

CYANCONNODE HOLDINGS PLC
ANNUAL REPORT AND ACCOUNTS 2017



CYANCONNODE

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CyanConnode at a glance

World no.1 in narrowband mesh networks

CyanConnode is a world leader in the design and development of narrowband RF mesh networks that enable Internet of Things (IoT) communications. With a wealth of expertise and experience in smart technology, the Group provides customers with long-range, low-power, end-to-end networking solutions and high-performance applications that help them enhance service delivery, improve business efficiency and save energy.

CyanConnode's optimised solutions provide narrowband RF network technology, delivering exceptional performance and lower total cost of ownership. Its optimised solutions include hardware, software and network management and by understanding all the elements of the end-to-end solution CyanConnode can increase the performance of its technology.

CyanConnode's IPv6 solution is an easy to deploy standards-based wireless Neighbourhood Area Network (NAN). It is a highly secure IP-based machine-to-machine platform that uses narrowband radio mesh networks to create scalable, self-healing and self-configuring deployments that enable rapid innovation for the implementation of third party applications.

Narrowband RF networks are low-power and best suited to applications requiring long-range and reliable communications. CyanConnode's solutions use sub GHz frequencies that maximise the range of its low power network and provide excellent penetration through obstructions, such as buildings, in smart metering deployments.

Highlights

Operational Highlights

- Order book increases during the period with orders won from a range of customers opening up new territories
- Board and management team streamlined and strengthened with the Group now firmly focused on converting the order book into revenue
- New team recruited into India with extensive industry experience
- Identifiable global new business pipeline grows at a rapid rate
- Expanded eco-system of partners across a number of territories
- Development and completion of new standards-based OmniIoT platform resulting in opportunity for new revenue streams including licensing. First two orders received for this technology and deployment of this the first order commenced in December 2017

Financial Highlights

- Revenue of £1.17m (2016: £1.82m) with the decrease directly as a result of the delay in deployment of a large customer contract notified to the Company just before the period end
- Operating loss of £11.15m (2016: £7.94m)
 - Significant investment in strengthening the team to prepare for deployment of orders and research and development to complete development of new standards-based OmniIoT platform
- Research and development tax credit receivable increased to £1.4m (2016: £0.7m)
- Cash and cash equivalents of £5.39m (2016: £3.89m) following new equity funding during the period of £11.3m before expenses

Post Year End Highlights

- New contract win from Larsen & Toubro for \$3.2m
- The CESC Mysore contract in India has now officially passed the User Acceptance Testing milestone which has resulted in a cash payment of £0.3m having been received
- The Company has taken positive steps to manage and reduce the cost base, with significant reductions being made in the last six months. The cost base from July 2018 onwards is expected to be around £670k per month, which is significantly lower than the average operating cost per month in 2017 of approximately £808k
- R&D tax credit cash refund claim of £1.4m (2016: £0.7m) has been submitted to HMRC

Chairman's Statement

Dear Shareholder

2017 has been a year during which we have both made significant progress within the Company in terms of winning orders, growing our global ecosystem of partners, expanding our geographical reach, and putting in place a world class team to develop product and deliver on the order book which has grown significantly during the period. We have, however, also faced challenges within the Company as a result of delays to contracts.



I was delighted to welcome Anil Daulani as Managing Director of CyanConnode in India in September 2017, responsible for the overall operations of the company in India. Anil joined from Tech Mahindra where he held the position of Global Head & Vice President Utilities for the five years prior to joining CyanConnode, and is a highly experienced executive with knowledge of both the energy sector and IT solutions.

He has well established strategic relationships with CEO/CXO officers at both public and private utilities, resulting in over \$300 million contract wins. Anil brought with him Gautam Kumar, also from Tech Mahindra who has been appointed as Head of Delivery, a role key to successful management of the delivery of projects won in India, and Manish Widhani who has been appointed as Business Development Director. As a result of bringing in this highly experienced team, we are already seeing significant inroads being made into the market in India. I am excited about working with them as the business grows further.

In addition to the large orders won during the period, and changes made within the organisation in India, the Company has transformed its product, engineering and operational teams. Dr Graeme Milligan was announced as its Global Head of Integration during 2017. Graeme provides technical and planning support for the seamless integration of customers' devices and software with CyanConnode's Omni IoT platform. In addition, Sylvain Vittecoq has been named Chief Technology Officer for the Company. Sylvain joined Connode in 2011 as Development Manager and Architect and was appointed Lead Design Authority and Delivery Manager for the narrowband mesh solution part of the UK Smart Metering Implementation Program ("UKSMIP"). In his role as Chief Technology Officer at CyanConnode, Sylvain is responsible for the overall technical vision and solution definition. The engineering team across the UK and Sweden was streamlined with Allan Baig, who joined us in June 2017 from Landis+Gyr, now heading up the global engineering function.

As a result of the development of our new standards-based Omni IoT platform, we are in the process of delivering product to the Indian state-owned utility Uttar Gujarat Vij Company Ltd ("UGVCL"), through Genus Power Infrastructures Ltd ("Genus"), one of the largest meter manufacturers in India, a contract announced in July 2017. This new platform will be made available globally with an official launch at Asia Utility Week in June 2018. We have no doubt it will be seen as a world-class offering and will provide a strong revenue stream for the Company. We are also working with key meter manufacturers to embed our new product into their meters making our solution a first choice for their communication needs. We have seen a recent surge of activity in India directly due to this strategy. The new product is a multi-application, multi-communication technology platform, which will support any application on any device over any communication technology. It flexibly integrates both new and legacy applications, breaking down historical IT silos. This technology further provides the flexibility to integrate narrowband RF networks with other communication technologies and legacy / abandoned systems. It provides a reliable, pervasive, always-on network with government approved, critical infrastructure grade security which protects data and restricts access to command and control functions. The rapidity of the deployment at UGVCL (compared to previous projects in India) is testament to the quality of the solution which is highly appreciated by both the end utility customers as well as the local partners such as Genus. Being standards-based, this technology now provides licensing opportunities, a number of which are currently being explored by the Company which, if won, would add significant revenue streams to its business model. We have no doubt it will be seen as a world-class offering.

Chairman's Statement

We are also working with key meter manufacturers to embed our new product into their meters making our solution a first choice for their communication needs. We have seen a recent surge of activity in India directly as a result of this strategy.

As highlighted above, we have also been faced with challenges during the year. In our trading update provided on 4 January 2018, the Company reported that it had been notified by a significant customer that deployment for one of the larger contracts won in 2017 had been delayed for reasons outside the Company's control. A regular dialogue has continued with this customer since year end, including a senior management visit to their head office to meet the CEO. The customer has reconfirmed that they will take delivery of the hardware that CyanConnode manufactured for them in Q4 2017, but currently the Company has little visibility on timing of the first delivery. A further update on progress in relation to this will be provided as soon as practicable.

As a result of the completion of the development of the new product, our streamlined organisation and improved processes and procedures within the Company, we have made significant reductions to our operating costs since the period end.

During the period we were delighted to be named the fastest growing tech company in the Cambridge and East region of the Deloitte UK Technology Fast 50 2017 while being ranked in 22nd place in the UK and believe this industry recognition highlights the Company's strong footing as we focus on deploying the orders won during 2017.

CyanConnode's narrowband RF mesh technology is now at the forefront of communication technologies for the Internet of Things ("IoT") and we are working hard on further extending our market leading position while our realigned teams and Board focus on converting our significant order book into revenue and receiving customer payments.

Operational Review

India

India continues to be a core market for CyanConnode and we are focused on establishing relationships with blue chip entities that provide significant roll out opportunities as we become a critical part of their customer offering.

As already mentioned, Anil Daulani was hired as Managing Director India in order to grow the sales opportunities and manage the sales and operations functions of the Company in India. Joining from Tech Mahindra, Anil has strong relationships with both public and private utilities.

The combination of new and follow on orders in India reflects our growing reputation in the region.

As such, we were delighted with the \$1.1m purchase order from Genus for a smart metering deployment of over 23,000 units for UGVCL. Genus is a tier 1 meter provider with the largest installed base in India and supplier to multiple utilities. This was the first order from India for CyanConnode's IPv6-6LoWPAN standards-based Advanced Metering Infrastructure ("AMI") solution for volume commercial deployment, highlighting the benefits of the Company's range of solutions while further expanding its product footprint within the region.

We were especially pleased with the latest follow on order from Larsen & Toubro ("L&T"), further expanding the deployment of our smart metering solution at Tata Power Mumbai ("Tata Power"), bringing the total orders for this deployment to date to 25,100 units. Importantly, Tata Power now has over 2.6 million consumer customers, including over 670,000 in Mumbai and we are working hard to further build on our strong relationship and take advantage of the significant scope to further grow our footprint in the region.

We expect to see growing demand for these kinds of solutions, highlighting the importance of the Connode acquisition in 2016 and our growing product suite, which is enabling us to target more potential customers.

Chairman's Statement

India (continued)

A number of projects being implemented in India continued during and post year end. Chamundeshwari Electricity Supply Corporation Limited ("CESC") in Mysore was the first of 14 smart grid pilots to be rolled out in 2017 under the Smart Grid Task Force in India. The contract to install AMI technology was awarded to CyanConnode, through its partner Enzen, for the supply of 21,000 smart meters and associated hardware and software. During implementation this project has become a valuable reference for the wider Indian Smart Grid community and in July, Energy Minister DK Shivakumar inspected the first phase and confirmed that CESC will expand its smart grid project to the entire city. Furthermore, in January 2018 CESC officially confirmed that the formal milestone for User Acceptance Test was officially complete. Payment of £0.3m for this milestone has since been received.

Rest of World

Whilst India has, and continues to be, a core growth market for the Company, we made significant strides in further expanding our international reach with large orders received from a number of new territories.

The Company has generated revenues and been paid for system integration work during the first quarter of 2018 by working with local tier 1 partners in three separate territories, including two new territories. These three commercial opportunities could result in significant orders which the Company will continue to pursue. An additional benefit of this work is that the Company has increased the number of successful integrations with tier 1 meter manufacturers, including some manufacturers with which the Company has not previously been engaged.

As previously mentioned, our strong product range, which was enhanced by the acquisition of Connode in 2016, means that the Company has been able to further grow its presence throughout Europe. We acquired a strong orderbook in the UK worth an estimated £24m as part of the Connode acquisition which also provided the Company with our standards-based software suite, IPv6-6LoWPAN. This is increasing in demand globally.

Our European reach grew further during the period as we received a purchase order for 100,000 software licenses from HM Power Metering AB ("HM Power") in Sweden for smart grid and IoT implementations. During the period 23,509 licenses of this order were supplied to HM Power.

Board Changes

Harry Berry moved from a non-executive to executive director capacity as Chief Operating Officer (COO) during 2017. Harry's priority is to convert the order book (representing purchase orders received from customers but not yet delivered) into successful customer deployment projects, which will result in significant revenue growth for the Company.

Pete Hutton was appointed to the Board of CyanConnode as a non-executive director. Pete joined from his most recent role as a member of the executive committee at Cambridge based ARM Limited, the UK trading company of ARM Holdings plc. He brings with him a wealth of practical experience in the IoT market, as well as strong relationships from C-Suite down with Asian, European, and US technology companies.

Dr John Read, who has served on the Board of the Company since 2005 and served as Chairman of CyanConnode from 2007 to 2012, retired from the Company in June.

In addition to the above changes, Simon Smith, Chief Financial Officer, returned to a non-executive director role. The Company also appointed David Bland as full time non-board Finance Director, taking over the day to day finance activities from Simon.

Chairman's Statement

Employees

Shortly before the start of 2017, the Company moved its UK office to new premises in Cambridge which are located close to the Science Park to be connected to the hub of R&D in the region. 2017 was a year that saw streamlining of the CyanConnode team as it evolves. We are proud of the world class talent brought into many areas of the business so establishing a centre of excellence in Cambridge.

I would like to thank all our employees for their efforts during the period. I very much look forward to working closely with them during the remainder of 2018 as we further expand our reach into existing and new territories and watch further development of the Company at this exciting time.

The Board and management continue to invest in the Company with a total of £0.3m invested by the Board during 2017. Full details of directors' investments can be found in the Directors' Remuneration Report on page 34.

Awards

During 2017 CyanConnode was lauded for its rapid growth and its technology awarded for innovation. In November, CyanConnode was recognised as the fastest growing tech company in Cambridge and the East region in the Deloitte UK Technology Fast 50 2017 and ranked in 22nd place overall. With more than 1,221% growth in 2016, CyanConnode was also formally acknowledged as the fastest growing technology company in the UK Telecommunications sector. This growth reflected the delivery of customer orders in India as well as the expansion of global reach and portfolio through the acquisition of Connode, in July 2016.

In the same month, the Company was awarded 'Innovation in Techno Commercial – Smart Metering' at the Independent Power Producers Association of India ("IPPAI") Power Awards. CyanConnode has successfully deployed smart metering solutions in India, a highly competitive business environment. The Company has built strong partner ecosystems in India, helping to retain its position at the top of the industry, as well as to attract new customers.

CyanConnode's innovation was recognised for its low implementation costs, successful customer deployments, including Tata Power Mumbai, and scope for future development. The award was presented at the 18th Regulators & Policymakers Retreat in Karnataka India, organised by IPPAI.

In September, at the Cambridge Independent Entrepreneurial Science & Technology Awards, CyanConnode was highly commended in the cleantech, scale-up companies category.

Post Period End

Shortly before publication of this report, the Company announced it had received a further order from its partner L&T in India for a smart metering deployment for the Indian state-owned utility Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd ("MPWZ") worth \$3.2m, to commence deployment in the current financial year. The Company has already delivered 25,100 units in other regions of India since 2014. Importantly, this is for the IPv6-6LoWPAN standards-based AMI solution, highlighting the strong value proposition of the Company's advanced IPv6 standards-based technology, which is now becoming the minimum requirement in certain territories around the World.

Since the period end £0.5m has been invoiced, and revenue recognised relating to the UK SMIP. During the remainder of 2018, the Company expects to further benefit from the roll-out of the UK SMIP.

Chairman's Statement

Post Period End (continued)

We were delighted to have confirmation of an important milestone in our CESC project post the period end. The milestone which was completed in January 2018 was for the User Acceptance Test and payment of £0.3m has since been received for this milestone.

In addition, the Company has made an application for £1.4m in tax credits, which it expects to receive in the coming months following HMRC's approval. The Company has also been focused on optimising its cost base for delivery of future contracts and required development for its products and has now reduced its ongoing cost base, such that in the second half of the year this will now be approximately £670,000 per month, reduced from over £800,000 during 2017.

Outlook

This was an important period for the Company with the size and scale of orders won and growing geographic reach highlighting the strength of our proposition as well as highlighting a number of challenges to be considered and overcome as we grow.

The key focus remains on delivery of a number of high value orders to ensure we convert these orders into revenue as our model evolves towards a cash generative business that can support ongoing operations, development and profitability. We are extremely excited by the global opportunities and scalability of our combined hardware and software solutions and look forward to building on our relationships with existing and new clients. Furthermore, our team continues to further enhance our product suite, providing higher margin opportunities while widening our potential customer base.

As a Board, we continue to closely monitor the cash resources available to the business in order to ensure adequate funding is in place to meet the requirements of the business. During 2017, we received £11.3m (before expenses) of equity funding. We continue to work on securing additional funding that will be required during 2018, especially as we start to deliver on orders which are expected to require upfront working capital investment. This funding could include one or a mix of working capital facilities, strategic corporate investments, additional equity funding and licensing deals for our new Omni IoT platform. We remain grateful to our supportive shareholder base which has funded the Company to date, including the two fundraises from last year.

In addition to the licensing opportunities referenced above, some of which are in discussion at the time of this report, we expect the new Omni IoT platform to present a large growth in opportunities as can be seen by the two recent orders won in India (UGVCL and Indore), and many of the tenders coming out in India.

The combination of new product development, continued roll outs and expansion into new territories will provide foundations for the Company to remain at the forefront of the markets in which it operates and we remain passionate about our ability to turn opportunities into revenue. As a Board and management team we continue to heavily invest in the Company with both our time and CyanConnode share purchases and are working hard to provide returns for all of our shareholders.

John Cronin
Executive Chairman
18 May 2018

Board of Directors



John Cronin - Executive Chairman

John joined the Board in March 2012 initially as a Non-Executive Director, and is now Executive Chairman of CyanConnode. He is a highly successful Chairman, CEO and MD in International markets (Europe, Americas, SE. Asia) in the Technology and Telecommunications sector including, Smart Metering, IOT, Software companies, Infrastructure, Hardware Utilities and Managed Services.

John is a seasoned and successful professional with experience in raising equity, debt facility and vendor finance funding as well as setting up operations in international markets. He has created significant value for shareholders with four company exits in Picochip, Azure Solutions, i2 and Netsource Europe. He has been instrumental in mergers and acquisitions worldwide, including Cyan's recent acquisition of Connode.

John's contribution to high-tech industries includes being Chairman, CEO, NED, or adviser to Antenova, GCI Com, Aria networks, Picochip, Arqiva, i2, Cambridge Networks, Kast, Azure, Next2Friends, Bailey Fisher, Netsource, Mercury (C&W), BT and providing independent consultancy to private equity and VC firms.



Harry Berry - Chief Operating Officer

Harry joined the Board in May 2014. He has over 30 years' experience in the technology and telecommunications industries and has held a wide range of senior positions and responsibilities in sales, global product management, change management, and development programs.

Harry joined BT in 1970 and was responsible for the creation of BT Brightstar, a corporate incubator focussing on BT's R&D portfolio to create technology venturing. Harry is currently European Partner with New Venture Partners, a global venture capital firm dedicated to corporate technology spinouts with over \$700 million under management.

He is also the Chairman of the Eastern Enterprise Hub, which is an organisation responsible for delivering entrepreneurship into academic establishments working with the University Campus Suffolk and colleges across the eastern region of England. Harry is also the Chairman of New Anglia Capital, which helps to provide funding for early stage businesses.

Board of Directors



Simon Smith - Non-Executive Director

Simon joined the Company as a Non-Executive Director in March 2010 and was appointed CFO in October 2013. He is an experienced financial executive with over twenty five years' experience in the Software and Semiconductor sectors.

Prior to establishing himself as an independent adviser and technology company Board member in the period from 2007 to 2013, Simon had held the position of Chief Financial Officer/Director of Finance at multi-national businesses in both the UK and USA since 1997 and his experiences include multiple business acquisitions/disposals, fund raising, business planning, cash management and customer contract negotiation.

In the period from 2001 to 2007, he was Chief Financial Officer at semiconductor IP company Elixent, which was venture capital funded and sold to Panasonic Japan. In the period from 1997 to 2001, he worked at the Silicon Valley (USA) software company McAfee as Senior Director of Finance and then CFO of their Software as a Service (SaaS) subsidiary myCIO.com with McAfee acquiring 14 companies during this period. Before 1997, Simon was a Management Consultant in both the UK and USA where he managed a team of consultants on multiple implementations of ERP systems. Simon qualified with the Institute of Chartered Accountants in England & Wales in 1991.



Paul Ratcliff - Non-Executive Director

With strong analytical skills, Paul started his career working in various IT, marketing and product development roles in large corporates before becoming a senior consultant for Coopers & Lybrand, within its London-based business information management practice. He is a now multi-disciplined, entrepreneur with a wealth of practical experience in creating shareholder value by growing businesses and has been involved in a number of corporate transactions resulting in premium returns for investors. This includes the founding of his own software and services CRM company which he later sold for a substantial sum to a UK plc.

A highly successful Chairman and director in the SME environment, Paul currently holds non-executive Chairman and Non-Executive Director positions for a number of companies operating in a range of sectors including IT, managed services and software. Paul holds an MBA (with Distinction) from the University of Warwick.

Board of Directors



Peter Hutton – Non-Executive Director

Pete Hutton joined the board in April 2017 from ARM Limited, the UK trading subsidiary of ARM Holdings plc, based in Cambridge. He was most recently president of product groups at ARM, where he had P&L ownership of all product development, marketing and licensing. This covered 3,500 staff in more than 25 global locations, working closely with a range of global partners. During his time in this role, revenue increased by approximately 50% (> \$500m). Prior to this role, Pete held senior positions within other ARM divisions. Before joining ARM his roles included running corporate engineering for Wolfson, general manager for processors at ARC international and a group director for Cadence.

Pete is skilled in long term strategy and medium term planning and understands the need to balance these with focusing on short term execution. He is also experienced in software, hardware and Intellectual Property management. He is knowledgeable in the mobile computing, consumer, enterprise and IoT markets and has good relationships with C-suite executives with Asian, European, and US technology companies.



Heather Peacock - Company Secretary

Heather joined the Company in November 2008 initially as Financial Controller, bringing 20 years' senior financial management and business experience gained in a variety of companies. These include large multinationals and smaller, listed start-ups, both in the UK and in South Africa. Being qualified through the ICSA Heather was appointed as Company Secretary in September 2013, and works closely with the Board and advisers to ensure compliance with all Corporate Governance matters associated with the Company. Heather also manages the global HR and legal functions at CyanConnode.

Strategic Report

Statement of scope

This Strategic Report has been prepared solely to provide additional information for shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The Strategic Report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters that are significant to CyanConnode Holdings plc and its subsidiary undertakings when viewed as a complete enterprise.

Principal Activity and Review of the Business

The principal activity of the Group during the year was specialisation in the development of wireless monitoring and control products for smart metering infrastructure, intelligent lighting and wider IoT applications. The principal activity of the Company is that of a holding company. A more detailed review of the business can be found in the Chairman's Statement.

Overview

CyanConnode is a world leader in the design and development of narrowband RF mesh networks, with an installed base of over 800,000 devices globally. CyanConnode's award-winning narrowband Omni IoT platform enables machine-to-machine communication for any smart city or IoT application. Its solutions use license free, regulated ISM bands that support interoperability between devices as well as connectivity in hard to reach places.

Within the energy sector, CyanConnode's Omni IoT platform enables AMI solutions, providing highly secure communication between utilities and consumers across the globe. Its proven technology is part of the SMIP as well as across a number of other projects being deployed in other territories worldwide.

Narrowband technology uses considerably less power and is less spectrum-intensive than technologies using higher frequencies, and therefore provides more capacity at lower cost. As the IoT market evolves, the co-existence of applications on the same network is essential for network efficiency as it will support multiple applications on finite, valuable spectrum.

CyanConnode's standards-based communication platform is an enabling technology, delivered through a collaborative engagement model. The company has established a local eco-system of partners, encompassing multiple meter manufacturers, system integrators and utilities, to support the transfer of skills and experience to facilitate customer ownership and generate local wealth.

The commercial opportunity for the Company's solutions is very strong. However, we have also faced challenges within the Company as a result of delays to contracts. The Company is operating principally in emerging markets where the procurement and deployment processes are both complicated and highly dynamic. The Company endeavours to mitigate the risk of delays through a portfolio of contracts across different, unconnected markets. Additionally, both smart metering and IoT solutions are still in the early stages of global deployment and delays in contract award and rollout are frequent as the end customers struggle to make and implement decisions that can significantly impact their business processes as well as the relationships with their end customers.

Strategic Report

Strategy and Objectives

CyanConnode's Omni IoT platform is an enabling technology for service companies that want to systemise operations, improving customer experience and reducing cost to serve. Its award-winning platform provides secure machine-to-machine communication, globally.

CyanConnode is currently focused on the global smart metering and intelligent lighting control markets, as its technology is ideally suited to both. Furthermore, these markets offer vast opportunity for the Company's continued growth as well as a gateway to expand into other industrial IoT markets.

CyanConnode's enabling technology is delivered through a collaborative engagement model that supports the transfer of skills and experience to facilitate customer ownership and generate local wealth. The Company has established, and continues to strengthen, its global partner eco-systems of tier 1 meter manufacturers and system integrators.

The Company's aim is to continue to grow a world class organisation with global knowledge and capacity that supports sustainable value through:

- Excellent customer service delivering customer satisfaction through the implementation of successful smart metering projects
- Delivery of order book
- Recognising recurring revenue from multi-year software licenses as well as support and maintenance contracts
- Continuing to develop a strong, global partner eco-system to:
 - Facilitate conversion of global sales pipeline
 - Increase market penetration in existing and new geographic regions
- Creating new enabling approaches including gas and water metering as well as applications in the industrial IoT market

Business Model

Smart Electricity Metering

CyanConnode has the technology and experience to support resilient networks that scale from single application networks to multi-application, city-wide implementations. Its AMI technology enhances utilities' service delivery, improves business efficiency and saves energy through improved revenue collection and cash flow.

CyanConnode's business model is based on generating revenues through hardware, integration services and support followed by commencement of long-term software license payments. These recurring revenues provide high levels of visibility while also enabling further margin improvements.

Through the implementation of smart metering projects, the company's revenue is derived from the following principal elements:

- Hardware – a communication module, which is integrated into every electricity meter and data concentrator unit/gateway that collects the data from the meter and sends it back to the utility via CyanConnode's Head End Server (HES).
- Software (HES) – charged on a per meter per year basis through multiyear contracts
- Support and maintenance – from integration services to annual maintenance contracts

Strategic Report

Smart Electricity Metering (continued)

As markets evolve and the size of smart metering implementations increases, CyanConnode will offer partners a licensing model, which will enable them to take over local manufacture of the hardware. This model is dependent on the partner having the capabilities, including experience and certifications, to deliver CyanConnode's integrated solution.

Delivery Process

CyanConnode's technology is delivered in a phased approach that involves engineering, system integration and operations. At each stage there is site acceptance testing (SAT), which will require CyanConnode's partner and/or customer to determine whether their requirements have been met.

SAT-0 Laboratory Proof of Concept, with restricted functionality

The objective of SAT-0 is to provide customers with a tangible demonstration of the capability of CyanConnode's technology. This stage includes a small number of units, such as smart meters operating in a laboratory environment. SAT-0 should be completed within 1-2 months of the project start date.

SAT-1 Limited field trial

The objective of SAT-1 is allow customers to further evaluate the technology with 50 devices (meters) being deployed in a realistic field environment. SAT1 is also to prepare meters and enterprise environment.

SAT-2 Preproduction trial with full functionality

SAT-2 is the installation of 2,000 meters at consumer premises, with full functionality supported through the enterprise environment. The system will be observed for a period of 1-2 months from installation before further rollout.

Once each user acceptance test has been completed the next phase of the project commences. However, the adoption of new technology may present operational challenges to both partners and customers, which could impact on delivery schedules particularly during initial roll outs.

Market Opportunity

Growing populations and global urbanisation continue to drive the demand for energy and other essential services. Governments, city authorities and businesses are seeking ways of achieving more efficient management of devices such as energy meters. In addition, energy distributors require consumer data to help to reduce technical and commercial losses, enable demand side management and provide enhanced customer service.

The global smart metering market is estimated to grow from \$12.79bn in 2017 to \$19.98bn by 2019¹. During 2017 CyanConnode has continued its positive momentum, expanding its geographic reach and increasing the scale of orders won. Significant orders for smart metering deployments in new and existing territories have also highlighted the strength of CyanConnode's value proposition within the global smart metering sector.

The size of the markets the Company operates in and the opportunity from existing contract wins provide CyanConnode with substantial scope for follow on orders. Furthermore, the growing number of successful meter integrations with tier 1 meter manufacturers and the success of existing smart metering implementations increases the prospect of repeat business.

At the time of this report, the Company contracted a total of 3.4m end points of which 0.9m had been deployed.

¹<https://www.marketsandmarkets.com/PressReleases/smart-meter.asp>

Strategic Report

Smart Lighting Control

The business model for smart lighting is very similar to that of smart electricity metering. CyanConnode's enabling technology is integrated with a dimmable lighting ballast that is built into public street lights, supporting intelligent lighting management to save energy and costs. These commonalities enable CyanConnode to benefit from economies of scale in development and manufacturing.

The revenue model is the same as with metering, with revenues derived from hardware and recurring revenue from software licenses (charged on a per lamp per year basis) and maintenance contracts.

Internet of Things/Smart Cities

According to a new report the global industrial IoT market is expected to reach \$933.62bn by 2025 . The growing demand and adoption of cloud computing, coupled with the scalability of IPv6-based solutions are predicted to drive the market over the forecast period. Through the acquisition of Connode in 2016, CyanConnode offers IPv6 6LoWPAN technology that can be deployed as a city-wide IoT network ready to connect millions of devices, such as smart meters and smart street lights.

IoT infrastructure has many challenges, one of which is that organisations have end-to-end, silo driven business models that use a separate communication platform for each application. CyanConnode's new Omni IoT platform supports multiple IoT business applications and provides the flexibility to integrate narrowband RF network with other communication technologies and legacy/abandoned systems.

The Omni IoT platform allows customers to mix and match multiple communication systems on a single network management system. This scalable, future-proof technology enables cost effective network solutions that provide government approved critical grade security.

Revenues are derived from hardware and recurring revenue from software licenses (charged on a per device per year basis) and maintenance contracts.

Competitive Position

To date, CyanConnode's solutions have had over £34 million of product development by very capable engineering teams based in Cambridge, UK and Stockholm, Sweden. This has created substantial barriers to entry to new competitors as these solutions solve large, complex, cross domain problems. The necessary skills and experience are considerable; they include RF hardware design, regulatory approval, mesh network firmware design, communications infrastructure development, meter protocol, plus interoperability techniques, security, enterprise software and scalability and robustness.

CyanConnode's solutions have been mainly designed and built for emerging markets, whilst its competitors have generally chosen Western markets. They can be integrated into new meters or retrofitted to existing meter infrastructure to avoid rip-and-replace costs. Its solutions are inherently low power and this has helped CyanConnode to achieve a highly competitive price point for emerging market mass adoption. The CyanConnode mesh network is self-forming and self-healing, which results in significant time (and therefore cost) savings for customers. Its DCU/gateway has been designed to be highly functional, but in a small package which results in a competitive price point. CyanConnode offers sub-GHz wireless mesh solutions that are innately suited to dense housing conditions typical of emerging markets. The network uses license free ISM (Industrial, Scientific and Medical) radio bands, which means that CyanConnode's customers do not need to invest in or pay for costly tower structures to carry the radio signals.

Strategic Report

Operational Review

Key Financials

Substantial commercial orders were won during the period, however the revenue and cash generated therefrom during the period remained well below the level required to sustain the business. In 2017, the Company raised £11.3 million before expenses, by way of share placings. This funding provided the Company incremental financial resources for growth, general working capital, customer and partner development activities in India and other markets. A substantial amount of this funding was used to develop the Company's full standards-based technology platform following the acquisition of Connode in 2016.

A summary of the key financial results is set out in the table below and discussed in this section.

	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Revenue	1,171	1,823	272	194
Research and development expenditure	4,148	2,913	2,038	1,359
Operating loss	11,153	7,939	4,907	3,260
Cash and cash equivalents	5,394	3,893	2,461	2,344
Average monthly operating cash outflow	808	588	438	253
	2017 Number	2016 Number	2015 Number	2014 Number
Average employee headcount	54	44	31	27

Key Performance Indicators (KPIs)

The key performance indicators for the Group are as set out in the key financial results table above. During 2017 revenues decreased from 2016 and the operating losses continued to be significant and have again increased substantially from 2016 to 2017. As can be seen from the table, CyanConnode has significantly increased investment in R&D in order to develop the full standards-based Omni IoT technology platform using the Connode IPv6 technology. In addition the Company's system integration and delivery teams grew in order to deliver on the Company's growing order book. The Group's average headcount has increased from 44 in 2016 to 54 in 2017. The main increases in headcount related to the research and development and delivery teams.

The Group's long-term strategy is to deliver shareholder returns by generating revenue and moving into profitability. We seek to do this by focusing our investment on emerging but fast growing markets where we believe we can reach a market leading position with our technology. Management use KPIs to track business performance, to understand general trends and to consider whether we are meeting our strategic objectives. As we grow we intend to review these KPIs and adapt them as appropriate, in response to how our business and strategy evolves.

The Group's key focus for 2018 will be streamlining its process from order to delivery and converting its large order book into revenues. A further focus will be converting the large pipeline of opportunities into successful orders and eventually cash, also following a streamlined process.

Strategic Report

Going Concern

To assess the ability of CyanConnode Holdings plc (“Group”) to continue as a going concern, the directors have prepared a business plan and cash flow forecast for the period to 30 June 2019 which, together, represent the directors’ best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales and the gross margin on those sales, together with the ability to secure additional finance in order to fund working capital within the next 12 months.

The directors have recognised that the Group is trading principally in emerging country markets. These markets have an inherent level of uncertainty associated with them and this may result in the predicted level of sales not being achieved and/or the timing of orders being delayed, as has been the case for the Group in the past. The directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group’s target markets is fundamentally uncertain. This may impact both the Group’s ability to generate positive cash flow and to raise new finance. Consequently, there is a significant risk that the level of sales achieved is materially lower than the forecast, may be significantly delayed or at materially lower margins. This constitutes a material uncertainty.

The directors’ cash flow forecast includes an assumption that further finance will need to be raised within the next 12 months. Having consulted with stakeholders, the directors consider that the Group has a realistic opportunity to secure the additional funding that will be required. There remains, however, a significant risk that the required level of new funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

There is a material uncertainty related to the assumptions described above which may cast significant doubt on the Group and Company’s ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern. In the event the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including stocks, to their recoverable amount and providing for any further liabilities that might arise.

Notwithstanding the material uncertainties described above, on the basis of sensitivities applied to the cash flow forecast and that further finance can be raised in the relevant timescale, the directors have a reasonable expectation that the Company and Group can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

Strategic Report

Principal Risks and Uncertainties

The Group is exposed to a number of risks and uncertainties. Those that are considered to be key to the Group are set out in the following table:

Area of Risk	Description	Mitigating Activity
Funding	<ul style="list-style-type: none"> We have a history of losses, anticipate continued losses, which would lead to negative operating cash flow in future periods, and we may not achieve or sustain profitability on a quarterly or annual basis in the near term. The Group's ability to continue as a going concern is subject to significant risks and uncertainty. We may not be able to secure additional financing on favourable terms, or at all, to meet our future capital needs. Cash flow projections have highlighted a need for further funding during the 12 months following sign off of accounts. 	<ul style="list-style-type: none"> The Directors regularly monitor the financing needs of the Group and react quickly should further funding be required. The Group actively communicates with its investors and potential investors, including through its nominated adviser and brokers, in order to identify potential sources of further investment. In addition to equity funding, the Directors are in dialogue with a number of banks to investigate working capital facilities. A number of licensing opportunities are also being explored as it would be a significant source of funding should any of these opportunities be won.
Growth Strategy	<ul style="list-style-type: none"> The market for our products and services, and smart grid and smart lighting technology generally, is still developing. If the market develops less extensively or more slowly than we expect, our business could be harmed. 	<ul style="list-style-type: none"> CyanConnode continues to adopt a diversification strategy. This helps to identify targets in additional emerging markets, allowing for a much wider customer base and less pressure on one specific market/country.
Macro-economic conditions and political risk	<ul style="list-style-type: none"> Sales cycles to our customers and end utilities in emerging markets can be lengthy and unpredictable and require significant employee time and financial resources with no assurances that a prospective customer will select our products and services. CyanConnode sales and profits may be impacted by spending slowdowns and/or increasing inflationary pressures in key territories. The territories in which we operate are subject to political risk whereby decisions by national or state governments may impact our ability to effectively trade in these markets. The UK is now in the process of exiting the European Union and this process creates uncertainty for companies based in the UK and exporting into other markets. 	<ul style="list-style-type: none"> The Group maintains close relationships with its partners and potential end customers in order to respond to the changing demands of the market and maximise contract wins. The Group have employed world class experts in their fields in many areas of the business to respond to market requirements and anticipate the changing demands of the market. Market data is regularly analysed to provide valuable information on demand changes, allowing the Company to react according to these changes. We mitigate the political risk through the effective use of local partners in each territory who act as agents or resellers of CyanConnode's technology. Other than CyanConnode in Sweden, which is part of the European Union, the Group does not trade substantially with any other EU country and therefore the outcome of the exit from the EU is not expected to be significant. CyanConnode Sweden's main customer is Toshiba for the UK SMIP contract, which is billed and paid in UK Sterling.

Strategic Report

Area of Risk	Description	Mitigating Activity
Competitive Environment	<ul style="list-style-type: none"> The Group's products compete for technological superiority over those of competitors. There is a risk that new product developments by competitors diminish the attractiveness of the Group's products, reducing sales. 	<ul style="list-style-type: none"> The Group continues to make a substantial investment in research and development to ensure that its products provide the best possible match to potential customers' requirements.
Laws & Regulations	<ul style="list-style-type: none"> The Group and its customers operate in a highly regulated business environment and changes in regulation could impose costs on us or make our products less economical. Some of the markets we are targeting and have entered such as Iran are highly complex in terms of regulations to be followed as a UK exporter. 	<ul style="list-style-type: none"> The design and engineering team have a proven track record in introducing new products that meet the requirements and regulations of diverse markets we operate in. The Company has taken specialist legal advice on trading with Iran and will continue to do so in entering other new markets.
Business Continuity	<ul style="list-style-type: none"> CyanConnode does not control certain critical aspects of the manufacture of its products and depend on a limited number of contract manufacturers. 	<ul style="list-style-type: none"> Strong relationships are maintained with several suppliers. This helps ensure that any issues are communicated and can be mitigated where possible in good time, as well as providing the opportunity to switch supplier at short notice.
People	<ul style="list-style-type: none"> As with many technology businesses, the Group is dependent on a relatively small number of highly skilled staff. The ability of the Group to retain and motivate its key staff is a key business risk. Being a small company there is the added challenge of requiring staff to be skilled across a number of areas, with flexibility and agility to deliver results for customers. 	<ul style="list-style-type: none"> CyanConnode provides well-structured and competitive reward and benefit packages that ensure our ability to attract and retain employees. Training and development opportunities are offered to support staff in their careers.
Cyber Risk	<ul style="list-style-type: none"> Disruption to or penetration of our information technology platforms could have a material adverse impact on the Group. 	<ul style="list-style-type: none"> Technology resources are continuously monitored by appropriately trained staff, which provide and maintain process controls aimed at securing our networks and data. In recent years, we commissioned external agencies to carry out penetration testing of our network in order to ensure we meet industry best practice and we believe that this meets the needs of the business today and we plan to repeat this on an annual basis.

Strategic Report

Area of Risk	Description	Mitigating Activity
Currency Exchange	<ul style="list-style-type: none"> We are exposed to both translation and transaction risk. In addition transactions are carried out in currencies other than UK Sterling. 	<ul style="list-style-type: none"> Whilst most of CyanConnode UK customers are invoiced in US Dollars, we also contract the manufacture of CyanConnode's hardware in US Dollars and this partially offsets the risk. CyanConnode India operates mainly in Rupees. There is minimal currency risk due to customers paying and suppliers being paid in the same currency. CyanConnode Sweden mainly operates in either SEK or Euro with customers paying and suppliers being paid in the same currency. There are limited manufacturing costs in Sweden as it mainly supplies software. Its prime customer is the UK smart metering project that is paid in UK Sterling.

Financial Risk Management Objectives and Policies

Details of the Group's financial risk management objectives and policies are disclosed in note 22 to the financial statements.

Dividends

The directors do not recommend the payment of a dividend (2016: £nil). The Group has no plans to adopt a dividend policy in the immediate future and all funds generated by the Group will be invested in the further development of the business, as is normal for a company operating in this industry sector and at CyanConnode's stage of its development.

Employee Matters

Headcount

The average number of employees increased during 2017 from 44 to 54. The management, development and delivery of innovative technologies is made possible through the contribution of our highly-skilled people, operating in three different territories in the world, namely the UK, Sweden and India. During the year the Company continued the recruitment of employees to be based locally on the ground in India to support local customers and partners, and recruited a Managing Director to manage the subsidiary in India. In addition the engineering and delivery teams increased to deliver a world-class organisation to execute the growing order book. The Company intends to closely monitor the requirement for employees by region to ensure we have an appropriate presence to support our business, suppliers and customers, while at the same time managing its resources.

Diversity

CyanConnode is a multicultural, global organisation and we are committed to providing equal opportunities for training, career development and promotion to all employees, regardless of any physical disability, gender, religion, race or nationality. Women comprised 40% of the management team that reports to the Board, or 2 out of 5 employees (2016: 17%, or 1 out of 6 employees) and at Board level 0% (2016: 0%). At year end women comprised 15% of total employees across the Group (2016: 13%) or 9 out of a total of 61 employees (2016: 7 out of 52).

Employment Policy

Applications for vacancies are considered based on capabilities and reflecting the requirements of the role, and resources for development and training are made available to all employees. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

Strategic Report

Environmental Policy

CyanConnode recognises that it has a moral duty of care as well as a legal obligation to the environment and is committed to minimising the impact of its activities on the environment. Taking a responsible approach to the environment is good business practice as well as essential in helping the world to tackle climate change issues. Our technology is also at the heart of new strategies that will deal with other environmental and resource challenges such as the management of smart grids and water resources.

The key points of CyanConnode's environmental strategy are to:

- Minimise waste by evaluating operations and ensuring they are as efficient as possible.
- Use products efficiently and actively promote recycling both internally and amongst its customers and suppliers.
- Source and promote a product range to minimise the environmental impact of any production and distribution.
- Meet or exceed all the environmental legislation that relates to the Company.
- Encourage employees to use alternative methods of transport to work other than motor vehicles.
- In territories other than the UK, building out local workforces to reduce carbon footprint with less flying.

CyanConnode strives on encouraging its members of staff to commit to the environment and works with suppliers who:

- are certified ISO14001
- or work towards the protection of the environment

Responsibility:

The ultimate responsibility for CyanConnode's environmental policy lies with its Board of Directors. The policy is communicated to all employees within the Company via email. It is the responsibility of each employee to follow the rules and procedures the Company has set for its environmental work. The purchasing department is responsible for ensuring all environmental considerations and policies are followed in all purchasing and procurement for the Company.

Health and Safety Management

The Group operates predominantly in an industry and environments which are considered relatively low risk from a health and safety perspective. However the health and safety and welfare of CyanConnode's employees, contractors and visitors are a priority in Group workplaces worldwide. There are health and safety risks attached to some of the work undertaken by employees and to travel to territories in which CyanConnode is currently engaging in business. Electrical safety training is given to all new employees and contractors upon joining the Company. Travel advice is always checked on the FCO website prior to employees travelling to any region, and if a region is considered unsafe employees will not be permitted to travel there. Employees are advised to be vigilant while travelling, and keep in regular contact with the CyanConnode Head Office in Cambridge.

CyanConnode expects the highest of ethical standards of all its employees and its policies and procedures support its stated aim of acting with integrity in all aspects of its operations. The Board as a whole is responsible for health and safety matters. CyanConnode has a Health and Safety Manager who manages the health and safety of the Company on a day to day basis taking advice from an external firm of health and safety consultants. The Board discusses health and safety at all monthly Board meetings. All accidents and incidents are reported to them.

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

John Cronin
Executive Chairman
18 May 2018

Corporate Governance Statement

Whilst companies whose shares are listed on AIM are not formally required to comply with the Combined Code, the Board supports the Code and applies it in so far as is practicable and appropriate for a public Company of its size. The Board is committed to ensuring that high standards of corporate governance are maintained. In addition the Company follows the requirements of the Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013 published by the Quoted Companies Alliance from time to time, to the extent the directors consider it appropriate given the Company's size and nature.

Board Composition and Responsibility

At 31 December 2017 the Board comprised five directors, including the Executive Chairman, the Chief Operating Officer and three independent non-executive directors. Four of the five directors in post at 31 December 2017 had served throughout the year.

Name	Role	In post 1 Jan 2017	In post 31 Dec 2017
Executive			
John Cronin	Executive Chairman	Yes	Yes
Harry Berry	Chief Operating Officer	Yes	Yes
Non-Executive			
Simon Smith	Chairman Audit Committee	Yes	Yes
Paul Ratcliff	Chairman Remuneration Committee	Yes	Yes
Pete Hutton	Chairman Nominations Committee	No	Yes

John Cronin has served on the Board since 20 March 2012, and as Chairman since the Company's AGM on 17 May 2012.

Harry Berry was appointed to the Board on 16 May 2014 as a non-executive director. In July 2017 he was appointed as Chief Operating Officer. He served as Chairman of the Remuneration Committee during the period he was a non-executive director (January to June 2017) after which Paul Ratcliff took over this role.

Simon Smith has served on the Board since 29 March 2010, as Chief Financial Officer, in an executive director capacity since 1 October 2013 until September 2017 when he returned to a non-executive director role. He now serves as Chairman of the Audit Committee and a member of the Nominations Committee.

Paul Ratcliff was appointed to the Board on 1 January 2016 as a non-executive director. He served as Chairman of the Audit Committee from July to September 2017 and as Chairman of the Nominations Committee until the appointment of Peter Hutton on 3 April 2017. He serves as Chairman of the Remuneration Committee, taking over the role from Harry Berry on 1 July 2017, and a member of the Audit Committee and Nominations Committee.

Peter Hutton was appointed to the Board on 3 April 2017 as a non-executive director. He serves as Chairman of the Nominations Committee and a member of the Remuneration Committee.

The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management. The Board meets at regular scheduled intervals and follows a formal agenda; it also meets as and when required to discuss matters that may arise in between formal Board meetings. All directors are required to retire by rotation according to the Articles of the Company.

Corporate Governance Statement

Board Composition and Responsibility (continued)

No director has a service agreement requiring more than twelve months' notice of termination to be given.

The Board is satisfied that an appropriate balance of independence, skills and experience has been and remains in place to enable the Board to perform its responsibilities effectively. An overview of the skills and experience of each Board member is given above.

The directors may take independent professional advice at the Company's expense.

Board Committees

The Company has an Audit Committee, a Remuneration Committee and a Nominations Committee.

Since returning to a non-executive role in September 2017 Simon Smith chairs the Audit Committee with Paul Ratcliff being the other member of this committee. Prior to this and following the retirement of Dr John Read at the end of June 2017, Paul Ratcliff was Chairman of the Audit Committee. Dr John Read was Chairman of the Audit Committee until 30 June 2017.

Paul Ratcliff chairs the Remuneration Committee with Pete Hutton being the other member of this committee. From January to June 2017 Harry Berry was Chairman of the Remuneration Committee with Paul Ratcliff being the other member of this committee.

Pete Hutton chairs the Nominations Committee, with all three Non-Executive Directors being members of this committee.

Board Nominations

The Company has formal procedures for making appointments to the Board and these are applied to ensure that any new appointments that might be made meet the desired criteria.

Relationships with Shareholders

The Board understands the need for clear communications with its shareholders. In addition to presentations after publication of results and the Annual General Meeting, meetings are held with fund managers, analysts, and institutional investors. Information is posted on the Company's web site, www.cyanconnode.com, which contains a comprehensive Investor Relations section. Simon Smith is the director responsible for investor relations.

Directors' Report

The directors present their annual report on the affairs of the Group together with the audited financial statements and auditor's report for the year ended 31 December 2017.

Going Concern

To assess the ability of CyanConnode Holdings plc ("Group") to continue as a going concern, the directors have prepared a business plan and cash flow forecast for the period to 30 June 2019 which, together, represent the directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales and the gross margin on those sales, together with the need to secure additional finance.

The directors have recognised that the Group is trading principally in emerging country markets. These markets have an inherent level of uncertainty associated with them and this may result in the predicted level of sales not being achieved and/or the timing of orders being delayed, as has been the case for the Group in the past. The directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is fundamentally uncertain. This may impact both the Group's ability to generate positive cash flow and to raise new finance. Consequently, there is a significant risk that the level of sales achieved is materially lower than the forecast or at materially lower margins. This constitutes a material uncertainty.

The directors' cash flow forecast includes an assumption that further finance will need to be raised within the next 12 months. Having consulted with stakeholders, the directors consider that the Group has a realistic opportunity to secure the additional funding that will be required. There remains, however, a significant risk that the required level of new funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

There is a material uncertainty related to the assumptions described above which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern. In the event the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including stocks, to their recoverable amount and providing for any further liabilities that might arise.

Notwithstanding the material uncertainties described above, on the basis of sensitivities applied to the cash flow forecast and the expectation that further finance can be raised in the relevant timescale, the directors have a reasonable expectation that the Company and Group can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

Financial Risk Management Objectives and Policies

Details of the Group's financial risk management objectives and policies are set out in the Strategic Report on page 15.

Dividends

The directors' dividend policy is set out in the Strategic Report on page 25.

Directors' Report

Share capital and capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 25. During the year the Company underwent a share consolidation exercise which resulted in every 200 ordinary shares of 0.01 pence per share being replaced with 1 ordinary share of 2.0 pence per share. At 31 December 2017, the Company had one class of ordinary shares of 2.0 pence each, which carried no right to fixed income and represented 100% of the issued share capital of the Company. Each share carried the right to one vote at general meetings of the Company. The Company's capital structure consisted only of issued share capital, which it manages to maximise the return to shareholders.

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. 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.

Details of the employee share schemes are set out in note 32.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 26.

In accordance with the Companies Act 2006 the Company has no authorised share capital.

Capital Risk Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

Enterprise Investment Scheme (EIS)

During 2017 CyanConnode's shares qualified under the Enterprise Investment Scheme (EIS) which is a scheme that provides tax incentives in the form of a variety of income tax and capital gains tax reliefs to investors who invest in certain qualifying companies. This qualification is subject to the Company's gross assets being below £15m. At times the gross assets may go above £15m depending largely on cash reserves. Since CyanConnode's incorporation, a number of high net worth individuals looking to build tax efficient EIS portfolios have invested in CyanConnode and received these tax reliefs. Following a number of recent changes to the EIS rules, the Directors have had confirmation from HMRC that the Company's shares do still qualify under this scheme, and that the Company qualifies as a knowledge-intensive company which means it is granted a higher threshold and a longer time period during which EIS relief may be granted to investors. The Directors expect this to remain the case until the thresholds under the new rules are reached. The Directors do not expect these thresholds to be met within the twelve months following this report.

Directors' Report

Directors and their Interests

The Directors who served the Company throughout the year and up to the date of signing, unless otherwise stated, were as follows:

Executive Directors

John Cronin (Executive Chairman)
Harry Berry (Chief Operating Officer)

Non-Executive Directors

Simon Smith
Paul Ratcliff
Peter Hutton
Dr John Read (left office on 30 June 2017)

Simon Smith and Paul Ratcliff will retire at the next Annual General Meeting and, being eligible, will offer themselves for re-election.

The interests of the directors in the shares of the Company are shown in the remuneration committee report on page 34.

Research, Design and Development

The Group is committed to the research, design and development of mesh based flexible solutions for metering, lighting and IoT markets. The costs relating to this which have been written off in the year, amounted to £4,148,238 (2016: £2,912,631).

Significant Holdings

The Company had been notified of the following voting rights as a shareholder in the Company at 31 December 2017:

Name	Percentage of voting rights and issued share capital	Number of ordinary shares
William David Johns-Powell	6.89%	8,818,491
Nightingale Investment Co Limited	6.55%	8,382,352
Biggles Enterprise Limited	6.51%	8,333,333
Herald Investment Management Limited	4.17%	5,342,929
Legal and General	3.72%	4,764,121
Swedestart Tech KB	2.18%	2,793,771

The Company received 1 notification under Chapter 5 of the Disclosure and Transparency Rules during the period between 31 December 2017 and 18 May 2018.

Fixed Assets

In the opinion of the directors there is no material difference between the market value of fixed assets and the amounts at which they are stated in note 17 to the accounts.

Directors' Report

Supplier Payment Policy

It is the policy of the Group to settle supplier invoices in line with the terms of business negotiated with them. The average credit period taken for trade purchases is higher at 63 days (2016: 49 days) including significant purchases in 2016 of meters for the two smart metering deployments in India, most of which were purchased from one supplier under local procurement terms. Excluding this one supplier, the average credit period taken in 2017 was 54 days (2016: 24 days).

Charitable and Political Donations

Charitable donations for the year were £nil (2016: £nil) and no political donations were made during the year (2016: £nil).

Auditor

Each of the persons who is a director 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/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

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

John Cronin
Executive Chairman
18 May 2018

Directors' Remuneration Report

Unaudited Information

Remuneration Committee

The Company has established a Remuneration Committee. Paul Ratcliff took over the role of chairman of the Remuneration Committee from Harry Berry on 1 July 2017.

None of the Committee members has any personal financial interest (other than as shareholders) or conflicts of interests arising from cross-directorships. The Committee makes recommendations to the Board. No director plays a part in any discussion about his own remuneration.

Whilst companies whose shares are listed on AIM are not formally required to comply with the accounting regulations regarding directors' remuneration, the Board supports these regulations and applies them in so far as is practicable and appropriate for a public Company of its size. In line with previous years, the Directors' Remuneration Report will not be put to a shareholders' vote.

Remuneration Policy for the Executive Directors

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to maintain the Group's market position to reward them for enhancing value to shareholders. Their packages are set to reflect their responsibilities, experience and marketability. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee.

Main elements of the remuneration package for the executive directors and senior management are:

- Basic annual salary;
- Benefits-in-kind;
- Annual bonus payments;
- Consultancy fees;
- Share option incentives; and
- Pension arrangements.

Executive directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought.

All directors are encouraged to make equity investments in the shares of the Company. The current directors have invested a total of £1.7m in the Company, with full details of these investments set out later in this report. Of the executive directors John Cronin's total investment to the end of 2017 was 252% of his current annual package of £340,000 and Harry Berry's total investment to the end of 2017 was 119% of his current annual fees of £200,000.

Basic Salary

An executive director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research, which gives up-to-date information on a comparator group of companies.

Benefits-in-Kind

The executive directors are entitled to receive certain benefits-in-kind, principally private medical insurance.

Directors' Remuneration Report

Annual Bonus Payments

Annual bonuses are awarded at the discretion of the Remuneration Committee as an incentive and to reward performance during the financial year pursuant to specific performance criteria. In exercising its discretion, the Committee takes into account the strategic objectives set by the Board to ensure these are being met. These objectives will evolve as the business grows and are expected to change year on year according to business requirements. During 2017 the objectives included ensuring the Company was adequately funded and customer contracts won. Bonus payments of £241,690 were made during the year (2016: £200,000).

Directors' Share Options

Full details of the directors' options over ordinary shares of 2.0p are set out below (all numbers below have been restated following the 200:1 share consolidation which took place on 3 October 2017):

Director	Grant Date	Exercise Price £	As at 31 December 2017 Number	As at 31 December 2016 Number
John Cronin	19 December 2013	0.6	-	382,803
	30 September 2014	0.84	-	508,447
	7 July 2016	0.5	-	1,937,903
	17 November 2017	0.336	558,101	-
			558,101	2,829,153
Simon Smith	19 December 2013	0.6	-	210,031
	30 September 2014	0.84	-	130,746
	7 July 2016	0.5	-	741,247
	17 November 2017	0.336	596,304	-
	12 December 2017	0.46	62,245	-
				-
			661,549	1,082,024
Harry Berry	28 July 2014	0.76	-	25,000
	4 December 2014	0.58	-	35,000
	18 December 2014	0.56	-	111,604
	7 July 2016	0.5	-	372,944
	17 November 2017	0.336	735,174	-
11 December 2017	0.42	71,423	-	
				-
			806,597	544,548
Peter Hutton	6 April 2017	0.38	131,545	-
Paul Ratcliff	11 December 2017	0.42	71,633	-

Options granted under the EMI Share Option Scheme and unapproved share option schemes, are not subject to performance criteria. No share options were exercised by directors during 2017.

Directors' Remuneration Report

Joint Share Ownership Plan

In 2008, the Company established a Joint Share Ownership Plan ("JSOP") to provide additional incentives to directors and certain senior executives (the "Participants"). The JSOP shares are held jointly between the Participant and the CyanConnode Holdings plc Employee Benefit Trust. Under the terms of the JSOP rules the Participants are eligible to receive the excess of any disposal proceeds received for the JSOP shares over the participation price.

During 2017, JSOP shares were granted to certain directors of the Company. At 31 December 2017, shares held by directors under this scheme were as follows:

Director	Grant Date	Participation Price £	At 31 December 2017 Number	At 31 December 2016 Number
John Cronin	23 October 2017	0.4964	3,219,200	-
	23 October 2017	0.333	1,382,425	-
			4,601,625	
Harry Berry	23 October 2017	0.3904	2,076,085	-
	23 October 2017	0.333	925,303	-
			3,001,388	
Simon Smith	23 October 2017	0.4502	837,520	-
	23 October 2017	0.333	132,275	-
			969,795	

Directors' Remuneration Report

Directors' Interests in Shares in the Company

All numbers below are restated following the 200 for 1 share consolidation which took place on 3 October 2017

Director	Shares	£'000
John Cronin		
As at 1 January 2017	1,736,008	721
Purchased during the period	477,459	135
As at 31 December 2017	2,213,647	856
Simon Smith		
As at 1 January 2017	988,162	482
Purchased during the period	196,918	58
As at 31 December 2017	1,185,080	540
Harry Berry		
As at 1 January 2017	482,796	203
Purchased during the period	141,423	35
As at 31 December 2017	624,219	238
Paul Ratcliff		
As at 1 January 2017	73,243	26
Purchased during the period	89,491	20
As at 31 December 2017	162,734	46
Peter Hutton		
As at 1 January 2017	-	-
Purchased during the period	167,259	60
As at 31 December 2017	167,259	60
Total		
As at 1 January 2017	3,280,209	1,432
Purchased during the period	1,072,550	308
As at 31 December 2017	4,352,759	1,740

The shareholding for Directors of the Company disclosed above excludes shares held under the Company's Joint Share Ownership Plan ("JSOP") in which they are beneficial co-owner of shares.

Pension Arrangements

Executive directors are entitled to become members of the Company pension scheme. This is a defined contribution scheme whereby the Company contributes at a rate of 5% of the executive's gross salary. Neither John Cronin nor Harry Berry are members of the Company pension scheme.

Directors' Remuneration Report

Directors' Contracts

It is the Company's policy that the executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. It may be necessary on occasion to offer longer notice periods but this has not been necessary for any director on the current board. All executive directors have contracts that are subject to twelve months' notice by either party.

Name of Director	Date of contract
John Cronin	20 March 2012
Simon Smith	1 September 2017
Harry Berry	1 July 2017
Paul Ratcliff	1 January 2016
Peter Hutton	3 April 2017

Audited Information

Non-Executive Directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The fees paid to each non-executive director during the year was:

Peter Hutton	£22,500
Paul Ratcliff	£34,100
Simon Smith	£228,778

(the fees stated above that were paid to Simon Smith during 2017 included fees of £154,449 relating to the period during which he was an executive director, £54,329 fees for prior year services and £20,000 for his non-executive director role for the last 4 months of 2017)

Non-executive directors are not eligible to join the Company's pension scheme.

Directors' Remuneration Report

Directors' Emoluments

Name of Director	Fees/Basic Salary	Pension	Annual bonus	Total for 2017 Services	Fees for Prior Year Services	Total Paid 2017	2016 Total
	£	£	£	£	£	£	£
Executive							
John Cronin - salary	21,000	-	-	21,000	-	21,000	12,000
John Cronin - consultancy fees <i>Of the total paid in 2017, £251,934 was paid in shares and £243,066 in cash</i>	246,500	-	140,000	386,500	87,500	474,000	363,000
John Cronin - Total (note 1)	267,500	-	140,000*	407,500	87,500	495,000	375,000
Harry Berry- salary	82,730	-	41,690	124,420	-	142,420	24,000
Harry Berry - fees for other services <i>Of the total paid in 2017, £44,505 was paid in shares and £148,915 in cash</i>	69,000	-	-	124,420	-	69,000	815,835
Harry Berry - Total (note 2)	151,730	-	41,690	193,420	-	193,420	105,835
Non-Executive							
Simon Smith - fees <i>Of the total paid in 2017, £76,460 was paid in shares and £152,318 in cash</i>	111,616	2,833	60,000	174,449	54,329	228,778	183,000
Simon Smith - Total (note 3)	111,616	2,833	60,000	174,449	54,329	228,778	183,000
Paul Ratcliff <i>£15,000 paid in shares</i>	34,100	-	-	34,100	-	34,100	30,000
Peter Hutton	22,500	-	-	22,500	-	22,500	-
Dr John Read <i>All paid in shares</i>	15,000	-	-	15,000	-	15,000	30,000
TOTAL	602,446	2,833	241,690	846,969	141,829	988,798	723,835

* Of the £140,000 bonus paid to John Cronin in 2017, £70,000 related to bonus for the second half of 2016. The bonus element of John Cronin's remuneration package reduced to £20k for the second half of 2017 (annual equivalent £40,000). His total remuneration package reduced from £375,000 to £340,000 during 2017.

Note 1 – John Cronin: £407,500 of the £495,000 fees paid to John Cronin during 2017 related to services provided during 2017, while £87,500 related to additional time worked during 2013-2014, over and above the hours paid out under his service and consultancy contracts. Success criteria based on securing customer contracts and equity funding were agreed by the Remuneration Committee at that time. These criteria were met during 2015 and £100,000 relating to the additional fees earned was paid out during 2015. Mr Cronin chose not to receive the remaining £87,500 of these additional fees in 2015, however it was agreed that these would be paid during 2017.

Of the £495,000 fees paid to John Cronin during 2017, £251,934 was paid in shares and £243,066 was paid in cash.

Directors' Remuneration Report

Directors' Emoluments (continued)

Note 2 – Harry Berry: For the periods January to June 2017 Harry Berry was a non-executive director of the Company. On 1 July 2017 he moved to an executive director role in the position of Chief Operating Officer. His fees relating to the second six months were £75,000 and were £118,420 relating to second six months when he was an executive director.

Of the £193,420 fees paid to Harry Berry during 2017, £44,505 was paid in shares and £148,915 was paid in cash.

Note 3 – Simon Smith: £174,449 of the £228,778 fees paid to Simon Smith during 2017 related to services provided during 2017, while £54,329 related to additional time worked during 2013-2014, over and above the hours paid out under his service and consultancy contracts. Success criteria based on securing customer contracts and equity funding were agreed by the Remuneration Committee at that time. These criteria were met during 2015 and £50,000 relating to the additional fees earned was paid out during 2015. Simon Smith chose not to receive 100% of the additional fees due in 2015, however the balance of these additional fees was paid during 2017.

Of the £228,778 fees paid to Simon Smith during 2017, £76,460 was paid in shares and £152,318 was paid in cash.

For the period January to August 2017 Simon Smith was an executive director of the Company (Chief Financial Officer). On 1 September 2017 he moved to a non-executive director role. His fees relating to the first eight months were £151,616 and were £20,000 relating to four months when he was a non-executive director.

All directors used 100% of their remuneration for the period January to June 2017 to purchase newly issued shares in the Company. The exact amounts invested by each director to date are set out earlier in this Remuneration Report.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors.

Approval

This report was approved by the Board of directors on 18 May 2018 and signed on its behalf by:

Paul Ratcliff
Chairman of the Remuneration Committee

Directors' Responsibility Statement

The directors are responsible for preparing the Annual 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 the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under Company law the directors must not approve the accounts unless they are satisfied that they give a fair view of the state of affairs of the Company and of profit and loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that the 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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 are sufficient to show and explain the Company's transactions and disclose them with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

John Cronin
Executive Chairman
 18 May 2018

Independent Auditor's report to the members of CyanConnode Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of CyanConnode Holdings plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements;
- the related notes 1 to 33; and
- that part of the directors' remuneration report described as audited.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis of 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 and the parent company 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.

Independent Auditor's report to the members of CyanConnode Holdings plc

Material uncertainty relating to going concern

We draw attention to note 3 in the financial statements, which indicates that the group incurred a net loss of £9,741,720 during the year ended 31 December 2017. The directors have identified that a certain level of sales is required to be achieved as well as additional funding is required in the foreseeable future to allow the Company to continue trading.

In response to this, we:

- obtained cash flow forecasts prepared by management, which were tested for mathematical accuracy;
- challenged management estimates and assumptions included in the forecast, such as revenue growth and timing of cash receipts, against external data and to the Board approved budgets as well as the appropriateness of the sensitivities developed by management;
- assessed management's ability to raise further funds from existing and new shareholders; and
- considered the appropriateness of the disclosure contained with note 3 to the financial statements which set out the material uncertainties identified.

Whilst we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these events or conditions, along with the other matters as set forth in note 3 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • <i>Revenue recognition – new revenue generating multiple element contracts during the year</i> • <i>Impairment of intangible assets and goodwill</i> • <i>Going concern (see material uncertainty relating to going concern section)</i> • <i>Inventory – provisioning of inventory held in relation to a specific customer contract</i>
Materiality	<p>The materiality used was £0.37 million which was determined on the basis of a combination of loss before tax and total expenses measures. This represents approximately 3% of loss before tax and 3% of total expenses.</p>
Scoping	<p>The scope of our audit was driven by our risk assessment and understanding of the business. This consisted of four components subjected to full scope audits and two components subjected to analytical procedures at group level.</p>

Independent Auditor's report to the members of CyanConnode Holdings plc

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that we identified. These matters included 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.

In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue recognition - new revenue generating multiple element contracts during the year	
Key audit matter description	<p>We consider there to be a key audit matter with respect to new multiple element revenue contracts arising in the period. This is due to the judgement involved in recognising revenue in accordance with IAS18 Revenue across contracts that contain multiple elements including both products and services. This is dependent on the identification of the components contained within the contract and the allocation of prices to the individual components.</p> <p>The accounting policy is disclosed in note 3 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of whether the revenue recognition policies have been applied across the group and considered if there were any new revenue contracts in the period that contained multiple elements.</p> <p>For new contracts identified, we reviewed management's assessment of the identification of the components contained within the contract, the allocation of consideration to the individual components and the period over which revenue was recognised. We also assessed whether the recognition of revenue is in line with IAS 18.</p>
Key observations	<p>Based on the audit procedures performed, we concluded that revenue recognition in respect of new multiple element revenue contracts is in line with the group's accounting policy and IAS 18.</p>

Independent Auditor's report to the members of CyanConnode Holdings plc

Impairment of intangible assets and goodwill	
Key audit matter description	<p>The group has a significant goodwill balance £1,930,229 as at 31 December 2017 which arose on the acquisition of Connode in 2016. The group also holds acquisition related intangibles with a balance of £5,468,967 at the balance sheet date.</p> <p>Management performs an impairment review in accordance with IAS 36 Impairment of assets. There is a risk that the key assumptions such as revenue growth and discount rates used in the impairment review model are not appropriate and therefore this affects the calculation of the value in use leading to an incorrect conclusion as to whether goodwill is impaired. There are also significant intangible assets balances resulting from the acquisitions which may also be impaired.</p> <p>Note 3 to the financial statements sets out the group's accounting policy for business combinations and Note 16 to the financial statements outlines the key assumptions involved in the goodwill impairment assessment and the reasonable possible change disclosure due to the high degree of sensitivity.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained cash flow forecasts prepared by management and challenged management estimates included in the forecast, such as revenue growth, through challenging the expected future market growth, previous issues turning orders into revenue, commercial challenges and future strategy, and the discount rates through engaging internal valuations specialists to estimate an appropriate discount rate with reference to market data and comparing that to the rate used by management. The net present value of the forecast cash flow was compared to the carrying value of acquisition goodwill.</p> <p>We applied sensitivities to calculations prepared by management to test uncertain variables against headroom to assess the risk of impairment.</p> <p>In addition, consideration was also made in light of our knowledge of the business and any other information to identify any indicators of impairment for acquisition related intangibles.</p> <p>We used internal valuations specialists to estimate an appropriate discount rate with reference to market data and compared that to the rate used by management.</p>
Key observations	<p>Based on the audit procedures performed, we concurred that the assumptions used in the impairment review model are appropriate and applied in line with the principles of IAS 36. We considered the reasonable possible change disclosure to be appropriate.</p>

Independent Auditor's report to the members of CyanConnode Holdings plc

Inventory - provisioning of inventory held in relation to a specific customer contract	
Key audit matter description	<p>We consider there to be a key audit matter with respect to the inventory held in relation to a specific customer contract. At 31 December 2017, inventory with a value of approximately £0.85m is held on the balance sheet relating to this contract.</p> <p>Significant delays, both during the year and post year end, have been encountered in respect of this contract and so there is a risk that inventory is not held at an amount higher than its net realisable value, as required by IAS 2 and the Group's accounting policy.</p> <p>The accounting policy is disclosed in note 3 and inventory balances are disclosed in note 20 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained management's considerations of the valuation of the inventory and the possible alternative uses. We challenged management's assumptions used, such as the ability to sell the inventory elsewhere and the period of time before the technology becomes outdated, using our knowledge of the business, consideration of any indicators of contradictory evidence and obtaining supporting evidence to substantiate the alternative options for use of the inventory as set out by management, including any cost of conversion that may be required.</p> <p>In addition, we considered the appropriateness of the disclosure contained within the key accounting estimates and uncertainties to the financial statements which set out the key uncertainties around the valuation of inventory.</p>
Key observations	<p>Based on the audit procedures performed, we concurred that the inventory balance is not materially misstated based on the fact that it may be used in the specific customer contract or could be used in other contracts, with minimal alterations. We consider the critical judgement disclosure in relation to this to be appropriate.</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent Auditor's report to the members of CyanConnode Holdings plc

Our application of materiality (continued)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.014 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on that assessment, four components were subject to a full scope audit, and two components were subject to a review at the group level based on our assessment of the materiality of the group's operations at those components. All components where our group audit was focussed were audited by the group audit team.

The four components subject to a full audit account for 99% of the group's revenue, 98% of the group's loss before tax and 94% of the group's net assets. Our audit work for each component was executed at levels of materiality applicable to each individual component which were lower than group materiality. The component materiality ranges between £0.14 million to £0.28 million.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

	Revenue	Loss before tax	Net Assets
Full audit scope	99%	98%	94%
Review at group level	1%	2%	6%

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

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.

Independent Auditor's report to the members of CyanConnode Holdings plc

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 and the parent company's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company 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 at: 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 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.

Report on other legal and regulatory requirements

Opinions 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.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent Auditor's report to the members of CyanConnode Holdings plc

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Julian Rae (Senior statutory auditor)
 For and on behalf of Deloitte LLP
 Statutory Auditor
 Cambridge, United Kingdom
 18 May 2018

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 £	2016 £
Continuing operations			
Revenue	5	1,171,215	1,823,129
Cost of sales		(674,297)	(1,128,498)
Gross profit		496,918	694,631
Other operating costs		(11,160,819)	(6,813,782)
Acquisition related costs		-	(1,564,102)
Amortisation / depreciation		(489,193)	(255,963)
Total operating costs		(11,650,012)	(8,633,847)
Operating loss		(11,153,094)	(7,939,216)
Investment income	5,10	15,619	7,290
Finance costs	11	(6,467)	(4,525)
Loss before tax		(11,143,942)	(7,936,451)
Tax Credit	12	1,402,222	819,212
Loss for the year	7	(9,741,720)	(7,117,239)
Loss per share (pence)			
Basic	13	(10.18)	(13.02)
Diluted	13	(10.18)	(13.02)

Consolidated statement of comprehensive income

For the year ended 31 December 2017

Derived from continuing operations and attributable to the equity owners of the Company.

	2017 £	2016 £
Loss for the year	(9,741,720)	(7,117,239)
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	46,384	(30,963)
Total comprehensive income for the year	(9,695,336)	(7,148,202)

Consolidated balance sheet

At 31 December 2017

	Note	2017 £	2016 £
Non-current assets			
Intangible assets	14	5,468,967	5,889,656
Goodwill	16	1,930,229	1,930,229
Investments	19	47,827	41,515
Property, plant and equipment	17	82,510	78,171
		7,529,533	7,939,571
Current assets			
Inventories	20	1,128,443	340,178
Trade and other receivables	21	3,019,113	2,677,071
Cash and cash equivalents	21	5,393,922	3,892,505
		9,541,478	6,909,754
Total assets		17,071,011	14,849,325
Current liabilities			
Trade and other payables	24	(2,248,068)	(2,205,302)
Total current liabilities		(2,248,068)	(2,205,302)
Net current assets		7,293,410	4,704,452
Non current liabilities			
Deferred tax liability	23	(858,976)	(942,938)
Total non current liabilities		(858,976)	(942,938)
Total liabilities		(3,107,044)	(3,148,240)
Net assets		13,963,967	11,701,085
Equity			
Share capital	25	2,558,663	1,579,123
Share premium account		65,564,717	52,831,234
Own shares held	26	(3,252,943)	(808,856)
Share option reserve	27	1,316,020	626,738
Translation reserve	29	(130,240)	(176,624)
Retained losses	28	(52,092,250)	(42,350,530)
Total equity being equity attributable to owners of the Company		13,963,967	11,701,085

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 18 May 2018. They were signed on its behalf by:

John Cronin

Director

Consolidated statement of changes in equity

At 31 December 2017

	Share Capital £	Share Premium £	Own Shares Held £	Share Option Reserve £	Translation Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2015	680,320	38,085,627	(808,856)	624,411	(145,661)	(35,233,291)	3,202,550
Loss for the year	-	-	-	-	-	(7,117,239)	(7,117,239)
Other comprehensive income for the year	-	-	-	-	(30,963)	-	(30,963)
Total comprehensive income for the year	-	-	-	-	(30,963)	(7,117,239)	(7,148,202)
Issue of share capital	898,803	14,745,607	-	-	-	-	15,644,410
Credit to equity for share options	-	-	-	269,692	-	-	269,692
Debit to equity for share payments	-	-	-	(267,365)	-	-	(267,365)
Balance at 31 December 2016	1,579,123	52,831,234	(808,856)	626,738	(176,624)	(42,350,530)	11,701,085
Loss for the year	-	-	-	-	-	(9,741,720)	(9,741,720)
Other comprehensive income for the year	-	-	-	-	46,384	-	46,384
Total comprehensive income for the year	-	-	-	-	46,384	(9,741,720)	(9,695,336)
Issue of share capital	979,540	12,733,483	-	-	-	-	13,713,023
Employee Benefit Trust	-	-	(2,444,087)	-	-	-	(2,444,087)
Credit to equity for share options	-	-	-	421,917	-	-	421,917
Credit to equity for share payments	-	-	-	267,365	-	-	267,365
Balance at 31 December 2017	2,558,663	65,564,717	(3,252,943)	1,316,020	(130,240)	(52,092,250)	13,963,967

Company balance sheet

At 31 December 2017

	Note	2017 £	2016 £
Non-current assets			
Intangible assets	15	-	-
Investments in subsidiaries	18	7,435,594	8,330,129
		7,435,594	8,330,129
Current assets			
Trade and other receivables	21	4,828,462	927,896
Cash and cash equivalents	21	4,611,149	3,812,724
		9,439,611	4,740,620
Total assets		16,875,205	13,070,749
Current liabilities			
Trade and other payables	24	(130,697)	(13,353)
Total Liabilities		(130,697)	(13,353)
Net current assets		9,308,914	4,727,267
Net assets		16,744,508	13,057,396
Equity			
Share capital	25	2,558,663	1,579,123
Share premium account		65,564,717	52,831,234
Share option reserve	27	1,316,020	626,738
Retained losses	28	(52,694,892)	(41,979,699)
Total equity		16,744,508	13,057,396

The Company reported a loss for the financial year ended 31 December 2017 of £10,715,193 (2016: £5,335,169).

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 18 May 2018. They were signed on its behalf by

John Cronin
Director

Company statement of changes in equity

At 31 December 2017

	Share Capital £	Share Premium £	Share Option Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2015	680,320	38,085,627	624,411	(36,644,530)	2,745,828
Loss for the year	-	-	-	(5,335,169)	(5,335,169)
Total comprehensive income for the year	-	-	-	(5,335,169)	(5,335,169)
Issue of share capital	898,803	14,745,607	-	-	15,644,410
Credit to equity for share options	-	-	269,692	-	269,692
Debit to equity for share payments	-	-	(267,365)	-	(267,365)
Balance at 31 December 2016	1,579,123	52,831,234	626,738	(41,979,699)	13,057,396
Loss for the year	-	-	-	(10,715,193)	(10,715,193)
Total comprehensive income for the year	-	-	-	(10,715,193)	(10,715,193)
Issue of share capital	979,540	12,733,483	-	-	13,713,023
Credit to equity for share options	-	-	421,917	-	689,282
Credit to equity for share payments	-	-	267,365	-	267,365
Balance at 31 December 2017	2,558,663	65,564,717	1,316,020	(52,694,892)	16,744,508

Consolidated cash flow statement

For the year ended 31 December 2017

	Notes	2017 £	2016 £
Net cash outflow from operating activities	30	(9,697,343)	(7,061,808)
Investing activities			
Acquisition of subsidiary		-	(4,367,670)
Interest received		15,619	7,289
Purchases of property, plant and equipment		(73,018)	(80,289)
Net cash used in investing activities		(57,399)	(4,440,670)
Financing activities			
Interest paid		(6,467)	(4,525)
Proceeds on issue of shares		11,804,432	13,487,320
Share issue costs		(535,493)	(533,662)
Purchase of investments		(6,313)	(15,207)
Net cash from financing activities		11,256,159	12,933,926
Net increase in cash and cash equivalents		1,501,417	1,431,448
Cash and cash equivalents at beginning of year		3,892,505	2,461,057
Cash and cash equivalents at end of year		5,393,922	3,892,505

Company cash flow statement

For the year ended 31 December 2017

	2017 £	2016 £
Loss for the year	(10,715,193)	(5,335,169)
Impairment charges	10,691,048	5,480,500
Share based payment expenses	267,366	2,327
Operating cash flows before movement in working capital	243,221	147,658
Increase in receivables	(9,647,526)	(6,254,885)
Increase / (decrease) in payables	117,343	(21,611)
Net cash outflow from operating activities	(9,286,962)	(6,128,838)
Investing activities		
Purchase of investment	(1,183,548)	(5,041,664)
Net cash outflow from investing activities	(1,183,548)	(5,041,664)
Financing activities		
Proceeds on issue of shares	11,804,428	13,487,320
Share issue costs	(535,493)	(533,662)
Net cash from financing activities	11,268,935	12,953,658
Net increase in cash and cash equivalents	798,425	1,783,156
Cash and cash equivalents at beginning of year	3,812,724	2,029,568
Cash and cash equivalents at end of year	4,611,149	3,812,724

Notes to the Financial Statements

1. General information

CyanConnode Holdings plc, (Company Registered No. 04554942), is a public company limited by shares, incorporated in England in the United Kingdom under the Companies Act 2006. The address of the registered office is Merlin Place, Milton Road, Cambridge CB4 0DP.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note

2. Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting the reported results or the financial position

In the current year, there were no new and revised Standards and Interpretations that have been adopted and which affected the amounts reported in these financial statements.

Standards not affecting the reported results or the financial position

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Annual Improvements to IFRSs:	Annual Improvements to IFRSs:
Amendments to IAS 19 (Nov 2013)	Defined Benefit Plans Employee Contributions
Annual improvements to IFRSs: 2010 - 2012 Cycle (Dec 2013)	Annual improvements to IFRSs

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IFRIC 22	Foreign Currency Transactions and Advanced Consideration
IFRIC 23	Uncertainty over Income Tax Treatments

Notes to the Financial Statements

2. Adoption of new and revised Standards (continued)

The directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods. IFRS 15, (effective 1 January 2018) has not been implemented, however, management has considered the potential impact of implementing the new standard on future accounting of revenue and disclosures. Criteria considered have included the contract, the provision of hardware, software and services, the nature of the contract, the timescales for delivery, the length and type of services and the differing revenue streams. Adoption is not expected to have a major impact on revenue recognition and related disclosures however it is not practicable to provide a full and reasonable estimate of the effect of this standard until a detailed review has been completed. IFRS 16 (effective date 1 January 2019) will bring all operating leases onto the balance sheet in line with the accounting treatment for finance leases. This will have the impact of increasing both assets and liabilities, but the P&L impact is not expected to be material as there are only a small number of leases.

The Group will apply IFRS 9 from 1 January 2018. IFRS 9 contains the requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the group has during 2018 as well as economic conditions and judgements made at year end.

Classification and measurement of debt assets will be driven by the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Management will continue to determine the classification of financial assets at initial recognition and re-evaluate this designation at each reporting date.

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model will apply to the Group's financial assets that are debt instruments measured at amortised cost.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

3. Significant accounting policies

Group

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, with the exception of recognizing financial instruments at fair value. This relates to bank securities only. The principal accounting policies adopted are set out below.

Going concern

To assess the ability of CyanConnode Holdings plc ("Group") to continue as a going concern, the directors have prepared a business plan and cash flow forecast for the period to 30 June 2019 which, together, represent the directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales and the gross margin on those sales, together with the need to secure additional finance.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Group (continued)

The directors have recognised that the Group is trading principally in emerging country markets. These markets have an inherent level of uncertainty associated with them and this may result in the predicted level of sales not being achieved and/or the timing of orders being delayed, as has been the case for the Group in the past. The directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is fundamentally uncertain. This may impact both the Group's ability to generate positive cash flow and to raise new finance. Consequently, there is a significant risk that the level of sales achieved is materially lower than the forecast or at materially lower margins. This constitutes a material uncertainty.

The directors' cash flow forecast includes an assumption that further finance will need to be raised within the next 12 months. Having consulted with stakeholders, the directors consider that the Group has a realistic opportunity to secure the additional funding that will be required. There remains, however, a significant risk that the required level of new funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

There is a material uncertainty related to the assumptions described above which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern. In the event the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including stocks, to their recoverable amount and providing for any further liabilities that might arise.

Notwithstanding the material uncertainties described above, on the basis of sensitivities applied to the cash flow forecast and that further finance can be raised in the relevant timescale, the directors have a reasonable expectation that the company can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Business combinations are accounted for under the acquisition method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and is then assessed annually for impairment.

Intangible assets: customer contracts

Separately acquired customer contracts are included at cost and amortised in equal annual instalments over a period of 15 years which is their estimated useful economic life. Provision is made for any impairment.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- 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;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

A separately acquired intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- 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;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Research and development expenditure (continued)

The amount initially recognised for an externally acquired intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. They are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. For this purpose, the Group is taken as a single cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sale of Goods

Revenue from the sale of goods shall be recognised when all of the following conditions have been met:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Sale of Services

Revenue from the sale of services shall be recognised when all of the following conditions have been met:

- The amount of revenue can be measured easily;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The specific policies to be applied in accounting for the recognition of revenue arising from the Company's transactions are as follows:

Hardware

- MCU's sold to distributors – Revenue recognised on shipment from distributor to third party. Revenue recognised on shipment based on standard Incoterms EXW. Individual distributor agreements allow for stock to be returned based on certain conditions. Provision should be in the accounts for the maximum amount returnable as per the agreement.
- MCU's sold to end customer – Revenue recognised on shipment to customer based on standard incoterms EXW
- Modules (metering and lighting) and antennas – Revenue recognised on shipment based on standard Incoterms EXW
- Data Concentrator Units (DCUs) – Where DCU's are delivered before HES license is provided the DCU revenue is recognised when installation is complete and software commissioned (customer able to obtain the economic benefit from the CyanConnode solution). Ideally this would have written customer sign-off of completion, otherwise internal sign-off document. Subsequent DCU sales where software is already operational can be recognised in full on shipment of the DCU's.

Software / Software Licenses / AMC

- Head End Software (Perpetual) and Installation Services – Revenue bundled with DCUs and recognised when installation is complete and customer able to obtain the economic benefit from the CyanConnode solution. Ideally this would have written customer sign-off of completion, otherwise internal sign-off document.
- CyanConnode hosted term software licenses for lighting/metering – Revenue recognised over the term of the license and bundled with DCU revenues
- Annual Maintenance Contract (AMC) – Revenue recognised over the support period (generally recurring periods of 12 months)
- Any discounts (such as free installation / training) should be allocated across all the contract elements on a pro-rata basis
- Revenue for application software will be recognised on the same basis as HES.

Services

- Revenue recognition based on contracts to provide services require income to be recognised in stages of completion often as a percentage of services performed to the total of services to be provided as stipulated in the contract.
- Revenue associated with the sale of services is recognised by reference to the stage of completion of the transaction at the reporting date when the outcome of a transaction involving the rendering of services can be estimated reliably.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Revenue recognition (continued)

- The outcome of a transaction can be reliably estimated when all of the following conditions are satisfied:-
 - The amount of revenue can be reliably measured;
 - It is probable that economic benefits associated with the transaction will flow to the Company;
 - The stage of completion of the transaction at the reporting date can be measured reliably; and
 - The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Royalties

- Royalties paid for the use of the Company's assets are recognised on an accrual basis in accordance with the substance of the relevant agreement.

Multi-element Contracts with Milestones

- For contracts where CyanConnode is responsible for delivering a full end to end solution and gets paid based on the achievement of milestones, revenue must be broken down into the separate identifiable categories as discussed above (Hardware/Software/Services). The agreed revenue recognition principles will then be applied to each category to determine the revenue recognition profile of the contract.
- Where part of a multi-element contract is loss making, the revenue of the contract is re-allocated to spread the impact of the loss making element across the rest of the contract. Costs in relation to each line item in the contract must be split into the following categories:
 - Third party hardware
 - CyanConnode hardware
 - Third party software
 - CyanConnode software
 - Third party services
 - CyanConnode services

When costs have been allocated the average margin for each category can be calculated. The average margin is then applied to the sales price to calculate a revised revenue for each line item. The revised revenue split is, in essence, the fair value of each line item and is then recognised as standard (with agreed principles on Hardware/Software and Services).

Other Considerations

- Where revenue is deferred, the associated cost of goods sold (COGS) is also deferred and subsequently recognised in the P&L at the same point in time as the associated revenue
- If any non multi-element contract is expected to be loss making, then a provision for this loss should be made and charged to the P&L when the loss is reasonably certain.
- For implementation services, summary level timesheets are required in order to calculate the implementation time / cost.
- A provision for hardware warranty costs needs to be made – initially this will be 1%, but will be reviewed annually at each year end.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or rather the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group currently only holds operating leases. Rentals payable under the operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in pounds sterling, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating loss

Operating loss is stated after charging restructuring and non-recurring costs but before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. These were the only payments made by the Group in the year under review. At year end there were employer's pension contributions provided for but not paid of £165,496 (2016: £134,175).

Notes to the Financial Statements

3. Significant accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The R&D tax credit is recognised upon submission to HMRC.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Fixtures and equipment	20% - 50%
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Notes to the Financial Statements

3. Significant accounting policies (continued)

Property, plant and equipment

At each balance sheet date, the Directors review the carrying value of the Group's tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. If the recoverable amount of the asset is less than its carrying amount, an impairment loss is recognised against the asset.

There are no assets held under finance leases.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group has only two classes of financial assets being cash and cash equivalents and loans and receivables. A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. All the Group's loans and receivables are short-term receivables and no interest is accounted for on these balances.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Impairment of financial assets

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

All the Group's financial liabilities are classified as 'other financial liabilities'.

A financial liability is considered for derecognition when the contractual obligations related to the cash flows for the financial liability expire

Other financial liabilities and equity

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Warrants

Warrants are accounted for under IFRS 2 Share based payment where services have been received or are to be received from 3rd party service providers. Otherwise, no accounting entries are posted.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity-settled share-based payments to certain employees and third party suppliers. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Share-based payments are treated as a capital contribution reserve in the accounts of the parent company. The movements during the year in this account are set out in Note 32.

Forecasts and discount rates

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Whilst there is no indication of impairment, the model used by management in performing this assessment contains estimates in regards to the inputs into the discount rates and the inherent assumptions in forecasting which includes estimates of the growth in future sales, projected production costs and operating expenditure. Discount rates are based on management's assessment of risk inherent in the current business model. Reasonably possible changes in assumptions which could cause an impairment are disclosed in note 15.

Company

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out for the Group consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent Company. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In addition, the directors carry out a sensitivity analysis on the material assets and liabilities where judgments and estimations have been required. This allows a review of the carrying value of these assets and liabilities in a range of scenarios and the potential impact on the carrying value of the asset/liability.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the directors have made in the process of applying both the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- a. The directors have prepared the financial statements on the basis that the Company is a going concern. They have applied sensitivities to cash flow forecasts to satisfy themselves of the robustness of these forecasts and satisfied themselves that further funding can be raised during the 12 months following the date of signing of the accounts should this be required. Further information on this critical judgement is included in note 3 and within the Directors' Report.
- b. Inventories include stocks of raw materials and finished goods that the directors believe will be sold within the period to December 2018 covered by the Group's business plan. The directors have assumed that the carrying value is recoverable as a result of the sales and gross margins forecast in that plan. Stocks of product that are not included within the sales forecasts have been provided against in full.

The Company had recently been notified by a significant customer that deployment for one of the larger contracts had been delayed for reasons outside the Company's control. Finished goods inventory of £745k was held at the year end. Whilst regular dialogue is continuing with this customer who has reconfirmed that delivery of the hardware will be undertaken in 2018, alternative contracts have been identified to utilise this inventory. Therefore, no provision is deemed necessary.

- c. The fair value of the SMIP intangible contract acquired was estimated using a discounted cashflow valuation technique. The key areas of judgement were the discount factor used to calculate present value of the cashflows and the timing of the delivery schedule.

The judgement set out in 'a' above is also applied to the Company and this is the only critical judgement applied to the Company.

Key Sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets (other than goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the Financial Statements

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key Sources of estimation uncertainty

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

5. Revenue

An analysis of the Group's revenue is as follows:

	2017 £	2016 £
Continuing operations		
Sale of goods	837,122	1,230,672
Sale of services	334,093	592,457
	1,171,215	1,823,129
Bank interest	15,619	7,290
	1,186,834	1,830,419

6. Business and geographical segments

The Group has concluded that as in 2016, it operates only one business segment as defined by IFRS 8. The information used by the Group's chief operating decision maker to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. Accordingly, no segmental analysis is presented. For the future, the split of the business may be revised dependent upon geographical contract wins, centres of operations and the strategic direction taken as the Group's business develops further.

During 2017 there were 3 customers (2016: 2) whose turnover accounted for more than 10% of the Group's total revenue as follows:-

	2017		2016	
	Turnover £	Percentage of Total %	Turnover £	Percentage of Total %
Customer A	364,589	31	781,856	43%
Customer B	256,095	22	123,237	7%
Customer C	130,797	11	473,601	26%

Notes to the Financial Statements

6. Business and geographical segments

Revenue split between Sweden, India and other parts of the World was as follows:

	2017		2016	
	Turnover £	Percentage of Total %	Turnover £	Percentage of Total %
Sweden	639,855	54.6	757,337	41.5
India	508,588	43.5	988,392	54.3
Rest of World	22,802	1.9	77,400	4.2
	1,171,215		1,823,129	

7. Loss for the year

Loss for the year has been arrived at after charging:

	2017 £	2016 £
Net foreign exchange losses	52,461	47,870
Research and development costs	4,148,238	2,912,631
Depreciation of property, plant and equipment	68,292	45,619
Amortisation of intangibles	420,689	210,344
Bad debts written off	26,908	6,558
Impairment of stock	55,276	96,060
Staff costs (see note 9)	4,623,728	3,335,645
Operating lease costs (see note 31)	173,814	182,011
Cost of inventories recognised as an expense	616,423	925,214

8. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2017 £	2016 Number
Fees payable to the Company's auditor for the audit of the Company's annual accounts	34,000	30,000
Fees payable to the Company's auditor and its associates for the other services to the Group		
- The audit of the Company's subsidiaries pursuant to legislation	24,000	22,800
Total audit fees	58,000	52,800
- Corporate finance services	-	39,000
Total non-audit fees	-	39,000

9. Employee information

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

	2017 Number	2016 Number
Sales and administration	23	27
Research and development	22	14
Operations and logistics	9	3
	54	44

Notes to the Financial Statements

9. Employee information

There are no employees in the parent company.

	2017 £	2016 £
Their aggregate remuneration comprised:		
Wages and salaries	3,861,185	2,902,486
Social security costs	499,340	292,464
Other pension costs	263,203	140,695
Share option charges	689,292	2,327
	5,313,020	3,337,972

Key management compensation

The directors are of the opinion that key management personnel during 2017 comprised the Board of Directors. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group.

Remuneration of these personnel is detailed below.

	2017 £	2016 £
Their aggregate remuneration comprised:		
Fees	985,965	720,835
Social security costs	36,907	12,985
Other pension costs	2,833	3,000
	1,025,705	736,820

Specific details of director's remuneration are included in Remuneration Committee Report within this Annual Report. Neither John Cronin nor Harry Berry are members of the Company pension scheme. Included in the 2017 fees to directors were amounts of £141,829 relating to prior year services.

10. Investment income

	2017 £	2016 £
Interest revenue:		
Bank deposits	15,619	7,290

Investment revenue is all earned on cash and cash equivalents.

11. Finance costs

	2017 £	2016 £
Interest on bank overdrafts and loans	6,467	4,525

12. Tax

	2017 £	2016 £
Current tax:		
UK corporation tax on profits of the period	(1,383,437)	(693,131)
Adjustments in respect of prior periods	65,177	-
Deferred tax (note 23)	(83,962)	(126,081)
Total tax credit	1,402,222	(819,212)

Notes to the Financial Statements

12. Tax (continued)

	2017 £	2016 £
Loss before tax	(11,143,942)	(7,936,451)
Tax on profit on ordinary activities at standard CT rate of 19.25% (2016: 20%)	(2,145,209)	(1,587,290)
Effects of:		
Expenses not deductible for tax purposes	55,879	53,893
Tax effect of capital allowances in (excess) / deficit of depreciation	(1,959)	(7,626)
Other short term timing differences	(38,080)	4,177
Additional R&D deduction	(1,038,095)	(540,372)
Losses surrendered for R&D tax credit	1,836,632	956,045
Utilisation of losses b/f	-	(23,031)
Unrelieved tax losses and other deductions in the period c/f	1,245,797	1,102,332
Difference in rate of deferred tax	1,073	(4,207)
Adjustment in rate of deferred tax	65,177	-
Research and development tax credit receivable - current year	(1,383,437)	(693,131)
Actual total tax in the year	(1,402,222)	(819,212)

Notes:

Current year tax rate	19.25%
Prior year tax rate	20%

Factors affecting tax charge in future years

The Finance Act 2016, which provided for a reduction in the main rate of corporation tax from 18% to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculations of deferred tax at the balance sheet date.

13. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

Loss

	2017 £	2016 £
Loss for the purposes of basic loss per share being net loss attributable to equity holders of the parent	9,741,720	7,117,239

Number of shares

	2017 No.	2016 No. **Re-presented
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	95,740,200	54,670,001

The denominations used are the same as those detailed above for both basic and diluted earnings per share from continuing operations. However, in accordance with IAS 33 "Earnings Per Share", potential ordinary shares are only considered dilutive when their conversion would decrease the profit per share or increase the loss per share from continuing operations attributable to the equity shareholders. The number of shares reflects the 200:1 share consolidation exchange on 3 October 2017

**The number for 2016 has been restated following the 200:1 share consolidation which completed on 3 October 2017.

Notes to the Financial Statements

14. Intangible assets (Group)

	Software £	SMIP Intangible £	Total £
Cost			
Balance at 1 January 2016	143,964	-	143,964
Acquired on acquisition of a subsidiary	-	6,100,000	6,100,000
Balance at 31 December 2016 and 31 December 2017	143,964	6,100,000	6,243,964
Amortisation			
Balance at 1 January 2016	143,964	-	143,964
Charge for year	-	210,344	210,344
Balance at 31 December 2016	143,964	210,344	354,308
Charge for year	-	420,689	420,689
Balance at 31 December 2017	143,964	631,033	774,997
Carrying amount			
At 31 December 2017	-	5,468,967	5,468,967
At 31 December 2016	-	5,889,656	5,889,656

Smart Metering Implementation Programme ("SMIP") – more details can be found in the Strategic Report.

15. Intangible assets (Company)

	Software £
Cost	
Balance at 1 January 2016 and 1 January 2017	143,964
Balance at 31 December 2017	143,964
Amortisation	
Balance at 1 January 2016 and 1 January 2017	143,964
Balance at 31 December 2017	143,964
Carrying amount	
At 31 December 2017	-
At 31 December 2016	-

16. Goodwill (Group)

	£
Cost	
Balance at 1 January and 31 December 2017	1,930,229
Impairment	
Balance at 1 January 2017 and 31 December 2017	-
Carrying amount	
At 31 December 2016 and 31 December 2017	1,930,229

Goodwill and intangible assets have been allocated for impairment testing purposes to a single cash generating unit, being the Group. The carrying amount of goodwill has been assessed based on value in use using cash projections that cover a five-year period in which the key judgements are the revenue growth rates and the applied discount rate of 10.74%. Cash flows beyond that period have been extrapolated using a terminal growth rate of 4.5%. This reflects

Notes to the Financial Statements

Goodwill (continued)

a higher expected growth in the smart metering market than the general economy, combined with the impact of higher growth markets in which the group operates.

The Group applies sensitivity analyses to assess whether any reasonable possible changes in assumptions could cause an impairment that would be material to these Consolidated Financial Statements.

The key assumption in the impairment review is that compound annual revenue growth will be 108% over the next five years with revenues beyond that period based upon a terminal growth rate of 4.5%, consistent with the Group's forecast.

A 2% reduction in revenue compound annual growth rates over the next five years, a 2.2% increase in discount rate, or a 3.06% reduction in terminal growth rate would reduce the £7.2 million headroom in the base case impairment model to zero. A failure to achieve the expected revenue growth could therefore make an impairment to goodwill reasonably possible.

17. Property, plant and equipment

No assets are held at valuation in these accounts.

Group

	Fixtures and equipment £
Cost	
At 1 January 2016	347,305
Additions	87,626
Acquisition of subsidiary undertakings	5,725
Disposals	(105,582)
Exchange adjustment	958
At 1 January 2017	336,032
Additions	73,018
Disposals	(118,739)
Exchange adjustment	(165)
At 31 December 2017	290,146
Accumulated Depreciation	
At 1 January 2016	317,338
Charge for the year	45,619
Disposals	(105,407)
Exchange differences	311
At 1 January 2017	257,861
Charge for the year	68,292
Disposals	(118,515)
Exchange differences	(2)
At 31 December 2017	207,636
Carrying Amount	
At 31 December 2017	82,510
At 31 December 2016	78,171

At 31 December 2017 the Group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2016: £nil).

Notes to the Financial Statements

18. Subsidiaries (continued)

Group

Investment in subsidiaries

	Company 2017 £	Company 2016 £
As at 1 January	8,330,129	597,713
Capital contribution in respect of share based payment	421,917	238,964
Investment in Connode Holding AB	-	6,777,567
Investment in CyanConnode Pvt Ltd	1,183,548	715,885
Impairment	(2,500,000)	(2,500,000)
As at 31 December	7,435,594	8,330,129

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The ultimate holding Company of the Group is CyanConnode Holdings plc. The members of the Group, all of which are 100% owned are as follows:

<p>CyanConnode Limited Merlin Place, Milton Road Cambridge CB4 0DP</p>	<ul style="list-style-type: none"> • 100% of the issued capital of the Company is held by CyanConnode Holdings plc • The Company is incorporated in England and Wales and has an accounting period co terminus with that of the Group • The principal activity of the Company is to provide a vehicle to market and sell the Groups' range of products • The Company's results are consolidated into these accounts
<p>CyanConnode Private Limited B-41 Panchsheel Enclave New Delhi-110017 India</p>	<ul style="list-style-type: none"> • 100% of the issued capital of the Company is held by CyanConnode Holdings plc • The Company is incorporated in India and has an accounting period ending 31 March • The principal activity of the Company is to provide a sales and marketing service for the Groups' range of products in India. The Company was incorporated on 20 January 2015 • The Company's results for the period ending 31 December 2015 are consolidated into these accounts • The Company's results for the period ending 31 December 2017 are consolidated into these accounts
<p>Connode Holding AB Järnvägsgatan 10 172 35 Sundbyberg Stockholm Sweden</p>	<ul style="list-style-type: none"> • 100% of the issued capital of the Company is held by CyanConnode Holdings plc • The Company is incorporated in Sweden and has an accounting period ending 31 December • The principal activity of the Company is to act as a parent company • The Company's results for the 12 months ending 31 December 2017 are consolidated into these accounts
<p>Connode AB Järnvägsgatan 10 172 35 Sundbyberg Stockholm Sweden</p>	<ul style="list-style-type: none"> • 100% of the issued capital of the Company is held by Connode Holding AB • The Company is incorporated in Sweden and has an accounting period ending 31 December • The principal activity of the Company is to act as a parent company • The Company's results for the 12 months ending 31 December 2017 are consolidated into these accounts
<p>Connode India B-407 (IV), 4th Floor Pranik Chambers Off Sakinaka Junction Saki Vihar Road Andheri (East) Mumbai – 400 072 India</p>	<ul style="list-style-type: none"> • 100% of the issued capital of the Company is held by Connode AB • The Company is incorporated in India and has an accounting period ending 31 March • The principal activity of the Company is to provide a sales and marketing service for the Group's range of products in India • The Company's results for the 12 months ending 31 December 2017 are consolidated into these accounts

Notes to the Financial Statements

19. Fixed Asset Investments

	2017 £	2016 £
Bank securities	47,827	41,515

The Company held no bank securities at either balance sheet date.

20. Inventories

Group

	2017 £	2016 £
Raw materials	230,542	248,675
Finished goods at cost	897,901	91,503
	1,128,443	340,178

The finished goods inventory, whilst held at cost, was also the replacement cost, as the units are current, assembled in December 2017 and held specifically for a customer contract. Raw materials were after allowing £55,276 (2016: £96,060) for write-down.

The Company held no inventories at either balance sheet date.

21. Trade and other receivables and financial assets

Both the Company and the Group have two categories of financial assets being loans and receivables and cash and cash equivalents.

The Group's loans and receivables and cash and cash equivalents as well as trade receivables are set out in the table below

	Group		Company	
	2017 £	2016 £	2017 £	2016 £
Amount receivable for the sale of goods	1,290,752	1,742,205	-	-
Cash and cash equivalents	5,393,922	3,892,505	4,611,149	3,812,724
	6,684,674	5,634,710	4,611,149	3,812,724

Trade and other receivables

	Group		Company	
	2017 £	2016 £	2017 £	2016 £
Amount receivable for the sale of goods	1,290,752	1,742,205	-	-
R&D tax credit receivable	1,391,039	701,080	-	-
Other debtors	179,233	139,526	10,281	49,620
Employee Benefit Trust Loan	-	-	2,082,797	135,499
Prepayments	158,089	94,260	18,029	5,133
Loans to other group entities	-	-	2,717,355	737,644
	3,019,113	2,677,071	4,828,462	927,896

All amounts are due within one year, unsecured and interest free. For the amounts owed by group undertakings, they are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Notes to the Financial Statements

21. Trade and other receivables and financial assets (continued)

During the year £26,908 was written off the value of the carrying amount of trade and other receivables (2016: £6,558).

The directors consider that the carrying amount of trade and other receivables at 31 December 2017 approximates to their fair value.

Amounts receivable from the Group undertakings are shown in note 33.

Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Cash and cash equivalents	5,393,922	3,892,505	4,611,149	3,812,724

Cash and cash equivalents comprise cash held by the Group and Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Barclays Bank plc have given a guarantee in respect of £10,000 to HMRC on behalf of CyanConnode Limited. As security for this guarantee, Barclays hold a legal charge over a deposit account held specifically for this purpose for £10,000. This cash cannot be used for any other purpose. Barclays Bank plc have granted a foreign exchange facility of £25,000.

22. Financial risk management

The Group's financial function provides services to the business, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk), credit risk and liquidity risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for any purpose.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables and cash, the credit risk on other classes of financial asset is insignificant. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. There is no collateral held or other credit enhancements.

At 31 December 2017 the Group had significant concentration of credit risk in one customer which represented 82% of the Group's trade receivables. Due to the nature of the contracts a significant proportion of this receivable had not yet fallen due with 76% of the 82% not yet due as the customer delivery payment milestones on the projects have not yet been reached. The customer has since paid £264,000 as it became due.

The receivable as at 31 December 2017 totalling £1,290,752 includes £565,000 not yet due, £103,000 30 days old, £6,000 - 60 days and the balance of £616,752 is over 90 days old. The board have reviewed the aging of the trade receivables and do not consider that impairment is necessary. There were bad debt charges totaling £26,908 during the year (2016: £6,558).

The Company has made a provision against the full amount of the debt owed to it by its subsidiary company CyanConnode Ltd totalling £39,330,690 (2016: £47,024,945). In addition, the Company has made a provision of £1,170,145 (2016: £673,358) against the debt owed to it by CyanConnode Limited relating to the loan for EBT shares, to bring the loan in line with market value of the shares held in the Trust. These amounts are not overdue. Since the Group holds no collateral, the maximum exposure to credit risk is the carrying value of trade receivables.

Notes to the Financial Statements

22. Financial risk management (continued)

Market risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. It is also exposed to the financial risks of changes in foreign currency exchange rates as subsidiaries primary accounting records are held in foreign currencies (INR and SEK). The risk is managed through careful control of the Group's foreign currency balances.

The table below is showing assets and liabilities from the overseas group companies which have been converted to Sterling at the 31 December 2017 exchange rate.

	INR £	SEK £	USD £	EUR £
Fixed assets	55,208	506,627	-	-
Current assets	1,420,096	346,106	123,807	(85,331)
Current liabilities	(1,179,681)	(155,695)	(328,250)	-
Net assets/liabilities	295,623	694,038	(204,443)	(85,331)

Sensitivity analysis has been performed on the financial assets and liabilities to assess the exposure of the Group to foreign exchange movements. It was considered that exposure to currency movements would impact the Group. A variance of 10%, reasonable in today's markets, would show a loss of £69,989, if Sterling weakened. Conversely, if Sterling strengthened by 10%, then the positive variance would be £63,987. Whilst the Group has an exposure to currency fluctuations, it is not considered a major factor.

Liquidity risk

Liquidity risk of the Group is attributable to the sales level at the current business development stage not being able to generate sufficient cash flows to support required working capital. Also attributable to the company not being able to raise sufficient funding. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

Capital risk

Details relating to capital risk and capital risk management are set out in the capital structure section in the Directors' Report on page 27.

23. Deferred tax

Recognised Deferred tax liability. This relates primarily to a deferred tax liability recognised on the acquisition of the intangible assets relating to the Connode acquisition, and amortisation relating thereto.

	£
At 1 January 2016	-
Deferred tax liability recognised on acquisition of intangible	1,069,019
Amortisation of SMIP intangible	(46,276)
Deferred tax – Swedish losses	(79,805)
At 1 January 2017	942,938
Deferred tax - current period based on Swedish operations at 22%	(83,962)
At 31 December 2017	858,976

Notes to the Financial Statements

23. Deferred tax

Unrecognised provision for deferred tax

	2017	2016
	£	£
Accelerated capital allowances	(1,728)	(4,566)
Short term timing differences	-	(22,810)
Losses	(5,785,198)	(4,516,872)
Total unrecognised deferred tax (asset)	(5,786,926)	(4,544,248)

No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams. There is no deferred tax asset in the Company.

24. Other financial liabilities

Both the Group and the Company have two categories of financial liability being trade payables held at amortised cost. Those of the Group totalled £1,047,310 (2016: £689,696) and those of the Company totalled £60,158 (2016: £13,353). The second category is accruals, held at an estimated fair value.

Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade payables	1,047,310	689,696	60,158	(27,529)
Other payables	45,841	93,671	5,251	(4,801)
Accruals and deferred income	853,819	1,380,694	65,288	45,683
Social security and other taxes	301,098	41,241	-	-
	2,248,068	2,205,302	130,697	13,353

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs all of which are payable within a year. The average credit period taken for trade purchases is higher at 63 days (2016: 49 days) due to significant purchases of meters for smart metering deployments. Excluding this one supplier in India the average credit period taken in 2017 was 54 days (2016: 19 days). The average credit period taken in 2017 for trade purchases by the Company was 27 days (2016: N/A). Neither the Group nor the Company has incurred interest charges for late payment of invoices during the year (2016: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes.

The directors consider that the carrying amount of trade payables approximates to their fair value.

The Group's operating lease commitments are shown within note 31.

25. Share capital

	2017	2016
	£	£
Issued and fully paid:		
127,933,196 ordinary shares of 2.0 pence each (2016 15,790,791,254 ordinary shares of 0.01 pence each, or re-presented as 78,953,956 ordinary shares of 2.0 pence each)	2,558,663	1,579,123

Between 4 April 2017 and 6 April 2017 the Company completed a placing, the result of which was 1,906,912,392 ordinary shares of 0.01 pence per share being issued at a price of 0.17 pence per share to raise £3.2M before expenses. (re-presented as 9,534,562 ordinary shares of 2.0 pence each issued at a price of 34 pence per share).

Notes to the Financial Statements

25. Share capital (continued)

Between 1 January and 3 October 2017 invoices for certain suppliers were settled by way of share issues. The number of shares issued for this purpose was 139,193,087 ordinary shares of 0.01 pence per share (or re-presented as 695,966 ordinary shares of 2.0 pence per share).

Between 1 January and 3 October 2017, certain employees chose to receive shares in lieu of part of their salary. The number of shares issued for this purpose during this period was 358,650 ordinary shares of 2.0 pence per share (2016: 332,310,331 ordinary shares of 0.01 pence per share).

On 3 October 2017 a share consolidation exercise was completed whereby each 200 shares of 0.01 pence per share were exchanged for 1 share of 2.0 pence per share. This resulted in an issued share capital of 89,543,134 ordinary shares of 2.0 pence per share.

Furthermore, on 3 and 4 October 2017 following the share consolidation exercise 29,066,774 ordinary shares of 2.0 pence each were issued at a price of 28 pence per share to raise £8.1M before expenses.

On 13 November 2017, 9,136,772 ordinary shares of 2.0 pence per share were issued to employees to be held jointly in a trust as part of the Company EBT Share Scheme.

Between October and December 2017, invoices for certain suppliers were settled by way of share issues. The number of shares issued for this purpose during this period was 186,516 ordinary shares of 2.0 pence per share.

No shares were issued as a result of the exercise of share options (2016: none).

The Company has one class of ordinary share which carries no right to fixed income.

26. Own shares held

	Group £	Company £
Balance at 1 January 2016 and 1 January 2017 (66,096,811 ordinary shares of 0.01 pence per share, re-presented as 330,484 ordinary shares of 2.0 pence per share following the share consolidation that completed on 3 October 2017)	(808,856)	-
Issue of shares during 2017 (9,136,772 ordinary shares of 2.0 pence per share)	(2,444,087)	-
Balance at 31 December 2017 (9,467,256 ordinary shares of 2.0 pence per share)	(3,252,943)	-

Own shares are those issued to the Employee Benefit Trust.

27. Share option reserves

	Group £	Company £
Balance at 1 January 2016	624,411	624,411
Credit to equity for share options	269,692	269,692
Debt to equity for share payments	(267,365)	(267,365)
Balance at 31 December 2016	626,738	626,738
Credit to equity for share options	421,917	421,917
Credit to equity for share payments	267,365	267,365
Balance at 31 December 2017	1,316,020	1,316,020

Share option reserve arises from the share options issued to the employees of the Group. The movement during the year is due to the issue of share options during the year and the issue of shares in lieu of remuneration.

Notes to the Financial Statements

28. Retained earnings

	Group £	Company £
Balance at 1 January 2016	(35,233,291)	(36,644,530)
Net loss for the year	(7,117,239)	(5,335,169)
Balance at 31 December 2016	(42,350,530)	(41,979,699)
Net loss for the year	(9,741,720)	(10,715,193)
Balance at 31 December 2015	(52,092,250)	(52,694,892)

29. Translation Reserve

	Group £
Balance at 1 January 2016	(145,661)
Exchange differences on translation of foreign operations	(30,963)
Balance at 1 January 2016	(176,624)
Exchange differences on translation of foreign operations	46,384
Balance at 31 December 2017	(130,240)

Translation reserve arises from retranslating the financial results of the foreign subsidiary which are consolidated into the Group's consolidated financial statements.

30. Notes to the consolidated cash flow statement

	2017 £	2016 £
Operating loss for the year:	(11,153,094)	(7,939,216)
Adjustments for:		
Depreciation of property, plant and equipment	68,504	45,619
Amortisation of Intangible assets	420,689	210,344
Impairment of stock	55,615	-
Foreign exchange	46,220	47,870
Share-based payment expense	689,282	2,327
Operating cash flows before movements in working capital	(9,872,784)	(7,633,056)
(Increase)/ decrease in inventories	(843,543)	247,307
Decrease/ (increase) in receivables	347,917	(1,713,013)
Increase in payables	42,766	1,457,369
Cash reduced by operations	(10,325,644)	(7,641,393)
Income taxes received	628,301	579,585
Net cash outflow from operating activities	(9,697,343)	(7,061,808)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

Notes to the Financial Statements

31. Operating lease arrangements

The Group as a lessee

	2017	2016
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	173,814	182,011

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017	2016
	£	£
Within one year	82,800	200,130
In the second to fifth years inclusive	17,921	163,875

Operating lease payments represent rentals payable by the Group for certain of its office properties. These include its offices in Cambridge and in Gurgaon, India.

The Company as a lessee

	2017	2015
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	82,274	78,033

32. Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of all the Company's shares on the date of grant. The vesting period is 4 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows.

	2017		2016**re-presented	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	9,023,848	0.80	3,201,241	0.8
Granted during the period	11,874,654	0.57	5,873,647	0.6
Forfeited during the period	(579,770)	0.69	(51,040)	0.8
Outstanding at the end of the period	20,318,732	0.38	9,023,848	0.6
Exercisable at the end of the period	1,893,923	0.51	1,744,743	0.8

Notes to the Financial Statements

32. Share-based payments (continued)

The options outstanding at 31 December 2017 had a weighted average exercise price of £0.38 and a weighted average remaining contractual life of 90 months. In 2017, options were granted on 3, 6 and 10 April, 16 May, 8 June, 23, 25 and 27 October, 17, 22 and 28 November and 11, 12 and 19 December. The aggregate of the estimated fair values of those options is £2,759,372. In 2016, options were granted on 6 and 7 July and 21 September. The aggregate of the estimated fair values of those options is £1,766,216. A share option charge of £421,917 was recognized during the year. Note 27 gives further detail on the share option charges and reserve.

The inputs into the Black-Scholes model are as follows:

	2017	2016** re-presented
Weighted average share price	32.78p	0.50p
Weighted average exercise price	50.88p	0.70p
Expected volatility	64%	77%
Expected life	4 years	4 years
Risk free rate	0.50%	0.50%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 36 months. The expected life used in the model has been adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations.

** The re-presented number refers to the number of options following the 200:1 share consolidation which completed on 3 October 2017. The effect on share options following the share consolidation was that the number of options referred to in all share option agreements from prior to the consolidation would be divided by 200, and the exercise price in all share option agreements from prior to the consolidation would be multiplied by 200. All other terms relating to the share options remain the same.

Warrants

The Company issues share warrants, either in connection with the issue of equity or for the service received from third parties. Warrants are issued at a fixed price and for a fixed number of shares, such that each warrant entitles the holder to subscribe for one Ordinary Share in the Company. All share warrants vest immediately on issue.

Details of the share warrants outstanding during the year are as follows:

	2017		2016	
	Number of warrants	Weighted average exercise price (in £)	Number of warrants	Weighted average exercise price (in £) **re-presented
Outstanding at beginning of period	529,076	1.20	126,513	0.80
Granted during the period	7,400	0.39	402,563	1.20
Expired during the period	(194,871)	0.77	-	-
Exercised during the period	-	-	-	-
Outstanding at the end of the period	341,605	0.54	529,076	1.20
Exercisable at the end of the period	313,703	0.53	300,710	1.20

Notes to the Financial Statements

32. Share-based payments (continued)

The inputs into the Black Scholes model are as follows:

	2017	2016** re-presented
Weighted average share price	32.78p	0.50p
Weighted average exercise price	54.0p	0.62p
Expected volatility	64%	77%
Expected life	4 years	4 years
Risk free rate	0.50%	0.50%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 36 months. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

** The re-presented number refers to the number of options following the 200:1 share consolidation which completed on 3 October 2017. The effect on warrants following the share consolidation was that the number of warrants referred to in all warrant deeds from prior to the consolidation would be divided by 200, and the exercise price in all warrant deeds from prior to the consolidation would be multiplied by 200. All other terms relating to the warrants remain the same.

33. Related Party Transactions

Included in the investment in subsidiaries figure (Note 19) of £9,935,594 is an amount of £2,000 (2016: £2,000) relating to the investment held by CyanConnode Holdings plc in CyanConnode Ltd. In 2017 an investment of £1,183,548 (2016: £715,885) was made by CyanConnode Holdings Plc in CyanConnode Private Limited. The remaining amount is a capital contribution amounting to £1,203,242 (2016: £781,326), which relates to the share compensation charge in respect of share options granted in the Company on behalf of employees in CyanConnode Limited. The movement in 2017 of £421,916 related to a credit to the share option reserve which was mainly as a result of share option charges relating to shares in the Employee Benefit Trust.

During the year executive directors of the Group and Company purchased newly issued shares to the amount of 313,021 shares (£108,402).

During the year, the Group and Company paid £543,000 (2016: £570,834) in respect of services provided by executive directors.

Company

Transactions between the Company and its subsidiaries and associates are disclosed below.

	2017	2016
	£	£
<i>Loans to related parties</i>		
CyanConnode Limited	47,024,950	39,330,690
Connode Holding AB	2,311,850	703,765
Connode AB	-	29,759
CyanConnode Private Limited	405,504	4,120
	49,742,304	40,068,334

The balance due to CyanConnode Holdings plc from Connode Holding AB carries an interest charge of £15,554; amounts due from the other subsidiaries do not carry an interest charge. CyanConnode Holdings plc makes a management charge for services rendered to CyanConnode Limited. In the year to 31 December 2017 these amounted to £334,571 (2016: £1,047,404).

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