed on its behalf:



J A Kalowski
Director

Date: 27 September 2018

Rapid7 International Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2017

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Rapid7 International Limited

Opinion

We have audited the financial statements of Rapid7 International Limited ("the Company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report

The Directors are responsible for the Directors' Report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Directors' Report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditors' Report to the Members of Rapid7 International Limited (continued)

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements..

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditors' Report to the Members of Rapid7 International Limited (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Jonathan Russell (Senior Statutory Auditor)

for and on behalf of
KPMG LLP, Statutory Auditor, Chartered Accountants

Arlington Business Park

Theale

Reading

RG7 450

Date:

28th September 2018

Rapid7 International Limited

Statement of Comprehensive Income For the Year Ended 31 December 2017

	Note	2017 £	2016 £
Turnover	4	10,510,486	10,263,751
Administrative expenses		(31,114,773)	(13,848,084)
Operating loss	5	(20,604,287)	(3,584,333)
Interest received and similar income	8	667	15,303
Interest paid and similar expenses	9	(2,453)	-
Loss before tax		(20,606,073)	(3,569,030)
Tax on loss	10	14,858	124,464
Loss for the financial year and total comprehensive income		(20,591,215)	(3,444,566)

All amounts relate to continuing activities.

The notes on pages 11 to 26 form part of these financial statements.

Rapid7 International Limited

Registered number: 07587098

Balance Sheet As at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	11	16,899,865	18,831,278
Tangible assets	12	655,064	506,515
		<u>17,554,929</u>	<u>19,337,793</u>
Current assets			
Debtors: amounts falling due within one year	13	6,016,350	1,875,183
Cash at bank		1,363,235	1,610,022
		<u>7,379,585</u>	<u>3,485,205</u>
Creditors: amounts falling due within one year	14	(27,015,731)	(5,763,110)
Net current liabilities		<u>(19,636,146)</u>	<u>(2,277,905)</u>
Total assets less current liabilities		<u>(2,081,217)</u>	<u>17,059,888</u>
Creditors: amounts falling due after more than one year	15	(43,044)	(69,799)
Net (liabilities)/assets		<u><u>(2,124,261)</u></u>	<u><u>16,990,089</u></u>
Capital and reserves			
Called up share capital	17	211	211
Share premium account	17	19,313,921	19,313,921
Share based payment reserves	17	2,094,837	617,972
Profit and loss account	17	(23,533,230)	(2,942,015)
		<u><u>(2,124,261)</u></u>	<u><u>16,990,089</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:


J A Kalowski
Director

Date: 27 September 2018

The notes on pages 11 to 26 form part of these financial statements.

Rapid7 International Limited

Statement of Changes in Equity For the Year Ended 31 December 2017

	Called up share capital	Share premium account	Share based payment reserves	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2016	1	-	-	502,551	502,552
Comprehensive income for the year					
Loss for the year	-	-	-	(3,444,566)	(3,444,566)
Share options vested during the year	-	-	617,972	-	617,972
Total comprehensive income for the year	-	-	617,972	(3,444,566)	(2,826,594)
Shares issued during the year	210	19,313,921	-	-	19,314,131
At 1 January 2017	211	19,313,921	617,972	(2,942,015)	16,990,089
Comprehensive income for the year					
Loss for the year	-	-	-	(20,591,215)	(20,591,215)
Share options vested during the year	-	-	1,476,865	-	1,476,865
Total comprehensive income for the year	-	-	1,476,865	(20,591,215)	(19,114,350)
At 31 December 2017	211	19,313,921	2,094,837	(23,533,230)	(2,124,261)

The notes on pages 11 to 26 form part of these financial statements.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

1. General Information

Rapid7 International Limited is a private company limited by shares, incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 1.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The functional currency of the Company is pound sterling.

2.2 Financial Reporting Standard 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 for qualifying entities:

- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d)
- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv) not to prepare a reconciliation of the number of shares outstanding at the beginning and end of the year;
- the requirement of Section 7 Statement of Cash Flows not to prepare a statement of cash flows;
- the requirements of Section 11 Financial Instruments not to disclose financial instruments;
- the requirements of Section 26 Share-based payments paragraphs 26.18(b), 26.19 to 26.21 and 26.23 not to disclose the weighted average number of shares and exercise price; and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7 not to disclose key management personnel compensation in total.

This information is included in the publicly available consolidated financial statements of Rapid7, Inc. at 31 December 2017 and these financial statements may be obtained from 100 Summer Street, 13th Floor, Boston, MA 02110-2115, USA.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.3 Going concern

The Company made a loss during the year, after taxation, of £20,591,215 (2016 - £3,444,566), the Company had net current liabilities of £19,636,146 (2016 - £2,277,905) and had total net liabilities of £2,124,261 as at 31 December 2017 (2016 - net assets of £16,990,089).

The financial statements have been prepared on a going concern basis, the validity of which depends upon the support of the Company's parent undertaking. The parent undertaking has indicated that it will continue to make available such funds as are needed by the Company and in particular will not seek the repayment of the amounts currently made available unless the Company has sufficient cash to make such a repayment. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. Furthermore, the Directors have considered the recent raising of additional capital by the parent undertaking in August 2018, providing confidence that continued support can be provided to the Company.

The directors of the Company have considered cash flow projections for the 12 months from the date of approval of these financial statements, taken account of the parent's support and remain confident that the Company is able to continue trading for a period of at least 12 months from the date of approval of these financial statements.

The parent company Rapid7, Inc. is the main creditor and trading partner of the Company.

Based on the above the directors have prepared these financial statements on a going concern basis.

2.4 Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.5 Turnover

Turnover comprises revenue recognised by the Company in respect of services supplied during the year, exclusive of Value Added Tax and trade discounts.

The Company generates revenue primarily from selling products, maintenance and support, and professional services through a variety of delivery models. The Company generally bills customers and collects payment for products and services up front.

We generate products revenue from the sale of (1) term or perpetual software licenses for our Nexpose, Metasploit and AppSpider products, term licenses for our Komand product offering and associated content subscriptions for our Nexpose and Metasploit products, (2) managed services offerings which utilize either our InsightVM, AppSpider or InsightIDR products and (3) cloud-based subscriptions for our InsightVM, InsightIDR, InsightAppSec, InsightOps, AppSpider and Logentries products.

We generate maintenance and support revenue associated with customers' purchases of our software licenses for Nexpose, Metasploit, and AppSpider. We generate professional service revenue from the sale of our deployment and training services related to our solutions, incident response services and security advisory services.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

Turnover (continued)

Turnover is only recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists. Binding agreements of purchase orders are generally evidence of an arrangement.
- Delivery has occurred. Delivery occurs upon delivery of the software license key or when the customer has access to the software product of when we perform the services.
- The sales price is fixed or determinable. Fees are considered fixed and determinable when the fees are contractually agreed upon with the customer.
- Collectability is probable. Collectability is deemed probable based on the review of a number of factors, including creditworthiness and customer payment history. If collectability is not probable, revenue is deferred until collection becomes probable, which is generally upon the receipt of payment.

Revenue recognition begins upon delivery of the software license and is recognised ratably over the contractual period of maintenance and support, assuming that all other criteria for revenue recognition have been met.

With respect to managed services and cloud-based subscription offerings sold on a stand-alone basis, the Company recognises revenue ratably over the term of the managed service agreement or subscription, assuming that the other criteria for revenue recognition are met.

The Company recognises revenue from professional services sold on a stand-alone basis as those services are rendered.

2.6 Operating leases

Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the lease term.

2.7 Pensions

The Company operates a defined contribution pension scheme. The pension expense recognised in profit or loss represent the amounts payable by the Company to the fund in respect of the year.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.8 Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as expense over the vesting periods, which end on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional on a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in profit or loss, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in profit or loss for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in profit or loss.

Share based payments are expensed by the ultimate parent company, Rapid7, Inc. and allocated to the Company by employee through an intercompany transfer.

2.9 Intangible fixed assets

Intangible fixed assets comprising intellectual property are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intellectual property is amortised on a straight line basis to profit or loss over its useful economic life of 10 years.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.10 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value over, their expected useful lives.

Depreciation is provided on the following basis:

L/Term Leasehold Property	- 3-5 years straight line
Fixtures and fittings	- 3 years straight line
Office equipment	- 3 years straight line
Computer equipment	- 3 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

2.11 Financial Instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors, trade and other creditors, loans and other third parties and loans to related parties.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities are held at amortised cost.

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that an expense attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.13 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing the financial statements the directors have made the following judgement:

- Determining whether there are indicators of impairment of the Company's intellectual property. Intellectual property is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of intellectual property has been impaired, for example due to a change in the business climate or technological advancements. In order to determine if the value of intellectual property has been impaired, the cash-generating unit to which intellectual property has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data.
- The Company's employees have been granted share options and restricted stock units by the parent company Rapid7, Inc. The cost of equity-settled transactions with employees is based on the estimated fair value of the award on the grant date. Stock-based compensation expense is recognised on a straight-line basis over the requisite service period, which is generally the same as the vesting period, which end on the date on which the relevant employees become fully entitled to the award.
- Fair value is determined by using the Black-Scholes option pricing model which require management to make a number of other assumptions, including the expected life of the option, the volatility of the underlying stock, the risk-free interest rate and expected dividends. The assumptions used in the Black-Scholes option-pricing model represent management's best estimates at the time of grant. These estimates are complex, involve a number of variables, uncertainties and assumptions and the application of management's judgment, as they are inherently subjective.

The Company's directors are of the opinion that there are no other estimates and assumptions that have a significant risk of casting material adjustment to the carrying value of assets and liabilities for the Company within the next financial year.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

4. Turnover

Turnover has arisen in line with the Company's principal activity. 95% of the Company's turnover (2016 - 99%) is attributable to geographical markets outside the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	2017 £	2016 £
Depreciation of tangible fixed assets	299,623	188,083
Amortisation of intangible assets, including goodwill	1,931,413	482,853
Auditor's remuneration	20,000	17,000
Operating lease expense	508,759	140,537
Share based compensation	1,476,865	617,972
	<u>1,476,865</u>	<u>617,972</u>

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £	2016 £
Wages and salaries	9,399,503	6,569,632
Social security costs	1,317,857	908,589
Share based compensation	1,476,865	617,972
Cost of defined contribution scheme	317,466	258,414
	<u>12,511,691</u>	<u>8,354,607</u>

The average monthly number of employees, including the directors, during the year was 170 (2016 - 122).

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

7. Directors' remuneration

	2017 £	2016 £
Directors' emoluments	391,743	94,276
Company contributions to defined contribution pension schemes	14,020	3,867
	<u>405,763</u>	<u>98,143</u>

During the year retirement benefits were accruing to 1 director (2016 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £391,743 (2016 - £94,277).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £14,020 (2016 - £3,867).

During the year 1 director received shares under the long term incentive schemes (2016 - 1)

8. Interest received and similar income

	2017 £	2016 £
Bank interest received	<u>667</u>	<u>15,303</u>

9. Interest paid and similar expenses

	2017 £	2016 £
Bank interest paid	<u>2,453</u>	<u>-</u>

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

10. Tax on loss

	2017 £	2016 £
Corporation tax		
Adjustments in respect of previous periods	(14,858)	(35,273)
Total current tax	<u>(14,858)</u>	<u>(35,273)</u>
Deferred tax		
Origination and reversal of timing differences	-	(89,191)
Total deferred tax	<u>-</u>	<u>(89,191)</u>
Taxation on loss	<u>(14,858)</u>	<u>(124,464)</u>

Factors affecting tax expense for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Loss before tax	<u>(20,606,073)</u>	<u>(3,569,030)</u>
Loss multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	(3,965,963)	(713,806)
Effects of:		
Fixed asset differences	395	7,111
Expenses not deductible for tax purposes	342,634	134,583
Other permanent differences	(108,367)	-
R & D Expenditure credits	(11,324)	-
Adjustments to tax expense in respect of previous periods	(14,858)	(35,273)
Adjustments to tax expense in respect of previous periods - deferred tax	-	(12,274)
Adjust opening deferred tax to average rate of 20.00%	(54,726)	8,546
Adjust closing deferred tax to average rate of 20.00%	491,588	72,997
Deferred tax not recognised	3,305,764	413,651
Other differences leading to an increase (decrease) in the tax charge	(1)	1
Total tax charge for the year	<u>(14,858)</u>	<u>(124,464)</u>

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

10. Tax on loss (continued)

Factors that may effect future tax expenses

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 20% to 19% from 1 April 2017. The effects of changes to the corporation tax rates substantively enacted as part of the Finance Bill 2016 (on 7 September 2016) includes a reduction to the main rate to 17% from 1 April 2020. Deferred taxes at the reporting date have been measured using these substantively enacted tax rates and reflected in these financial statements.

There were no other factors that may affect future tax charges.

11. Intangible assets

	Intellectual property £
Cost	
At 1 January 2017	19,314,131
At 31 December 2017	19,314,131
Amortisation	
At 1 January 2017	482,853
Charge for the year	1,931,413
At 31 December 2017	2,414,266
Net book value	
At 31 December 2017	16,899,865
At 31 December 2016	18,831,278

Intellectual property represents amounts paid to a related party, Rapid7 LLC for proprietary software products and service offerings available under the Rapid7 brand.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

12. Tangible fixed assets

	Long-term leasehold property £	Fixtures and fittings £	Office equipment £	Computer software £	Total £
Cost					
At 1 January 2017	217,248	200,702	408,907	-	826,857
Additions	235,766	705	210,414	1,287	448,172
At 31 December 2017	453,014	201,407	619,321	1,287	1,275,029
Depreciation					
At 1 January 2017	55,746	105,471	159,125	-	320,342
Charge for the year on owned assets	76,046	68,241	154,992	344	299,623
At 31 December 2017	131,792	173,712	314,117	344	619,965
Net book value					
At 31 December 2017	321,222	27,695	305,204	943	655,064
At 31 December 2016	161,502	95,231	249,782	-	506,515

13. Debtors: amounts falling due within one year

	2017 £	2016 £
Trade debtors	5,496,735	1,298,890
Amounts owed by group undertakings	16,440	276,440
Prepayments and other debtors	347,495	182,069
Tax recoverable	155,680	117,784
	6,016,350	1,875,183

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

14. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	179,660	37,497
Amounts owed to group undertakings	13,804,384	3,438,332
Other taxation and social security	206,165	26,214
Deferred income	11,264,535	1,484,857
Other creditors	3,600	1,340
Accruals	1,557,387	774,870
	<u>27,015,731</u>	<u>5,763,110</u>

Amounts owed to group undertakings are unsecured, interest free and payable on demand.

15. Creditors: amounts falling due after more than one year

	2017 £	2016 £
Other creditors	43,044	69,799
	<u>43,044</u>	<u>69,799</u>

16. Deferred tax

Deferred tax assets are only recognised for tax losses arising where it is probable future taxable profits will be available against which to use these losses. The Company has losses totalling £22,144,955 (2016: £2,753,473) for which a deferred tax asset has not been recognised

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

17. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
211 (2016 - 211) Ordinary shares of £1 each	<u>211</u>	<u>211</u>

The Company has one class of ordinary shares which carry no right to fixed income.

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

The Company has the following reserves:

Share premium account

This reserve records the amount above the nominal value received for shares issued.

Share based options reserve

The share payment reserve represents the equity-settled share based payment expense recognised in respect of options and restricted stock units in the parent company, Rapid7 Inc. which are treated as a capital contribution from the parent.

Profit and loss account

The profit and loss account reserve represents cumulative profits, losses and total other recognised gains or losses made by the Company, including distributions to, and contributions from, the parent company.

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

18. Share based payments

In July 2015, the board of directors adopted and the stockholders of the ultimate parent company, Rapid7, Inc., approved the 2015 Equity Incentive Plan (the 2015 Plan). As of 31 December 2017, shares of common stock authorized to be issued under the 2015 Plan totalled 10,125,932 and there were 879,729 shares of common stock available for grant.

On 17 July 2015, a registration statement on Form S-8 was filed with the Securities and Exchange Commission registering 800,000 shares of common stock reserved under the 2015 Employee Stock Purchase Plan (ESPP) of the ultimate parent company Rapid7, Inc. As of 31 December 2017, shares of common stock in the parent company Rapid7, Inc. authorized to be issued under the ESPP totalled 1,640,941 and there were 1,047,444 shares of common stock available for grant.

Under the ESPP, employees may set aside up to 15% of their gross earnings, on an after-tax basis, to purchase common shares in the parent company Rapid7, Inc. at a discounted price, which is calculated at 85% of the lesser of: (i) the market value of our common stock at the beginning of each offering period, and (ii) the market value of our common stock on the applicable purchase date.

The Company measures and recognises compensation expense for all stock options, restricted stock units (RSUs) and common stock issued pursuant to our employee stock purchase plan based on the estimated fair value of the award on the grant date. Stock-based compensation expense is recognised on a straight-line basis over the requisite service period, which is generally the same as the vesting period. The vesting period for our awards are generally four years. As these are Group plans, the cost that is attributable to Rapid7 International Limited, is recognised on a per employee basis.

19. Pension commitments

The Company made contributions to personal pension schemes totalling £317,466 (2016 - £258,414).

20. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
Not later than 1 year	360,173	360,173
Later than 1 year and not later than 5 years	320,838	680,586
	<u>681,011</u>	<u>1,040,759</u>

Rapid7 International Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

21. Ultimate parent company and controlling party

The immediate parent undertaking of the Company is Rapid7 International Holdings Limited, a company incorporated in England and Wales. The registered office for Rapid7 International Holdings Limited is Riverbank House, 2 Swan Lane, London, England, EC4R 3TT.

The ultimate parent company and ultimate controlling party is Rapid7, Inc., a company incorporated in Delaware, United States of America.

The only group in which the results of the Company are consolidated is that headed by Rapid7, Inc. Copies of these consolidated financial statements are available from Rapid7, Inc., 100 Summer Street, 13th Floor, Boston, MA 02110-2115, USA.