CYANCONNODE HOLDINGS PLC

ANNUAL REPORT AND ACCOUNTS 2016

CYANCONNODE

Overview

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 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.

Contents

Highlights

Operational Highlights

- Revenues of £1.8m versus £0.3m in the prior year
  - > Delivery well advanced against two contracts to Enzen Global Solutions Pvt Ltd (“Enzen”) in India
- Successful acquisition and integration of Connode Holding AB (“Connode”)
  - > Addition of full standards-based technology platform
  - > UK smart metering contract with expected revenues of £25m in place
  - > Expansion of the Company’s geographic reach
- Largest contract win to date worth £10m in Iran
  - > Over 50% of the total contract value consists of recurring software license revenue
  - > Initial deliveries expected in 2H2017
- Two additional smart metering orders from Larsen & Toubro (“L&T”) in India
  - > Total of 14,700 units have now been ordered by L&T
- Operational reach expanded in Europe and the Far East
  - > Including an order from E.ON and a follow on order from Landis+Gyr
  - > Distribution agreement with JST Group in Thailand
- New equity funding of £12.8m
  - > £10.1m (gross) completed in July 2016, including funding to acquire Connode
  - > £2.3m (gross) completed in Oct/Nov 2016 to fund further growth

Financial highlights

	2016 £	2015 £	Percentage change
Revenue	1,823,129	272,012	+570%
Research and development expenditure	2,912,631	2,038,068	+43%
Other operating costs Aquisition related costs Amortisation/ depreciation	3,901,151 1,564,102 255,963	2,949,409 - 29,300	+32% N/A +774%
Operating loss	(7,939,216)	(4.906,724)	-62%
Operating loss excluding acquisition related costs/amortisation/depreciation	(6,119,151)	(4,877,424)	-25%
Cash and cash equivalents	3,892,505	2,461,057	+58%

Highlights

Post Year End Highlights

- $5.4m purchase order in Bangladesh
    - > Half the order is hardware/services to be delivered over the next 12 months
    - > Half the order is recurring software license revenue with ten year contract term
- Contract win with HM Power Sweden for the supply of 100,000 software licenses
- Contract win with Innologix India for the supply of $150,000 of software licenses
- Memorandum of Understanding ("MoU") signed with Tech Mahindra India
- New equity funding of £3.2m (gross) completed in April 2017
- R&D tax credit refund cash refund claimof £0.7m (2015: £0.6m) submitted
- Pete Hutton (ex-ARM senior executive) appointed to the Board

Chairman's Statement

Dear Shareholder

2016 was by far our busiest year to date as we built on the foundations laid during the previous period by progressing contracts and strengthening relationships with partners. As such, we generated record revenues including high margin software sales as well as repeat orders from existing customers. These achievements serve to highlight the strength of our business model, where both our hardware and software solutions are being recognised and deployed internationally.

The two major milestone achievements during the period were the £10m purchase order in Iran and the £6.8m acquisition of Connode. The scale of the order from Iran emphasises our ability to compete for and win larger contracts, while also being able to establish ourselves quickly in new territories. We look forward to making the initial deliveries against this contract later this year.

Furthermore, the Connode acquisition not only increased our scale and reach, but also added a highly complementary product range including IPv6/6LoWPAN, the latest version of internet protocol and a standards-based technology.

The demand for smart meters is global, but the specifications are established locally, enabling us to tailor our solutions for each market in which we operate and where local partners are seeking proven international solutions. Historically, we have focused on emerging economies, such as India which accounted for the majority of revenues in 2016, but the acquisition of Connode has opened up more opportunities in the developed world. This includes exposure to the ongoing roll out of smart meters in the UK and follow-on orders in Scandinavian markets. Following completion of the acquisition, we rebranded the Company in November 2016, changing our name to CyanConnode to better reflect the coming together of the two companies and their established brands and technologies.

As the world leader in narrowband radio mesh networks, we were delighted to win two Frost & Sullivan Excellence in Best Practices awards in 2016. These reflect the team's hard work, consistently delivering high levels of value through strategic partnerships. As a result of our efforts we were also recognised at the Independent Power Producers Association of India ("IPPAI") Power Awards for providing one of the industry's best smart metering innovations.

We are delighted by the progress made during 2016 and remain excited by our prospects in a growing number of regions during the coming financial year.

Operational Review

India

Our third smart metering order from L&T for an additional 4,700 units to expand the deployment of our solutions at Tata Power Mumbai, announced in December 2016, highlights the strength of our strategy and the scalability of our model by building on the follow on order for 5,000 units announced at the beginning of the year. Our ability to generate repeat orders with such a large end customer provides the blueprint for other partners and contracts we have in place and as such, we are very positive about the potential here. Tata Power is continuing to grow and now has over 2.6 million consumer customers, including over 660,000 in Mumbai alone. This is the typical pattern for many of the orders that we have in place as we establish relationships with blue chip entities that provide significant roll out opportunities as we become a critical part of their customer offering.

We have won the highest number of Advanced Metering Infrastructure ("AMI") contracts awarded to date in India and are delighted by the progress made during 2016. More than half of the revenues achieved during the period were generated by the delivery of the two contracts worth in aggregate approximately £1.5 million to Enzen.

Chairman's Statement

India (continued)
These contracts are being implemented on behalf of Chamundeshwari Electricity Supply Corporation Limited ("CESC") and Paschimanchal Vidyut Vitran Nigam Limited ("PVVNL"), who are both Indian utilities with 2 million and 3.5 million customers respectively.

The visibility and ongoing revenue generation provided by our projects remains key. As such, we continue to build on our relationship with Enzen given that between them PVVNL and CESC have over 5.5 million customers, providing a substantial revenue opportunity for roll out. Our prominence in the region appears to be growing and at a steering committee meeting hosted by the Ministry of Power, an event attended by representatives from the State utilities, CyanConnode and Enzen were congratulated for their successful delivery of the CESC project to date. Our team in India, supported from the UK, now stands at 15 and we look forward to further progress during 2017.

Rest of World
As mentioned, one of the key developments with regards to growing our international reach was the acquisition of Connode, which opened up the UK and developed world markets by adding standards-based technology that would have otherwise cost the Company £2.5 million and 18 months to develop.

The UK smart metering project is now live and the roll out, which will comprise 53 million gas and electricity meters nationwide by 2020, has now commenced. CyanConnode was selected by Telefonica, which is the preferred communications service provider in two out of the three regions tendered by the UK Government, and Toshiba to provide a software platform that uses narrowband mesh technology to complement Telefonica's existing cellular network. This allows households, where the mobile phone network coverage is poor or non-existent, to be reached as part of the UK Smart Meter Implementation Programme ("SMIP"). We have a contract with an expected value of £25 million of software and support revenues and look forward to the roll out scaling up. I am pleased to report that the 2016 milestones under the terms of the SMIP contract were successfully delivered.

As a result of the Connode acquisition, our European exposure also grew during the period through Scandinavian projects with E.ON, as part of one of the first smart city projects in Sweden, and Landis+Gyr in Finland.

The £10m Iran order from Micromodje, announced in April 2016 is for a 360,000 unit smart electricity metering implementation of our solution and its proprietary Head End Software ("HES"). Importantly, Micromodje will host the HES with annual software license income being recognised over a five-year contractual period following the successful smart meter installation. As over 50% of the total £10m order value consists of software license income, the recurring revenues from this purchase order will continue well beyond the two-year hardware installation period.

As previously mentioned, we have started a dialogue with Micromodje on the next planned roll out of one million units, part of the potential overall Iranian market requirement of 33 million smart electricity meters.

In addition, we extended our reach into Thailand via an agreement with the JST Group and during this period we also signed a multi-year strategic partnership with Eppix eSolutions to enable the integration of SAP Hybris software with CyanConnode's enterprise platform.

Financial Review
Revenue increased from in £272,012 in 2015 to £1,823,129 in 2016, with the majority coming from the two contracts in India. Operating loss for the year ended 31 December 2016 was £7,939,216 (2015: £4,906,724) and net cash at the 2016 year end was £3,892,505 (2015: £2,461,057). The increased operating loss is mainly as a result of increased investment in both R&D and sales as well as costs arising from the acquisition of Connode.

Chairman's Statement

Financial Review (continued)

During the period, the Company raised a total of £12.8m before expenses. As well as funding the Connode acquisition in July 2016, the new monies raised during the period provided funds for growth, developement and ongoing working capital requirements.

As a result of the acquisition of Connode, the Group now has intangible assets on the balance sheet of £7.8 million (2015: £nil) made up of a customer contract with Toshiba UK for the rollout of the Connode smart metering solution and goodwill.

Board Changes

Paul Ratcliff joined the Board on 1 January 2016 (replacing Peter Mainz who stepped down on 31 December 2015). Post the year end, Pete Hutton joined the Board on 3 April 2017. His wealth of experience from ARM and within the IoT sector as well as in system and product design will provide additional complementary skills as the business continues to build momentum. Furthermore, his strong network of contacts will undoubtedly be of significant value as we continue to build on the commercial opportunity at CyanConnode through Tier 1 strategic partners. As previously communicated to shareholders, Dr John Read will retire from the Company and step down from the Board following the Company's Annual General Meeting in June 2017 – I would like to thank John for his contribution and commitment to the Company, and wish him all the best in his retirement.

Employees

Once again I would like to thank all our employees for their efforts during the period. Having fully integrated Connode and welcomed its team on board, we have continued to broaden our reach and offering. I very much look forward to working with the enlarged team during 2017 as we further expand our reach into existing and new territories.

Post Period End

Post period end we received a $5.4m purchase order from a specialist in energy management systems for a smart metering contract in Bangladesh, South Asia. This is the Company's first order for a utility customer in Bangladesh and is a further demonstration of our growing geographical sales footprint. We also signed a MoU with Tech Mahindra to market, sell and deliver expertise in narrowband mesh technology for the smart grid, smart city and IoT markets.

Outlook

We are delighted to have achieved so many financial and operational milestones during the period, with the most significant being our largest contract to date and the successful acquisition of Connode.

Our narrowband mesh networks are ideally suited to machine-to-machine communication where mobile networks cannot operate, while our combination of hardware and software turnkey solutions continue to gain worldwide market recognition. By providing better control of the grid, including operating and energy efficiencies and further establishing relationships with existing and new customers we expect that 2017 will be another transformational year for the Company.

The current year has already started strongly with a $5.4m purchase order in Bangladesh. Furthermore, we have several exciting opportunities in place and a strong order pipeline. We are delighted to have successfully evolved our business model and product range, with growing recurring software license sales set to underpin further strong growth as we continue to drive towards profitability.

John Cronin
Executive Chairman
15 May 2017

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.

Simon Smith - Chief Financial Officer

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.

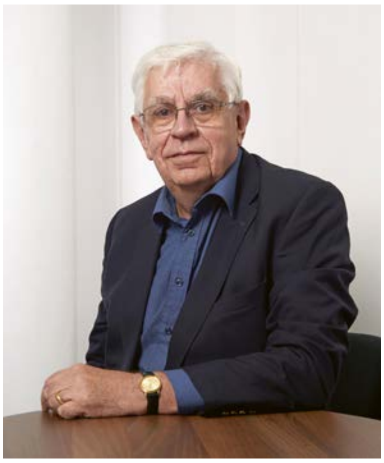
Board of Directors

Harry Berry - Non-Executive Director

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.



Dr John Read - Non-Executive Director

Dr John Read is an experienced manager with a record of developing profitable high-tech semiconductor businesses. In the late 1990s he was a director of GEC Plessey Semiconductors and joint president of GPS Inc. In California.

Since then he has been involved with a number of fabless startups: he was a director of Alphamosaic Limited (which was sold to Broadcom Europe Limited), and served on the board of Anadigm Limited from 2000 to 2003.

He is an active mentor for the Cambridge Entrepreneurship Centre and for SETSquared in Surrey. Other positions held include technical director of Texas Instruments in the UK, technical director at STC Telecommunications, and director of engineering at Honeywell's Solid State Electronics in Minnesota. Dr Read is a director of the semiconductor company Si-Light Technologies Limited and a director of Iceni Advisory Limited.

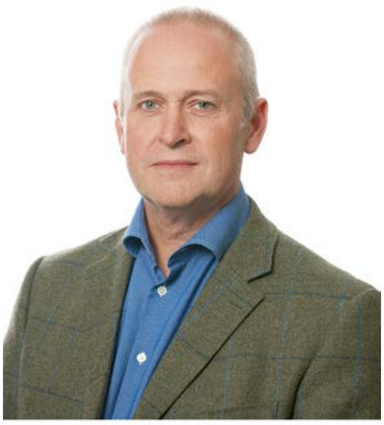
He became a Director of the Company in November 2005 and was appointed Chairman in October 2007, however stepped down from this role at the Company's AGM in 2012 and is now a non-executive director.

Board of Directors

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 i nformation 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.



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.

Board of Directors

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.

Business Model

Overview

CyanConnode provides an optimised, open standard, 'always on' smart communications platform for the "Grid of Things". Based on narrowband radio mesh technology it allows neighbourhood networks that support interoperability between devices and connectivity in hard to reach places. CyanConnode's low-power narrowband technology is ideally suited to machine-to-machine applications such as electricity, gas and water meters, traffic lights, street lights, in fact any smart city or Internet of Things device.

Within the energy sector, CyanConnode's solutions enable Advanced Metering Infrastructure (AMI), which provides highly secure, bidirectional communication between utilities and consumers, enabling smart metering functionality. CyanConnode's AMI communication platform enhances utilities' service delivery, improves business efficiency and saves energy through improved revenue collection and cash flow, reporting analytics, grid optimisation, demand response and asset management. Smart metering systems also promote sustainable energy through renewable resources such as solar and wind.

Consumers also benefit from CyanConnode's technology, as it allows them to measure and control their energy consumption, benefit from post-paid and pre-paid metering (eg. pay as you go), and time of use tariffs for managing when consumers use their white goods. This allows customers to improve cost management and budgeting and promotes less reliance on diesel generators, which reduces carbon footprint as well as supporting export to the grid through self-generation.

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

Addressing the growing demand for energy is a global issue and one that is vital in emerging economies if they are to reach their long-term growth potentials. These regions also experience high energy losses through declining infrastructure, tampering and theft. CyanConnode focuses on some of the largest regions that make up a large percentage of the global smart metering market: India, Iran, Thailand, Bangladesh as well as UK and Scandinavia.

Strategic Report

Electricity Metering

CyanConnode provides a communication platform that enables utilities to upgrade their power grid infrastructure into a smart grid that intelligently controls millions of electricity meters, providing timely information and control to both utilities and consumers. CyLec (CyanConnode's smart electricity metering solution) powers the next generation of advanced Radio Frequency ("RF") smart meters, which enable power utilities to reduce losses and increase revenues through reliable and secure collection of consumer energy consumption data.

CyanConnode's business model is to provide hardware and software that enables the smart grid. Its revenue is derived from the following principal elements:

- A small hardware communication module that can be integrated into the electricity meter of CyanConnode's meter manufacturer partners (such as Larsen & Toubro). With the addition of this module, the meter is then enabled to communicate back to the utility's data centre.
- A second piece of hardware is a Data Concentrator Unit ("DCU") or gateway. This component allows meters in consumers' homes to communicate with each other over a self-forming, self-healing mesh network, with the DCU/gateway accumulating all the data from the meters and communicating it back to the utility data centre over the mobile phone network, ethernet or fibre connection.
- Software "CyLec Server" implemented in the utility's data centre communicates with the DCU/gateway (and therefore all of the individual meters) over a secure internet connection (typically a mobile data network).

As a result of the Connode acquisition in July 2016, CyanConnode can also supply software only packages with the hardware element of the solution being provided by partners such as Toshiba as on the UK SMIP contract.

CyanConnode generally sells and delivers solutions through local partners in each country. Its revenues are derived from sales to local meter manufacturers or system integrators ("SIs") and in 2016 it has achieved sales through both channels. Over time CyanConnode expects SIs to take a more dominant role in providing complete solutions to utility customers; they will source software/hardware from CyanConnode and meter manufacturers. CyanConnode believes that its approach to the market is ideally suited to the dynamics of emerging countries where local partnerships, local manufacturing and price competitive hardware are becoming key purchasing criteria.

CyanConnode licenses its CyLec software to either the end utility customer to host themselves or on the basis of a CyanConnode hosted Software as a Service ("SaaS") solution. In both cases, it receives either an upfront or a recurring revenue stream that is based on the size of the customer's meter installation base.

Lighting

The business model for lighting is very similar to that of electricity metering. In the case of lighting, the CyanConnode module is contained in the lighting ballast. The rest of the solution and the business model remains the same as metering above, and this commonality enables CyanConnode to benefit from economies of scale in development and manufacturing.

Internet of Things/Smart Cities

The business model for IoT/Smart City solutions is also very similar to that of electricity metering and lighting. The same CyanConnode modules used for electricity metering and lighting can be used as nodes within IoT/Smart City networks to connect together devices such as street traffic cameras, parking sensors, gas meters, water meters and any other application. The value and scalability of CyanConnode's business model will build rapidly as more CyanConnode powered devices are connected through its single mesh network and feed back to a common data centre containing its control software.

Strategic Report

Competitive Position

To date, CyanConnode's solutions have had over £30 million of product development by very capable engineering teams based in Cambridge, UK and Stockholm, Sweden. This has created substantial barriers to entry 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.

A Fair Review of the Business

Metering

CyanConnode has made good progress in smart metering in target markets during 2016 and in the subsequent period up until the date of preparation of this report. It has also expanded its global focus to include Iran, Bangladesh and other potential emerging markets worldwide.

CyanConnode received a purchase order in early 2015 worth approximately £1m from Enzen for a large pilot project being implemented for CESC, Mysore in southwest India. CyanConnode has now supplied over 21,000 smart meters and associated hardware and software and acted as Enzen's end-to-end solution provider for smart metering. CyanConnode's management believes this is the first commercial implementation of AMI technology by a public utility for consumers in India.

The CESC order was followed up in late 2015 by a purchase order from Enzen for a commercial smart metering implementation for PVVNL in Uttar Pradesh, India. CyanConnode has provided over 13,000 smart meters and associated hardware and software while the Company's Head End Software is being provided as a managed service hosted by CyanConnode and charged on a per meter per year basis, delivering a recurring revenue stream. The order from PVVNL was CyanConnode's second commercial implementation of AMI technology by a public utility for consumers in India.

The visibility and ongoing revenue generation provided by our projects remain key aspects. As such, we continue to build on our relationship with Enzen given that PVVNL and CESC have over five million customers between them. Our prominence in the region appears to be growing and at a January 2017 steering committee meeting hosted by the Ministry of Power, an event attended by representatives from the State utilities, CyanConnode and Enzen were congratulated for their successful delivery of the CESC project to date.

CyanConnode received a first order for 5,000 units from L&T for Tata Power Mumbai for an integrated CyLec solution in 2015. In 2016, the Company received two additional orders taking the cumulative units ordered by Tata Power Mumbai to 14,700. Tata Power continues to grow and now has over 2.6 million consumer customers, including over 660,000 in Mumbai. They have recently been awarded the distribution franchise for Jamshedpur circle from the Jharkhand State Electricity Board.

Strategic Report

Metering (continued)
The Indian market is a huge opportunity for the Company, with an estimated 250 million meters that need to be installed/replaced over the next ten years, as well as the Indian utilities' pressing need to reduce losses due to electricity theft. One of the obstacles the utilities face is collecting data from millions of meters deployed in rapidly growing and typically unplanned urban conditions. It is often problematic trying to locate and gain physical access to the meters and the process is at best slow or error prone. CyanConnode's AMI solutions address these practical issues by providing high quality and timely information from each meter. Its 865MHz based solution has been specifically designed to cope with demanding specifications such as a communication range of more than 60 metres and an ability to be read through concrete walls in order to cope with the dense urban conditions in India. By comparison, a 2.4GHz Zigbee solution has been observed to struggle to achieve a reliable communication range greater than 30 metres in the same challenging conditions.

India's transmission and distribution losses are among the highest in the world. When non-technical losses such as energy theft are included in the total, these losses increase to as high as 65% in some Indian States against an overall average of 30%-40%. The financial loss has been estimated at 1.7% of the national GDP. Frost & Sullivan have estimated that $32 billion of power generated in India is not accounted for through billing to customers.

In November 2015, the Indian Prime Minister Narendra Modi approved Ujwal Discom Assurance Yojana ("UDAY") scheme, which is targeted to deliver financial turnaround for power distribution companies. The UDAY scheme stipulates the deployment of smart meters for consumers by 2019. It also includes a programme to eliminate State Distribution company debt through assignment to States and then bond issues. 22 out of 29 States have now joined the UDAY scheme and the programme has covered 92% of the total debt of the State utilities. In March 2016, the Indian Power Minister laid out an opportunity to install 250 million smart meters in the period to the end of 2019, he also characterised the UDAY programme as a 'game changer'.

CyanConnode provides a platform product (CyLec) to enable deployment of AMI. AMI is an architecture for automated end-to-end bi-directional communications between a utility company and electricity meters (smart meters). The CyLec solution provides utilities with real time data about power consumption and allows customers to make informed choices about energy usage based on price at time of use. The CyLec solution includes hardware and software to enable this communication and allows easy interfacing to existing meter data management systems ("MDMS"), billing systems and other smart grid infrastructure monitoring tools within the utility such as outage detection and load management. Consumer meter tamper and electricity theft detection features are included and this helps utilities ensure they collect revenue for electricity that is used by consumers.

The UK smart metering project is now live and the roll out, which will comprise 53 million gas and electricity meters nationwide by 2020, has now commenced. CyanConnode was selected by Telefonica, which is the preferred communications service provider in two out of the three regions tendered by the UK Government, and Toshiba to provide a software platform that uses narrowband mesh technology to complement Telefonica's existing cellular network. This allows households, where the mobile phone network coverage is poor or non-existent, to be reached as part of the UK SMIP. CyanConnode has a contract with an expected value of £25 million of software and support revenues.

Strategic Report

Metering (continued)

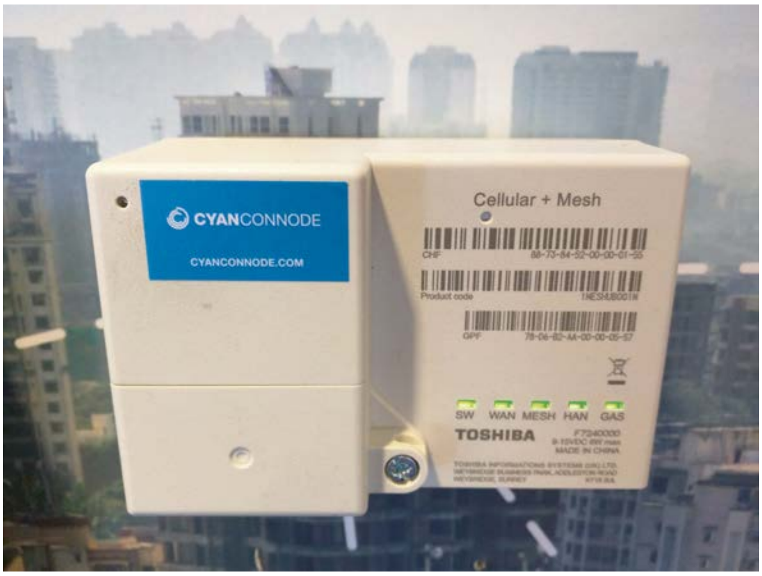


Fig. 1 UK smart meter communications hub

As a result of the Connode acquisition, the Company's European exposure also grew during the period through Scandinavian projects with E.ON, as part of one of the first smart city projects in Sweden, and Landis+Gyr in Finland.

In February 2016, the Company announced a purchase order from Micromodje for a street traffic cameras smart metering project in Iran. The order was placed only a couple of weeks after international sanctions were lifted on Iran on 16 January 2016 and is believed by the directors to be one of the first orders secured by a UK business, with support from the specialist UK Trade and Investment team.

The £10m Iran order from Micromodje, announced in April 2016 is for a 360,000 unit smart electricity metering implementation of our solution and its proprietary Head-End Software ("HES"). Importantly, Micromodje will host the HES with annual software license income being recognised over a five-year contractual period following successful smart meter installation. As over 50% of the total £10m order value consists of software license income, the recurring revenues from this purchase order will continue well beyond the two-year hardware installation period. The Company has started a dialogue with Micromodje on the next planned roll out of 1 million units, part of the potential overall Iran market requirement of 33 million smart electricity meters.

Strategic Report

Metering (continued)

Post period end, CyanConnode received a $5.4m purchase order from a specialist in energy management systems for a smart metering contract in Bangladesh, South Asia. This is the Company's first order for a utility customer in Bangladesh and is a further demonstration of the Company's growing geographical sales footprint. The purchase order is for the supply of CyanConnode's AMI solution for a 150,000 unit smart metering deployment. The energy management system company, based in Eastern Europe, will integrate CyanConnode's hardware with its smart meters and shipment to their production facility will take place over the next 12 months. The Company will also provide its Head End Server Software, which will be hosted by the energy management systems customer, with annual software licence income being recognised over a ten year contractual period following successful smart meter implementation. The recurring revenue software licences and annual maintenance contract, which represent 50% of the total purchase order value, will be paid annually in advance and charged on a per meter per year basis.

The Eastern European company has formed a local entity, a new utility that has entered a long-term agreement with the Bangladeshi Government to provide electricity to consumers. The new utility has a consumer base of four million customers, which provides the potential for substantive follow-on orders. The overall number of electricity consumers in Bangladesh is ~58 million. Bangladesh is among four South Asian countries that are struggling due to increasing pressure from rising electricity demand, failure to collect revenue and poor reliability, according to the Northeast Group. Over the next decade, these countries will make significant investments to modernise smart grid infrastructure, particularly in the metering segment. Smart grid investment is projected to total $8.1 billion over the period 2016-2026, with large-scale funding from the Asian Development Bank, the World Bank as well as bilateral aid organisations.

Lighting

CyanConnode continues to receive and deploy small orders for its smart lighting solutions across multiple geographies.

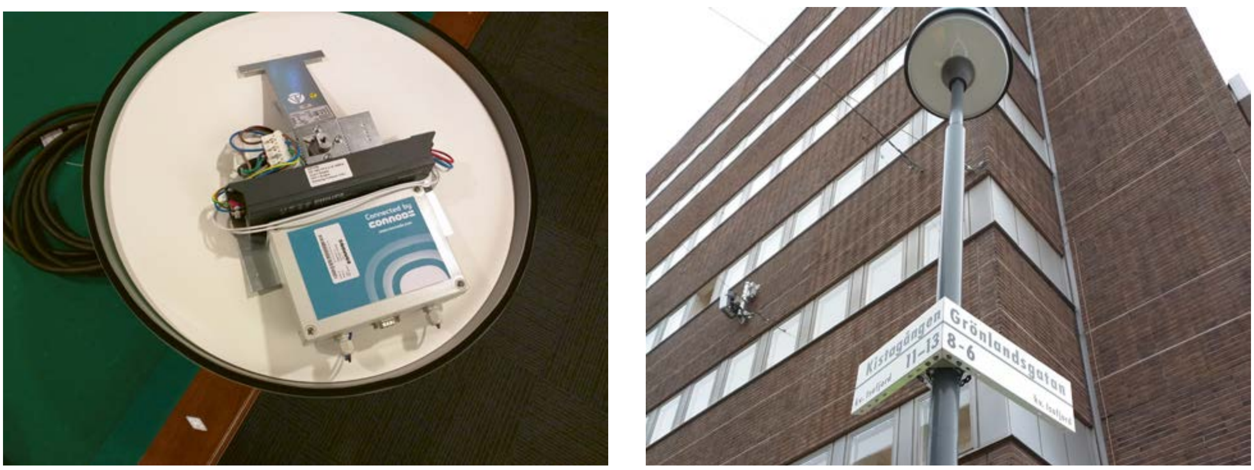


Fig. 2 Streetlight in Kista Urban ICT Arena

Internet of Things/Smart Cities

The order received in February 2016 from Micromodje in Iran for smart metering of street traffic cameras starts to demonstrate the applicability of CyanConnode's technology for IoT and smart city solutions on a global basis. CyanConnode also signed an MoU with Tech Mahindra to market, sell and deliver expertise in narrowband mesh technology for the smart grid, smart city and IoT markets.

Strategic Report

Operational Review

Key Financials

Commercial orders remained well below the level required to sustain the business. In 2016, the Company raised £12.8 million before expenses, by way of share placings, with a substantial element of this used to purchase Connode. This funding provided the Company incremental financial resources for growth, general working capital, customer and partner development activities in India and other markets as well as further development to integrate CyanConnode's AMI solution into high level enterprise software.

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

	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Revenue	1,823	272	194	138
Research and development expenditure	2,913	2,038	1,359	1,155
Operating loss	7,939	4,907	3,260	3,267
Cash and cash equivalents	3,893	2,461	2,344	1,636
Average monthly operating cash outflow	695	438	253	247
	2016 Number	**2015 Number**	**2014 Number**	**2013 Number**
Average employee headcount	44	31	27	25

Key Performance Indicators (KPIs)

The key performance indicators for the Group are as set out in the key financial results table above. Whilst CyanConnode has made progress on revenue in 2016, the operating losses continued to be significant and have actually increased substantially from 2015 to 2016, though this is in part due to non-recurring costs related to the acquisition of Connode. As can be seen from the table, CyanConnode has again increased investment in R&D in order to ensure that the Group's products remain competitive in the global marketplace as well as building out the sales and marketing team to win opportunities in multiple markets. The Group's average headcount has increased from 31 in 2015 to 44 in 2016. The majority of this increase is attributable to the acquisition of Connode.

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. We intend to use KPIs by management to track business performance over time, 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.

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 2018 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.

Given the commercial prospects at the time of the preparation of this report, together with the prior track record of the Group in raising new equity financing, the directors consider that the Group has a good opportunity to secure the additional funding that will be required. There remains 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, 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.

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 review of the business can be found in the Chairman's Statement and this Strategic 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	• We have a history of losses, anticipate continued losses and may incur 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.	• We have been able to secure additional equity funding from shareholders in the ten year period since CyanConnode Holdings plc was listed on AIM. In addition, 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.
Growth Strategy	• 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.	• 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	• Sales cycles to our customers 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.	• 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. • Market data is regularly analysed to provide valuable information on demand 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. • As the Group does not trade substantially with any other EU country, 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.
Competitive Environment	• 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.	• 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.

Strategic Report

Area of Risk	Description	Mitigating Activity
Laws & Regulations	• 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.	• 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	• CyanConnode does not control certain critical aspects of the manufacture of its products and depend on a limited number of contract manufacturers.	• 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	• 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.	• 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	• Disruption to or penetration of our information technology platforms could have a material adverse impact on the Group.	• Technology resources are continuously monitored by appropriately trained staff, which provide and maintain process controls aimed at securing our networks and data. In 2016, we commissioned an external agency 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.
Currency Exchange	• We are exposed to both translation and transaction risk. In addition transactions are carried out in currencies other than UK Sterling.	• 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 and suppliers being paid in the same currency. CyanConnode Sweden mainly supplies software, which has no manufacturing cost and its prime customer is the UK smart metering project that is paid in UK Sterling.

Strategic Report

Employee Matters

Headcount

The number of employees at the year end increased during 2016 from 31 to 52. The management, development and delivery of innovative technologies is made possible through the contribution of our people, operating in three different territories in the world, namely the UK, Sweden and India. During 2016 Cyan acquired Connode Holding AB, a company that employed 10 permanent employees, mainly software developers. During the year the Company also continued the recruitment of employees to be based locally on the ground in India to support local customers and partners. 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.

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 17% of the management team that reports to the Board, or 1 out of 6 employees (2015: 25%, or 1 out of 4 employees) and at Board level 0% (2015: 0%). Women comprised 13% of total employees across the Group (2015: 16%) or 7 out of a total of 52 employees (2015: 5 out of 31).

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.

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 ISO 14001
- 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.

Strategic Report

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
15 May 2017

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.

Board Composition and Responsibility

At 31 December 2016 the Board comprised five directors, including the Executive Chairman, the Chief Financial Officer and three independent non-executive directors. Of the five directors in post at 31 December 2016, all had served throughout the year.

Name	Role	In post 1 Jan 2016	In post 31 Dec 2016
Executive			
John Cronin	Executive Chairman	Yes	Yes
Simon Smith	Chief Financial Officer	Yes	Yes
Non-Executive			
Dr John Read	Chairman Audit Committee	Yes	Yes
Harry Berry	Chairman Remuneration Committee	Yes	Yes
Paul Ratliff	Chairman Nominations Committee	Yes	Yes

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

Simon Smith has served on the Board since 29 March 2010, and as Chief Financial Officer since 1 October 2013.

Dr John Read is an independent non-executive director and has served on the Board since 30 November 2005. He served as Chairman from 3 October 2007 until the role was taken over by John Cronin on 17 May 2012. From 5 January 2012 until 17 May 2012 this role was an executive role. John Read is Chairman of the Audit Committee. He will stand down from the Board at the end of June 2017 due to retirement.

Harry Berry was appointed to the Board on 16 May 2014 as a non-executive director. He is Chairman of the Remuneration Committee and a member of the Audit Committee and 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 Nominations Committee and a member of the Audit Committee and the Remuneration Committee during 2016. Following the appointment of Peter Hutton he has been appointed as Chairman of the Audit Committee, a member of the Nominations Committee and will continued as 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.

Peter Hutton was appointed to the Board as a non-executive director on 3 April 2017. He has taken over as Chairman of the Nominations Committee.

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

Corporate Governance Statement

Board Composition and Responsibility (continued)

The Board is satisfied that an appropriate balance of 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.

During 2016 John Read chaired the Audit Committee, with Paul Ratcliff being the other member of the Committee throughout the year. Paul Ratcliff took over as Chair of the Committee following the appointment of Peter Hutton in April 2017, with Harry Berry being the other member of this committee.

Harry Berry chairs the Remuneration Committee with Paul Ratcliff being the other member of this committee.

During 2016 Paul Ratcliff chaired the Nominations Committee with Harry Berry being the other member of the Committee. Since his appointment, Peter Hutton now chairs the Nominations Committee, with all other non-executive directors being members of the Nominations 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 2016.

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 2018 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.

Given the commercial prospects at the time of the preparation of this report, together with the prior track record of the Group in raising new equity financing, the directors consider that the Group has a good opportunity to secure the additional funding that will be required. There remains 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, 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 disclosed in note 23 to the financial statements.

Dividends

The directors do not recommend the payment of a dividend (2015: £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 development.

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 27. At 31 December 2016, the Company had one class of ordinary shares of 0.01 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.

Directors' Report

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 35.

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 25.

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

Enterprise Investment Scheme (EIS)

CyanConnode's shares currently qualify 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. 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 and their interests

The directors who served the Company throughout the year, unless otherwise stated, were as follows:

Executive Directors
John Cronin (Executive Chairman)
Simon Smith (Chief Financial Officer)

Non-Executive Directors
Dr John Read
Harry Berry
Paul Ratcliff

Peter Hutton was appointed to the Board on 3 April 2017. He will therefore retire at the Annual General Meeting in June 2017, and offer himself for re-election. John Cronin and Harry Berry also 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 31.

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 £2,912,631 (2015: £2,038,068)

Directors' Report

Significant Holdings

The Company had been notified of the following voting rights as a shareholder in the Company at 31 December 2016:

	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
Biggles Enterprises Limited	10.55%	1,666,666,666	Direct
Herald Investment Management Limited	6.06%	956,821,100	Direct
Legal and General	6.03%	952,824,231	Direct
Swedestart Tech KB	3.54%	558,754,227	Direct
Nightingale Investment Co Limited	3.17%	500,000,000	Direct

During the period between 31 December 2016 and 10 May 2017, the Company received 3 notifications under Chapter 5 of the Disclosure and Transparency Rules.

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 19 to the accounts.

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 54 days (2015: 23 days) due to significant purchases 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 2016 was 24 days (2015: 23 days).

Charitable and Political Donations

Charitable donations for the year were £nil (2015: £nil) and no political donations were made during the year (2015: £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
15 May 2017

Directors' Remuneration Report

Unaudited Information

Remuneration Committee

The Company has established a Remuneration Committee. Harry Berry is chairman of the Remuneration Committee.

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.

Remuneration Policy for the Executive Directors

Executive remuneration packages are prudently 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. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for the executive directors and senior management:

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

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

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, however neither executive director is currently choosing to receive this benefit.

Annual Bonus Payments

The objectives of the remuneration policy are to ensure that the overall remuneration of executive directors is aligned with the performance of the Group and preserves an appropriate balance of income and shareholder value. The executive directors are eligible to receive a bonus dependent on both individual and Group performance. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the Board are being met. Bonus payments of £200,000 were made during the year. (2015: £200,750). The Committee has the power to grant bonuses at its discretion.

Directors’ Remuneration Report

Directors’ Share Options

Full details of the directors’ options over ordinary shares of 0.01p are detailed below:

Director	Grant Date	Exercise Price £	As at 31 December 2016 Number	At 31 December 2015 Number
John Cronin	19 December 2013 30 September 2014 7 July 2016	0.003 0.0042 0.0025	76,560,756 101,689,440 387,580,509	76,560,756 101,689,440 -
			565,830,705	178,250,196
Simon Smith	19 December 2013 30 September 2014 7 July 2016	0.003 0.0042 0.0025	42,006,335 26,149,218 148,249,545	42,006,335 26,149,218 -
			216,405,098	68,155,553
Harry Berry	28 July 2014 4 December 2014 18 December 2014 7 July 2016	0.0038 0.0029 0.0028 0.0025	5,000,000 7,000,000 22,320,884 74,588,871	5,000,000 7,000,000 22,320,884 -
			108,909,755	34,320,884

Options granted under the EMI Share Option Scheme and unapproved share option schemes, are not subject to performance criteria.

Directors’ Interests in Shares in the Company

Director	Shares	£’000
John Cronin		
As at 1 January 2016	159,742,048	384
Purchased during the period	187,459,727	337
As at 31 December 2016	347,201,775	721
Simon Smith		
As at 1 January 2016	107,266,588	319
Purchased during the period	90,365,899	163
As at 31 December 2016	197,632,487	482
Dr John Read		
As at 1 January 2016	38,484,815	236
Purchased during the period	16,332,296	29
As at 31 December 2016	54,817,111	265
Harry Berry		
As at 1 January 2016	30,214,286	84
Purchased during the period	66,345,006	119
As at 31 December 2016	96,559,292	203
Paul Ratcliff	-	-
Purchased during the period	14,648,784	26
As at 31 December 2016	14,648,784	26
Total		
As at 1 January 2016	335,707,737	1,023
Purchased during the period	375,151,712	674
As at 31 December 2015	710,859,449	1,697

Directors' Remuneration Report

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. John Cronin is not a member of the Company pension scheme.

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 six months' notice by either party.

Name of Director	Date of contract
John Cronin	20 March 2012
Simon Smith	29 March 2010
Dr John Read	30 November 2005
Harry Berry	16 May 2014
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 basic fee paid to each non-executive director in the year was:

Dr. John Read	£30,000
Harry Berry	£105,835
Paul Ratcliff	£30,000

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

As announced in December 2014, Harry Berry took a more substantive role in the Company from December 2014 performing more duties than would normally be covered by a non-executive role. He has continued with these additional duties over the year working additional days as required by the Company, and this has been of great assistance to CyanConnode due to his knowledge of the Company and breadth of business experience. The Board still view Harry Berry to be a non-executive director.

Directors' Remuneration Report

Directors' Emoluments

Name of Director	Fees/Basic Salary £	Pension contributions £	Annual bonus £	2016 total £	2015 total £
Executive					
John Cronin - salary	12,000	-	-	12,000	12,000
John Cronin - consultancy fees current year (Note 1)	223,000	-	140,000	363,000	323,000
John Cronin - consultancy fees for prior year services	-	-	-		100,000
JOHN CRONIN - TOTAL	235,000	-	140,000	375,000	435,000
Simon Smith - current year	120,000	3,000	60,000	183,000	187,329
Simon Smith - fees for prior year services	-	-	-	-	50,000
SIMON SMITH - TOTAL	120,000	3,000	60,000	183,000	237,329
Non-Executive					
Dr John Read - current year	30,000	-	-	30,000	30,000
Dr John Read - fees for prior year services	-	-	-	-	41,750
DR JOHN READ - TOTAL	30,000	-	-	30,000	71,750
Harry Berry - NED fees	24,000	-	-	24,000	30,000
Harry Berry - fees for other services (Note 2)	81,835	-	-	81,815	44,158
HARRY BERRY - TOTAL	105,835	-	-	105,835	74,158
PAUL RATCLIFF	30,000	-	-	30,000	-
PETER MAINZ	-	-	-	-	30,000
TOTAL	**520,835**	**3,000**	**200,000**	**723,835**	**848,237**

Included in the figures above is an amount of £444,835, paid to third party companies in respect of directors' services during 2016 (2015: £497,158). Note 1 and Note 2: T The amounts set out in Notes 1 and 2 above reflect payments for the additional time worked and services performed by John Cronin and Harry Berry during 2016.

All directors used 100% of their remuneration for the periods July to December 2016 to purchase newly issued shares in the Company. The exact amounts invested by each director are set out earlier in this Remuneration Report, with the total invested by all directors during 2016 being £674,000.

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 15 May 2017 and signed on its behalf by:

Harry Berry
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
15 May 2017

Independent Auditor's report to the members of CyanConnode Holdings plc (formerly Cyan Holdings plc)

We have audited the financial statements of CyanConnode Holdings plc for the year ended 31 December 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2016 of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with 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.

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

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 3 of the financial statements concerning the Company's ability to continue as a going concern. The Group incurred a net loss of £7,243,320 during the year ended 31 December 2016 and, as of that date, the Group's cash balance was £3,892,505. In making their assessment of whether the application of the going concern assumption is appropriate, the directors have referred to the Company's business plan and cash flow forecast, which assumes a certain level of sales at a certain gross margin and a need in the foreseeable future for additional funding. There is a significant risk that the actual level of sales achieved is materially lower than is assumed in the business plan or that margins may be significantly lower than planned. In addition there is a risk that the required level of additional funding will not be received on a sufficiently timely basis or will not be achieved at all. These conditions, along with other matters in note 3, indicate the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Group and Company was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for further liabilities that might arise.

Opinion on other matter 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

Julian Rae
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
15 May 2017

Consolidated income statement

For the year ended 31 December 2016

	Note	2016 £	2015 £
Continuing operations			
Revenue	5	**1,823,129**	272,012
Cost of sales		**(1,128,498)**	(161,959)
Gross profit		**694,631**	110,053
Other operating costs		**(6,813,782)**	(4,987,477)
Acquisition related costs		**(1,564,102)**	-
Amortisation / depreciation		**(255,963)**	(29,300)
Total operating costs	7	**(8,633,847)**	5,016,777
Operating loss		**(7,939,216)**	(4,902,724)
Investment income	5,10	**7,290**	8,282
Finance costs	11	**(4,525)**	(917)
Loss before tax		**(7,936,451)**	(4,899,359)
Tax	12	**819,212**	(579,585)
Loss for the year	7	**(7,117,239)**	(4,319,774)
Loss per share (pence)			
Basic	13	**(0.07)**	(0.08)
Diluted	13	**(0.07)**	(0.08)

Consolidated statement of comprehensive income

For the year ended 31 December 2016

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

	2016 £	2015 £
Loss for the year	**(7,117,239)**	(4,319,774)
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**(30,963)**	4,081
Total comprehensive income for the year	**(7,148,202)**	(4,315,693)

Consolidated balance sheet

At 31 December 2016

	Note	**2016**	2015
		£	£
Non-current assets			
Intangible assets	15	**5,889,656**	-
Goodwill	17	**1,930,229**	-
Investments	20	**41,515**	26,308
Property, plant and equipment	18	**78,171**	29,967
		7,939,571	56,275
Current assets			
Inventories	21	**340,178**	587,484
Trade and other receivables	22	**2,677,071**	845,667
Cash and cash equivalents	22	**3,892,505**	2,461,057
		6,909,752	3,894,208
Total assets		**14,849,325**	3,950,483
Current liabilities			
Trade and other payables	25	**(2,205,302)**	(747,933)
Total current liabilities		**(2,205,302)**	(747,933)
Net current assets		**4,704,452**	3,146,275
Non current liabilities			
Deferred tax liability	24	(942,938)	-
Total non current liabilities		**(942,938)**	-
Total liabilities		(3,148,240)	(747,933)
Net assets		**11,701,085**	3,202,550
Equity			
Share capital	26	**1,579,123**	680,320
Share premium account	27	**52,831,234**	38,085,627
Own shares held	28	**(808,856)**	(808,856)
Share option reserve	29	**626,738**	624,411
Translation reserve	31	**(176,624)**	(145,661)
Retained losses	30	**(42,350,530)**	(35,233,291)
Total equity being equity attributable to owners of the Company		**11,701,085**	3,202,550

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 15 May 2017. They were signed on its behalf by:

John Cronin
Director

Consolidated statement of changes in equity

At 31 December 2016

	Share Capital £	Share Premium £	Own Shares Held £	Share Option Reserve £	Translation Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2014	**446,493**	**33,911,618**	**(808,856)**	**522,562**	**(149,742)**	**(30,913,517)**	**3,008,558**
Loss for the year	-	-	-	-	-	(4,319,774)	**(4,319,774)**
Other comprehensive income for the year	-	-	-	-	4,081	-	**4,081**
Total comprehensive income for the year	-	-	-	-	4,081	(4,319,774)	**(4,315,693)**
Issue of share capital	233,827	4,174,009	-	-	-	-	**4,407,836**
Credit to equity for share options	-	-	-	101,849	-	-	**101,849**
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	-	-	-	2,327	-	-	**2,327**
Balance at 31 December 2016	**1,579,123**	**52,831,234**	**(808,856)**	**626,738**	**(176,624)**	**(42,350,530)**	**11,701,085**

Company balance sheet

At 31 December 2016

	Note	2016 £	2015 £
Non-current assets			
Intangible assets	16	**-**	-
Investments in subsidiaries	19	**8,330,129**	597,713
		8,330,129	597,713
Current assets			
Trade and other receivables	22	**190,252**	149,391
Loans to other group entities	22	**737,644**	4,120
Cash and cash equivalents	22	**3,812,724**	2,029,568
		4,740,620	2,183,079
Total assets		**13,070,749**	2,780,792
Current liabilities			
Trade and other payables	25	**(13,353)**	(34,964)
Total Liabilities		**(13,353)**	(34,964)
Net current assets		**4,727,267**	2,148,115
Net assets		**13,057,396**	2,745,828
Equity			
Share capital	26	**1,579,123**	680,320
Share premium account	27	**52,831,234**	38,085,627
Share option reserve	29	**626,738**	624,411
Retained losses	30	**(41,979,699)**	(36,644,530)
Total equity		**13,057,396**	2,745,828

The Company reported a loss for the financial year ended 31 December 2016 of £5,335,169 (2015: £4,424,188).

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the Board of Directors and authorised for issue on 15 May 2017. They were signed on its behalf by

John Cronin
Director

Company statement of changes in equity

At 31 December 2016

	Share Capital £	Share Premium £	Share Option Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2014	**446,493**	**33,911,618**	**522,562**	**(32,220,342)**	**2,660,331**
Loss for the year	-	-	-	(4,424,188)	**(4,424,188)**
Total comprehensive income for the year	-	-	-	(4,424,188)	**(4,424,188)**
Issue of share capital	233,827	4,174,009	-	-	**4,407,836**
Credit to equity for share options	-	-	101,849	-	**101,849**
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**
Credit 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**

Consolidated cash flow statement

For the year ended 31 December 2016

	Notes	2016 £	2015 £
Net cash outflow from operating activities	32	**(7,061,808)**	(4,236,638)
Investing activities			
Acquisition of subsidiary		**(4,367,670)**	-
Interest received		**7,289**	8,282
Purchases of property, plant and equipment		**(80,289)**	(35,541)
Net cash used in investing activities		**(4,440,670)**	(27,259)
Financing activities			
Interest paid		**(4,525)**	(917)
Proceeds on issue of shares		**13,487,320**	4,678,102
Share issue costs		**(533,662)**	(270,267)
Purchase of bank securities		**(15,207)**	(26,308)
Net cash from financing activities		**12,933,926**	4,380,610
Net increase in cash and cash equivalents		**1,431,448**	116,713
Cash and cash equivalents at beginning of year		**2,461,057**	2,344,344
Cash and cash equivalents at end of year		**3,892,505**	2,461,057

Company cash flow statement

For the year ended 31 December 2016

	2016 £	2015 £
Loss for the year	**(5,332,169)**	(4,424,188)
Share based payment expenses	**2,327**	-
Operating cash flows before movement in working capital	**(5,332,842)**	(4,424,188)
(Increase) / decrease in receivables	**(774,385)**	33,274
Decrease in payables	**(21,611)**	(48,689)
Net cash outflow from operating activities	**(6,128,838)**	(4,439,603)
Investing activities		(53,351)
Purchase of investment	**(5,041,664)**	(53,351)
Net cash outflow from investing activities	**(5,041,664)**	(53,351)
Financing activities		
Proceeds on issue of shares	**13,487,320**	4,678,103
Share issue costs	**(533,662)**	(270,266)
Net cash from financing activities	**12,953,658**	4,407,837
Net increase/(decrease) in cash and cash equivalents	**1,783,156**	(85,117)
Cash and cash equivalents at beginning of year	**2,029,568**	2,114,685
Cash and cash equivalents at end of year	**3,812,724**	2,029,568

Notes to the Financial Statements

1. General information

CyanConnode Holdings plc is a company incorporated 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 3.

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) Contributions	Defined Benefit Plans Employee
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):

Amendments to IAS 12 (Jan 2016)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 16	Leases
Amendments to IFRS 10, IFRS 12 and IAS 28 (Dec 2014)	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 1 (Dec 2014)	Disclosure Initiative
Annual Improvements to IFRSs: 2012-2014 Cycle (Sept 2014)	Annual Improvements to IFRSs: 2012-2014
Amendments to IAS 27 (Aug 2014)	Equity Method in Separate Financial Statements
IFRS 9	Financial Instruments
Amendments to IAS 16 and 1AS 41 (Jun 2014)	Agriculture: Bearer Plants
IFRS 15	Revenue from Contracts with Customers
Amendments to IAS 16 and IAS 38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRS 11 (May 2014)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts

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 may have an impact on revenue recognition and related disclosures however it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed review has been completed. IFRS 10 will only impact disclosures of Consolidated Financial Statements and IFRS 12 will impact the disclosures of interests in Other Entities. IFRS 16 will have the impact of increasing both assets and liabilities on the balance sheet but the P&L impact is not expected to be material as there are only a small number of leases.

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. 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 2018 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 five 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.

Given the commercial prospects at the time of the preparation of this report, together with the prior track record of the Group in raising new equity financing, the directors consider that the Group has a good opportunity to secure the additional funding that will be required. There remains 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 or 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Group (continued)

Notwithstanding the material uncertainties described above, the directors have a reasonable expectation that the Company can continue to meet their 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 affects 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.

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 purchase 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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.

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. When 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

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

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.

Turnover from the sale of goods is recognised when all the following conditions are satisfied:

- 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 turnover can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

Turnover 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.

The outcome of a transaction can be reliably estimated when all of the following conditions are satisfied:

- The amount of turnover 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.

Turnover from the sale of multi-element contracts, where CyanConnode is responsible for delivering a full end to end solution and gets paid based on the achievement of milestones, must be broken down into separate identifiable elements. The categories are:

- Hardware
- Software licences and associated annual maintenance charges.
- Services
- DCU's and Head End Server (HES), including installation.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Revenue recognition (continued)

Revenue associated with DCU's and HES is bundled together and recognised on a stage of completion basis. If further DCU's are purchased after the HES has been installed these are recognised in line with standard hardware sales.

Once a multi-element contract has been allocated between the categories, the agreed revenue recognition principles are applied to each category to determine the revenue recognition profile of the contract.

When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised as an expense immediately.

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 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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 employers pension contributions provided for but not paid of £134,175 (2015 : £113,288).

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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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%

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.

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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.

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

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

Other financial liabilities

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 and cash-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.

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.

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 the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- The directors have prepared the financial statements on the basis that the Company is a going concern. Further information on this critical judgement is included in note 3 and within the Directors' Report.
- Note 3 describes the Company policy on revenue recognition. In 2015, a large contract was assessed and determined to have loss making elements. Management were required to consider the correct revenue recognition treatment on the project as a result of these anticipated losses. In making its judgement, management considered detailed criteria for the recognition of revenue on projects with loss making elements as set out in IAS 18. Revenue recognised on the project in 2015 was reduced in line with the guidance in IAS 18 to provide for the anticipated losses.

Notes to the Financial Statements

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

Critical judgements in applying the Group's accounting policies (continued)

- 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 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.

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.

With regard to the fair value of the SMIP intangible contract, this is based on the expected rollout of the smart metering programme in the UK which is being driven by the UK Government. The Group receives license and support fees that are based on the installation and activation of the smart meters containing the Group's communication solution. The model has been based on the latest delivery estimates received from our customer, but they have indicated that these are uncertain as smart meter installation is managed by the utility companies. If the UK smart meter project is further delayed, then the cashflows may be later than forecast and this would have an impact on the discounted cash flow used to arrive at the value of the SMIP intangible contract which may result in a reduced net present value of the UK SMIP intangible if the delivery dates are later. Given the repeated delays in the UK smart metering rollout programme, this represents a material uncertainty.

Share-based payments

The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognized based upon the grant date fair value of stock options and stock. The grant date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes option valuation model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. See Note 34 for further details re the assumptions used in the pricing model.

5. Revenue

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

	2016	2015
	£	£
Continuing operations		
Sale of goods	**1,230,672**	202,375
Sale of services	**592,457**	69,637
	1,823,129	272,012
Bank interest	**7,290**	8,282
	1,830,419	280,294

Notes to the Financial Statements

6. Business and geographical segments

The Group has concluded that 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. This may change in the future as the Group's business develops further.

During 2016 there were 2 customers (2015: 3) whose turnover accounted for more than 10% of the Group's total revenue as follows:-

	2016		2015	
	Turnover £	**Percentage of Total %**	Turnover £	Percentage of Total %
Customer A	**781,856**	**43%**	45,702	17%
Customer B	**473,601**	**26%**	-	-
Customer C	**99,325**	**5%**	90,026	33%
Customer D	**36,915**	**2%**	45,352	16%

Revenue split between Europe and other parts of the World as follows:

	2016		2015	
	Turnover £	**Percentage of Total %**	Turnover £	Percentage of Total %
Europe	**757,337**	**41.5**	65,678	24.2
Asia	**988,392**	**54.3**	152,156	55.9
Rest of World	**77,400**	**4.2**	54,178	19.9
	1,823,129		272,012	

7. Loss for the year

Loss for the year has been arrived at after charging /(crediting):

	2016 £	2015 £
Net foreign exchange losses	**47,870**	10,835
Research and development costs	**2,912,631**	2,038,068
Depreciation of property, plant and equipment	**45,619**	29,300
Amortisation of intangibles	**210,344**	-
Bad bebts written off	**6,558**	-
Release of provision for stock obsolescence	**-**	(3,795)
Stock provisions recognised in period	**96,060**	-
Staff costs (see note 9)	**3,335,645**	2,428,762
Operating lease costs (see note 33)	**182,011**	124,402
Cost of inventories recognised as an expense	**925,214**	127,572

Acquisition related costs

These costs totalling £1,564,102 all relate to the acquisition of the Connode group of companies. The costs relate to legal and professional costs, commission costs and retention bonuses.

Notes to the Financial Statements

8. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2016 £	2015 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**30,000**	23,000
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	**22,800**	10,000
Fees payable to the Company's auditor for accounting advice	**-**	5,000
Total audit fees	**52,800**	38,000
Coroporate financial services	**39,000**	-
Other services pursuant to legislation	**-**	3,700
Total non-audit fees	**39,000**	3,700

9. Employee information

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

	2016 Number	2015 Number
Sales and administration	**27**	20
Research and development	**14**	10
Operations and logistics	**3**	1
	44	31

	2016 £	2015 £
Their aggregate remuneration comprised:		
Wages and salaries	**2,902,486**	2,132,636
Social security costs	**292,464**	179,494
Other pension costs	**140,695**	116,632
	3,335,645	2,428,762

Key management compensation

The directors are of the opinion that key management personnel during 2016 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 for is detailed below.

	2016 £	2015 £
Their aggregate remuneration comprised:		
Wages and salaries	**720,835**	840,908
Social security costs	**12,985**	11,849
Other pension costs	**3,000**	7,329
	736,820	860,086

Specific details of director's remuneration are included in Remuneration Committee Report within this Annual Report.

Notes to the Financial Statements

10. Investment income

	2016	2015
	£	£
Interest revenue:		
Bank deposits	**7,290**	8,282

Investment revenue is all earned on cash and cash equivalents.

11. Finance costs

	2016	2015
	£	£
Interest on bank overdrafts and loans	**4,525**	917

12. Tax

	2016	2015
	£	£
Current tax:		
UK corporation tax on profits of the period	**(693,131)**	**(579,585)**
Deferred tax (note 20)	**(126,081)**	-
Total tax credit	**(819,212)**	**(579,585)**

	2016	2015
	£	£
Loss before tax	**(7,936,451)**	(4,899,359)
Tax on profit on ordinary activities at standard CT rate of 20% (2015: 20.25%)	**(1,587,290)**	(992,120)
Effects of:		
Expenses not deductible for tax purposes	**53,893**	22,661
Tax effect of capital allowances in (excess) / deficit of depreciation	**(7,626)**	(5,289)
Other short term timing differences	**4,177**	3,825
Additional R&D deduction	**(540,372)**	(455,602)
Losses surrendered for R&D tax credit	**956,045**	809,420
Utilisation of losses b/f	**(23,031)**	-
Unrelieved tax losses and other deductions in the period c/f	**1,102,332**	617,105
Difference in rate of deferred tax	**(4,207)**	-
Research and development tax credit receivable - current year	**(693,131)**	(579,585)
Other short term timing differences	**4,177**	-
Actual total tax in the year	**(819,212)**	(579,585)

Notes:
Current year tax rate 0.2000
Prior year tax rate 0.2025

Notes to the Financial Statements

12. Tax (continued)

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

	2016	2015
	£	£
Loss for the purposes of basic loss per share being net loss attributable to equity holders of the parent	**7,117,239**	4,319,774

Number of shares

	2016	2015
	No.	No.
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**10,934,000,217**	5,631,383,257

The demonimations 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.

14. Acquisitions

On 30 June 2016 the Company acquired the Connode Holding AB Group comprising Connode Holding AB and Connode AB; this acquisition occurred simultaneously with Connode AB acquiring Connode India Pvt Ltd.

Sweden – Connode Holding AB and Connode AB

The acquisition of the Swedish entities was for cash (£4.25 million) and shares (£2.527 million). This resulted in the issuing of 1,404,203,888 ordinary shares of 2 pence each, with £140,420 recognised as share capital and £2,527,567 being recognised as share premium.

	£
Fixed Assets	
SMIP intangible	6,100,000
Property, plant equipment	5,437
Inventories	37,066
Trade and other Receivables	360,368
Trade and other Payables	(447,404)
Deferred tax liability	(989,214)
Goodwill	1,711,314
Total consideration	6,777,567
Satisfy by	
Cash	4,250,000
Share consideration	2,527,567
	6,777,567

Notes to the Financial Statements

14. Acquisitions (continued)

Sweden - Connode Holding and Connode AB

In accordance with IFRS3 Business Combinations, the Group has recognised two intangibles totalling £8,030,229. These are acquired intangibles, which include a customer contract with Toshiba UK for the rollout of the Connode smart-metering system with a value of £6,100,000 and goodwill totalling £1,930,229.

Goodwill of £1,930,229 represents the excess of the purchase price over fair value of the assets acquired. See note 17 which discloses goodwill and the review of the carrying value of goodwill.

India - Connode India Pvt Ltd.

The acquisition of the Indian entity included two elements of deferred consideration; the first element was settled in full on 31 December 2016 and resulted in the payment of $100,000. The probability of a settlement of the second element of deferred consideration is considered extremely remote and so has not been recognised. The acquisition of the Indian entity was upfront cash ($160k) and deferred cash ($100k).

	£
Fixed Assets	
Property, plant equipment	288
Inventories	5,188
Trade and other Receivables	71,913
Cash	3,511
Trade and other Payables	(36,023)
Goodwill	133,158
Total consideration	178,035
Satisfy by	
Cash	121,182
Deferred consideration	56,853
	178,035

Costs relating to these acquisitions were non-recurring costs and have been disclosed separately on the face of the consolidated income statement.

Notes to the Financial Statements

14. Aquisitions (continued)

Acquisitions Summary

	Sweden £	India £	Fair value to Group £
Fixed assets			
SMIP intangible	6,100,000	-	6,100,000
Property, plant equipment	5,437	288	5,725
Inventories	37,066	5,188	42,254
Trade and other Receivables	360,368	71,913	432,281
Cash	-	3,511	3,511
Trade and other Payables	(447,404)	(36,023)	(483,427)
Deferred tax liability	(1,069,019)	-	(1069,019)
Goodwill	1,791,119	133,158	1,924,277
Total consideration	6,777,567	178,035	6,955,602
Satisfied by			
Cash	4,250,000	121,182	4,371,182
Share consideration	2,527,567	-	2,527,567
Deferred consideration	-	56,853	56,853
	6,777,567	178,035	6,955,602

In the year ended 31 December 2016, turnover of £666,245 and loss of £725,502 was included in the consolidated profit and loss account in respect of Connode Holding AB, Connode AB and Connode India Private Limited since the acquisition date.

If the acquisition of Connode Holding AB, Connode AB and Connode India Pvt Ltd had been completed on the first day of the financial year, group revenues would have been £2.2 million and the group loss would have been £7.7 million.

15. Intangible assets (Group)

No intangible assets are held at valuation in these accounts.

	Software £	SMIP Intangible £	Total £
Cost			
Balance at 1 January 2015 and 1 January 2016	**143,964**	**-**	**143,964**
Acquired on acquisition of a subsidiary	-	6,100,000	6,100,000
Balance at 31 December 2016	**143,964**	**6,100,000**	**6,243,964**
Amortisation			
Balance at 1 January 2015 and 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**
Carrying amount			
At 31 December 2016	**-**	**5,889,656**	**5,889,656**
At 31 December 2015	**-**	**-**	**-**

Smart Metering Implementation Programme ('SMIP') – more details can be found in the Strategic Report.
Intellectual Property Rights ('IPR') – the IPR relates to the capitalised development costs of the Connode 4 product; a high-quality radio communications network for Smart Metering.

Notes to the Financial Statements

16. Intangible assets (Company)

	Software £
Cost	
Balance at 1 January 2015 and 1 January 2016	**143,964**
Balance at 31 December 2016	**143,964**
Amortisation	
Balance at 1 January 2015 and 1 January 2016	**143,964**
Balance at 31 December 2016	**143,964**
Carrying amount	
At 31 December 2016	**-**
At 31 December 2015	**-**

17. Group Goodwill

	£
Cost	
Balance at 1 January 2016	**-**
Recognised on acquisition of a subsidiary	**1,924,277**
Foreign exchange	**5,952**
Balance at 31 December 2016	**1,930,229**
Impairment	
Balance at 1 January 2016	**-**
Impairment for period	**-**
Balance at 31 December 2016	**-**
Carrying amount	
At 31 December 2016	**1,930,229**

Notes to the Financial Statements

18. Property, plant and equipment

No assets are held at valuation in these accounts.

Group

	Fixtures and equipment £
Cost	
At 1 January 2015	311,764
Additions	35,541
At 1 January 2015	347,305
Additions	87,626
Acquisition of subsidiary undertaking	5,725
Disposals	(105,582)
Exchange adjustment	958
At 31 December 2016	**336,032**
Accumulated Depreciation	
At 1 January 2015	288,038
Charge for the year	29,300
At 1 January 2016	317,338
Charge for the year	45,619
Disposals	(105,407)
Exchange differences	311
At 31 December 2016	**257,861**
Carrying Amount	
At 31 December 2016	**78,171**
At 31 December 2015	**29,967**

At 31 December 2016 the Group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2015: £nil).

Notes to the Financial Statements

19. Subsidiaries

Investment in subsidiaries

	Company 2016 £	Company 2015 £
As at 1 January	**597,713**	442,513
Capital contribution in respect of share based payment	**238,964**	101,849
Investment in Connode Holding AB	**6,777,567**	-
Investment in CyanConnode Pvt Ltd (formerly Cyan India)	**715,885**	53,351
As at 31 December	**8,330,129**	597,713

Group

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:

CyanConnode Limited (formerly Cyan Technology Limited)
Merlin Place, Milton Road
Cambridge CB4 0DP

- 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

CyanConnode Private Limited (formerly Cyan Technology India Private Limited)
B-41 Panchsheel Enclave
New Delhi-110017
India

- 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 2015 are consolidated into these accounts

Connode Holding AB
Järnvägsgatan 10
172 35 Sundbyberg
Stockholm
Sweden

- 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 activitiy of the Company is to act as a parent company
- The Company's results for the 6 months ending 31 December 2016 are consolidated into these accounts

Connode AB
Järnvägsgatan 10
172 35 Sundbyberg
Stockholm
Sweden

- 100% of the issued capital of the Company is helf by Connode Holding AB
- The Company is incorporated in Sweden and has an accounting period ending 31 December
- The prinipal activity of the Comapny is to act as a parent company
- The Company's results for the 6 months ending 31 December 2016 are consolidated into these accounts

Connode India
B-407 (IV), 4th Floor
Pranik Chambers
Off Sakinaka Junction
Saki Vihar Road
Andheri (East)
Mumbai – 400 072
India

- 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 6 months ending 31 December 2016 are consolidated into these accounts

Notes to the Financial Statements

20. Fixed Asset Investments

	2016	2015
	£	£
Bank securities	**41,515**	26,308

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

21. Inventories

Group

	2016	2015
	£	£
Raw materials	**248,675**	248,197
Finished goods	**91,503**	339,287
	340,178	587,484

The Company holds no inventories at either balance sheet date.

22. 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 total £5,634,709 (2015: £2,520,106). Those of the Company include loans and cash and cash equivalents and total £3,812,724 (2015: £2,029,568).

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Amount receivable for the sale of goods	**1,742,205**	32,741	**-**	-
Corporation tax receivable	**701,080**	582,689	**-**	-
Other debtors	**139,526**	134,125	**49,620**	11,495
EBT loan	**-**	-	**135,499**	109,060
Prepayments	**94,260**	96,112	**5,133**	28,836
Loans to other group entities	**-**	-	**737,644**	4,120
	2,677,071	845,667	**927,896**	153,511

During the year £6,557 was written off the value of the carrying amount of trade and other receivables (2015: £Nil).

The directors consider that the carrying amount of trade and other receivables at 31 December 2016 approximates to their fair value.

Amounts receivable from the Group undertakings are shown in note 32.

Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Cash and cash equivalents	**3,892,505**	2,461,057	**3,812,724**	2,029,568

Notes to the Financial Statements

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

Cash and cash equivalents (continued)

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.

23. 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.

At 31 December 2016 the Group had significant concentration of credit risk in two customers which together represented 86% of the Group's trade receivables. Due to the nature of the contracts a significant proportion of this receivable has not yet fallen due –66% of the 86% is not yet due as the customer delivery payment milestones on the projects have not yet been reached.

There are £427,907 of debtors which were past due at the reporting date and not impaired (2015: £7,988). £381,907 is over 90 days overdue (2015: £6,062). There was no allowance for doubtful debts at 31 December 2016 (2015: £nil). There were bad debt charges totalling £6,558 (2015: £nil). 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 (2014: £33,850,190). In addition, the Company has made a provision of £673,358 (2015: £669,767) 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.

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.

	INR	SEK	USD	EUR
Fixed assets	6,101	709,630	-	-
Current assets	1,124,857	605,608	158,331	27,943
Current liabilities	(591,282)	(703,075)	(38,244)	-
Net assets/liabilities	**539,676**	**612,164**	**120,087**	**27,943**

Notes to the Financial Statements

23. Financial risk management (continued)

Sensitivity analysis has been performed on the financial assets and liabilities to assess the exposure of the Group to foreign exchange movements. If exchange rates moved so that sterling weakened by 10% then the effect on the balance sheet would be a loss of £129,987. If sterling strengthened by 10% then the effect on the balance sheet would be a profit of £129,987.

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. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

24. Deferred tax

Recognised Deferred tax liability	£
At 1 January 2016	-
Deferred tax liability recognised on acquisition of intangible	1,069,019
Amortisation of SMIP intangible	46,276
Deferred tax - Sweden losses	(79,805)
At 31 December 2016	942,938

Unrecognised provision for deferred tax	2016 £	2015 £
Accelerated capital allowances	(4,566)	(11,698)
Short term timing differences	(20,810)	(20,392)
Losses	(4,516,872)	3,796,882
Total unrecognised deferred tax (asset)	(4,544,248)	(3,828972)

No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams.

25. Other financial liabilities

Both the Group and the Company have only one category of financial liability being trade payables held at amortised cost. Those of the Group totalled £689,696 (2015: £117,976) and those of the Company totalled £27,529 (2015: £8,662).

Trade and other payables

	Group		**Company**	
	2016 **£**	2015 £	**2016** **£**	2015 £
Trade payables and accruals	**2,205,302**	**747,933**	**13,353**	**34,964**
	2,205,302	**747,933**	**13,353**	**34,964**

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 49 days (2015: 23 days) due to significant purchases 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 2016 was 24 days (2015 : 23 days). The Group has not incurred interest charges for late payment of invoices during the year (2015: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes.

Notes to the Financial Statements

25. Other financial liabilities (continued)

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

All of the Group's and the Company's trade payables are due within 3 months. The Group's operating lease commitments are shown within note 30.

26. Share capital

	2015 £	2014 £
Issued and fully paid: 15,790,791,254 ordinary shares of 0.01 pence each (2015: 6,802,451,764 ordinary shares of 0.01 pence each)	**1,579,123**	**680,320**

On 1 July 2016 the Company completed a placing the result of which was 4,341,777,600 ordinary shares of 0.01 pence per share being issued at a price of 0.18 pence per share to raise £7.8M before expenses. The funds from the placing were raised to partially fund the acquisition of Connode Holding AB.

Furthermore, on 1 July 2016 1,404,203,888 ordinary shares of 0.01 pence each were issued as part of the consideration for the acquisition of Connode Holding AB. The value of the shares issued was £2,527,567.

During 2016 a total of 2,731,110,982 ordinary shares of 0.01 pence each were issued as part of subscriptions, raising a total of £5,039,500.

During 2016, invoices for certain suppliers were settled by way of share issues. The number of shares issued for this purpose during 2016 was 178,936,689 (2015: 32,783,088). Ordinary shares of 0.01 pence per share were issued at a price of 0.2 pence per share to raise £324,331.

During 2016, certain employees chose to receive shares in lieu of part of their salary. The number of shares issued for this purpose during 2016 was 332,310,331 (2015: 491,785). Ordinary shares of 0.01 pence per share were issued at a price of 0.2 pence per share to raise £598,159.

No shares were issued as a result of the exercise of share options (2015: none).

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

27. Share premium account

	Group £	Company £
Balance at 1 January 2015	33,911,618	33,911,618
Premium arising on issue of equity shares	4,444,275	4,444,275
Expenses of issue of equity shares	(270,266)	(270,266)
Balance at 31 December 2015	38,085,627	38,085,627
Premium arising on issue of equity shares	15,279,269	15,279,269
Expenses of issue of equity shares	(533,662)	(533,662)
Balance at 31 December 2015	**52,831,234**	**52,831,234**

Notes to the Financial Statements

28. Own shares held

	Group £
Balance at 31 December 2015 and 31 December 2016	**(808,856)**

Own shares are those issued to the Employee Benefit Trust (see details in Directors' Remuneration Report).

29. Share option reserves

	Group £	Company £
Balance at 1 January 2015	522,562	522,562
Movement in the year	101,849	101,849
Balance at 31 December 2015	624,411	624,411
Movement in the year	2,327	2,327
Balance at 31 December 2016	**626,738**	**626,738**

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

30. Retained earnings

	Group £	Company £
Balance at 1 January 2015	(30,913,517)	(32,220,342)
Net loss for the year	(4,319,774)	(4,424,188)
Balance at 31 December 2014	(35,233,291)	(36,644,530)
Net loss for the year	(7,117,239)	(5,335,169)
Balance at 31 December 2015	**(42,350,530)**	**(41,979,699)**

31. Translation Reserve

	Group £
Balance at 1 January 2015	(149,742)
Exchange differences on translation of foreign operations	4,801
Balance at 1 January 2016	(145,661)
Exchange differences on translation of foreign operations	30,963)
Balance at 31 December 2016	(176,624)

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

Notes to the Financial Statements

32. Notes to the consolidated cash flow statement

	2016	2015
	£	£
Operating loss for the year:	**(7,939,216)**	(4,906,724)
Adjustments for:		
Depreciation of property, plant and equipment	**45,619**	29,300
Amortisation	**210,344**	-
Foreign exchange	**(47,870)**	-
Share-based payment expense	**2,327**	101,849
Operating cash flows before movements in working capital	**(7,633,056)**	(4,775,575)
(Increase)/ decrease in inventories	**247,307**	(12,954)
Increase in receivables	**(1,713,013)**	(90,064)
Increase in payables	**1,457,369**	239,643
Cash reduced by operations	**(7,641,393)**	(4,635,950)
Income taxes received	**579,585**	402,312
Net cash outflow from operating activities	**(7,061,808)**	(4,236,638)

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.

33. Operating lease arrangements

The Group as a lessee

	2016	2015
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	**182,011**	124,402

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:

	2016	2015
	£	£
Within one year	**200,130**	49,752
In the second to fifth years inclusive	**163,875**	-

Operating lease payments represent rentals payable by the Group for certain of its office properties.

The Company as a lessee

	2015	2014
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	**78,033**	65,814

Notes to the Financial Statements

33. Operating lease arrangements (continued)

The Company as a lessee (continued)

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

	2015	2014
	£	£
Within one year	**-**	32,570

34. 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.

		2016		2015
	Number of share options	**Weighted average exercise price (in £)**	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	**604,248,243**	**0.004**	605,229,390	0.004
Granted during the period	**1,174,729,515**	**0.003**	123,415,843	0.003
Forfeited during the period	**(10,208,100)**	**0.003**	(88,396,990)	0.004
Oustanding at the end of the period	**1,804,769,658**	**0.003**	640,248,243	0.003
Exercisable at the end of the period	**348,948,682**	**0.004**	190,987,624	0.004

The options outstanding at 31 December 2016 had a weighted average exercise price of £0.003 and a weighted average remaining contractual life of 105 months. 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. In 2015, options were granted on 9 and 22 January, 21 July and 1 December. The aggregate of the estimated fair values of those options is £105,074.

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

	2016	2015
Weighted average share price	**0.25p**	0.26p
Weighted average exercise price	**0.35p**	0.35p
Expected volatility	**77%**	72%
Expected life	**4 years**	4 years
Risk free rate	**0.50%**	0.50%
Expected dividend yield	**0%**	0%

Notes to the Financial Statements

34. Share-based payments (continued)

Equity-settled share option scheme

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 Group recognised total expenses of £269,692 and £101,849 related to equity-settled share-based payment transactions in 2016 and 2015 respectively.

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:

	2016		2015	
	Number of warrants	**Weighted average exercise price (in £)**	Number of warrants	Weighted average exercise price (in £)
Outstanding at beginning of period	**25,302,634**	**0.004**	552,302,635	0.004
Granted during the period	**80,512,625**	**0.006**	24,174,000	0.006
Expired during the period	**-**	**-**	(551,174,001)	
Exercised during the period	**-**	**-**	-	
Outstanding at the end of the period	**105,815,259**	**0.006**	25,302,634	0.006
Exercisable at the end of the period	**60,142,192**	**0.006**	8,561,971	0.006

The fair value of the warrants accounted for in accordance with IFRS2 'Share based payments' is measured by use of the Black-Scholes option pricing model.

The inputs into the Black Scholes model are as follows:

	2016	2015
Weighted average share price	**0.25p**	0.30p
Weighted average exercise price	**0.31p**	0.30p
Expected volatility	**77%**	72%
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.

Notes to the Financial Statements

35. Related party transactions

Included in the investment in subsidiaries figure (Note 19) of £8,330,129 is an amount of £2,000 (2015: £2,000) relating to the investment held by CyanConnode Holdings plc in CyanConnode Ltd. In 2016 an investment of £715,885 was made by CyanConnode Holdings Plc in CyanConnode Private Limited (formerly Cyan Technology India Private Ltd). Details of the investment in Connode Holding AB are disclosed in note 4b. The remaining amount is a capital contribution amounting to £781,326 (2015: £542,362), 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 2016 of £238,964 related to a credit to the share option reserve which was mainly as a result of share option charges put through in previous periods relating to shares in the Employee Benefit Trust that expired during the year.

During the year the Group and Company issued 131,584,344 shares (£236,852) to the executive directors. These shares relate to part payment of remuneration in 2017.

During the year, the Group and Company paid £570,834 (2015: £497,158) in respect of executive director services.

During the year, the Group and Company sold stock of £265,515 to CyanConnode Private Limited (formerly Cyan Technology India Private Limited).

Company

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

	2016	2015
	£	£
Loans to related parties		
CyanConnode Limited	**39,330,690**	33,850,190
Connode Holding AB	**703,765**	-
Connode AB	**29,759**	-
CyanConnode Private Limited	**4,120**	4,120
	40,068,334	33,854,310

The balance due to CyanConnode Holdings plc from Connode Holding AB carries an interest charge of £8,466; 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 2016 these amounted to £1,047,404 (2015: £324,833).

36. Post Balance Sheet Events Review

On 17 March 2017 CyanConnode Holdings plc raised £3.2 million (before expenses) through a placing of 230,441,804 ordinary shares of 0.01 pence each and a subscription of 1,676,470,588 New Ordinary Shares.

Professional Advisors

Nominated Advisor and Broker
Cantor Fitzgerald Europe
One Churchill Place
London
E14 5RB

Joint Broker
Beaufort Securities Limited
63 St Marys Axe
London
EC3A 8AA

Auditor and Reporting Accountants
Deloitte LLP
City House
125-130 Hills Road
Cambridge
CB2 1RY

Solicitors to the Company
Taylor Wessing LLP
24 Hills Road
Cambridge
CB2 1JP

Taylor Vinters
Merlin Place
Milton Road
Cambridge
CB4 0DP

Registars
Share Registrars Ltd
The Courtyard
17 West Street
Farnham
GU9 7DR

Patent Attorneys
Beresford & Co
16 High Holborn
London
WC1V 6BX

Principal Banker
Barclays Bank plc
Chesterton Branch
28 Chesterton Road
Cambridge
CB4 3AZ

Financial Public Relations Advisors to the Company
Walbrook PR Ltd
4 Lombard Street
London
EC4N 1TX

CyanConnode, Merlin Place, Milton Road, Cambridge, CB4 0DP
T: +44 (0) 1223 225060
E: information@cyanconnode.com

CYANCONNODE.COM